



2010 Quarterly Report MARCH 31, 2010

Dear CoBank Customer-Owner:

We are pleased to report that CoBank recorded another quarter of solid financial performance in the first three months of 2010. Despite ongoing weakness in certain parts of the economy and a political and regulatory environment that remains highly unpredictable, the bank continues to generate strong earnings and remains well positioned to meet the borrowing needs of our customers across rural America.

First-quarter net income was \$168.7 million, compared with \$159.9 million in the first quarter of 2009. Net interest income was \$230.7 million, compared with \$253.3 million in the same period last year. Average loans outstanding during the quarter declined 2.2 percent to \$44.7 billion, as compared to the first quarter of 2009, primarily as a result of lower commodity prices and a corresponding decrease in seasonal lending to agribusiness customers, as well as generally weak loan demand across many industries. Those declines were partially offset by growth in loans to our energy and affiliated Farm Credit association customers.

The growth in net income during the quarter was driven primarily by a \$36.4 million increase in noninterest income that included refunds of a portion of Farm Credit insurance fund premiums paid in prior years, partially offset by other factors including the reduction in net interest income discussed above.

At quarter end, 96.0 percent of the bank's loan portfolio was classified in the highest regulatory category used to grade creditworthiness, up modestly since year-end 2009. Nonaccrual loans improved slightly to \$298.6 million, compared to \$307.6 million as of December 31, 2009. During the quarter, the bank recorded a \$12.5 million provision for loan losses, compared to a \$20.0 million provision in the first quarter of 2009 and a \$25.0 million provision in the fourth quarter. We were pleased to see some stabilization in overall loan credit quality during the quarter; however, loan quality remains an area of focus as weakness in parts of the global economy continues to affect customers in a number of industries we serve, including dairy and forest products.

The bank's reserve for credit exposure now totals \$508.6 million or 2.0 percent of non-guaranteed loans outstanding when loans to Farm Credit associations are excluded. Our strong reserve is an important safeguard for the bank's capital foundation against loan losses resulting from recent economic turmoil and its impact on our customer base. The bank's shareholders continue to benefit from our prudent and disciplined approach with regard to loan loss reserves.

Capital and liquidity levels at the bank remain strong and well in excess of regulatory minimums. As of March 31, 2010, our shareholders' equity totaled \$4.1 billion and our permanent capital ratio was 15.2 percent, compared to the regulatory minimum of 7.0 percent. At quarter end, the bank held approximately \$12.7 billion in cash and investments. The bank averaged 251 days of liquidity during the first three months of the year, compared with the 90-day minimum established by the Farm Credit Administration, the bank's regulator. As global credit markets have continued to stabilize over the past several months, we expect to adjust our liquidity position closer to our management target of 180 days over the balance of the year.

Though loan volume has declined from the exceptional levels experienced during the commodity price boom, CoBank continues to derive significant advantages from the cooperative model in the face of prolonged uncertainty and volatility on the economic, political and regulatory landscapes. We are fortunate that our board – and our base of customer-owners – understand the importance of managing for the long term and protecting our bank’s foundation of strength and stability. CoBank’s cooperative structure provides a strong alignment of interests in that regard, and we’re pleased that the bank’s value proposition continues to resonate so strongly with our customers around the country.

We’re pleased with the financial results achieved so far this year and remain committed to standing by our customers as their financial partner. 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
Chairman of the Board

Robert B. Engel
President and Chief Executive Officer

May 10, 2010

Financial Highlights

CoBank, ACB

(\$ in Thousands)

	March 31, 2010 <i>(Unaudited)</i>	December 31, 2009
Total Loans	\$ 43,644,987	\$ 44,174,464
Less: Allowance for Loan Losses	385,688	369,817
Net Loans	\$ 43,259,299	\$ 43,804,647
Total Assets	\$ 57,597,327	\$ 58,160,702
Total Shareholders' Equity	4,147,186	4,057,629

For the Three Months Ended March 31,

<i>(Unaudited)</i>	2010	2009
Net Interest Income	\$ 230,720	\$ 253,258
Provision for Loan Losses	12,500	20,000
Net Fee Income	22,353	19,239
Net Income	168,659	159,857
Net Interest Margin	1.67%	1.80%
Return on Average Assets	1.17	1.05
Return on Average Common Shareholders' Equity	17.98	19.69
Return on Average Total Shareholders' Equity	16.51	17.58
Average Loans	\$ 44,731,369	\$ 45,753,300
Average Earning Assets	56,161,819	57,141,281
Average Assets	58,676,041	61,984,363

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

CoBank, ACB

Business Overview

CoBank, ACB (CoBank or the Bank) 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 Farm Credit associations (Associations), and other businesses that serve rural America. We provide a diverse range of financial solutions domestically and internationally to vital industries through three primary operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes and with our 2009 Annual Report to Shareholders.

Consolidated Results of Operations

Despite continued challenging conditions in parts of the global economy, CoBank posted solid results for the first quarter of 2010. Net income increased to \$168.7 million for the three months ended March 31, 2010, compared to \$159.9 million during the same period in 2009. Increased earnings were driven principally by a \$36.4 million increase in noninterest income, primarily due to refunds of a portion of Farm Credit insurance fund premiums paid in prior years, and a \$7.5 million decrease in the provision for loan losses. These favorable items were partially offset by a \$22.5 million decrease in net interest income, primarily due to a decline in overall net interest margin, and a \$16.2 million increase in operating expenses.

Net interest income decreased to \$230.7 million for the three months ended March 31, 2010, compared to \$253.3 million for the same period in 2009. The decline in net interest income resulted primarily from lower net interest margin, which was 1.67 percent in the first quarter of 2010, as compared to 1.80 percent for the same period of 2009. To a lesser extent, lower average loan volume also contributed to the decline in net interest income. Lower net interest margin resulted from a decreased benefit to our asset/liability position of low short-term market interest rates, as the slope of the yield curve was more positive in the 2009 period. In addition, the 2009 period included a benefit from the change in the fair value of derivatives, as more fully explained in "Interest Rate Risk Management" on page 11. Lower rates earned on our investment portfolio, in part due to the purchase of U.S. Treasury securities subsequent to the first quarter of 2009, also contributed to lower overall net interest income and margin. Increased lending spreads in our loan portfolio, which are reflective of current market conditions, somewhat offset the negative impacts of the aforementioned items.

Average total assets decreased to \$58.7 billion for the first three months of 2010 compared to \$62.0 billion for the same period of 2009. This decline in average total assets was largely due to lower levels of cash held in the 2010 period, which contributed to \$1.9 billion of the decrease. During most of 2009, we held higher levels of cash to enhance our liquidity during the credit crisis. Average loans outstanding decreased to \$44.7 billion for the first three months of 2010 compared to \$45.8 billion for the same period in 2009. This decrease is primarily due to a reduction in loans to agribusiness customers, somewhat offset by growth in loans to energy and Association customers. The decrease in average agribusiness loans is the result of lower prices for agricultural commodities and inputs, as well as lower inventory levels at cooperatives. Growth in our energy portfolio primarily resulted from increased financing requirements from our generation and transmission and rural electric distribution customers. Average loans to Association customers grew at a slower pace than recent years, but nonetheless increased by approximately 2 percent.

We recorded a \$12.5 million provision for loan losses in the first three months of 2010, compared to a \$20.0 million provision in the same period of 2009. The 2010 provision relates to our Rural Infrastructure operating segment, somewhat offset by a reversal in the reserve for credit exposure in our Agribusiness operating segment. Nonaccrual loans decreased modestly to \$298.6 million at March 31, 2010 from \$307.6 million at December 31, 2009. Net charge-offs for the first three months of 2010 were \$2.1 million compared to net charge-offs of \$28.5 million for the same period in 2009. The charge-offs in the 2010 period were primarily related to a limited number of our agribusiness customers. Notwithstanding the lower provision for loan losses and the lower level of both nonaccrual loans and charge-offs in the first quarter of 2010, loan quality remains an area of focus as weakness in parts of the global economy continues to impact our customers.

Noninterest income increased significantly to \$58.8 million for the three months ended March 31, 2010, as compared to \$22.4 million for the same period in 2009. Noninterest income is composed primarily of net fee income, loan prepayment fee income and miscellaneous gains and losses, reduced by losses on early extinguishments of debt and impairment losses on investment securities. The increase in noninterest income resulted primarily from \$33.3 million in refunds from the Farm Credit System Insurance Corporation (Insurance Corporation) related to the Farm Credit Insurance Fund (Insurance Fund). The refunds are included in 'Other, Net' within the 'Noninterest Income/Expense' section of the accompanying condensed consolidated statement of income for the three months ended March 31, 2010. As more fully explained in our 2009 Annual Report, when the Insurance Fund exceeds the statutory 2 percent secure base amount (SBA), the Insurance Corporation is required to reduce premiums and may refund excess amounts. The Insurance Fund ended 2009 above the SBA. Consequently, in the first quarter of 2010, the Insurance Corporation agreed to distribute to System banks the excess amount generated in 2009, as well as excess amounts from 2003. Net fee income increased by \$3.1 million largely due to greater arrangement fees earned on transactions in our agribusiness and energy portfolios. In the first quarter of 2010, we recorded an additional impairment loss of \$3.0 million related to one asset-backed investment security, as more fully discussed on page 9. No such impairment losses were recorded in the first quarter of 2009.

Noninterest expenses increased to \$66.8 million for the three months ended March 31, 2010, as compared to \$50.6 million for the same period in 2009. General and administrative expenses increased by \$21.9 million primarily due to the settlement of a business dispute in our Rural Infrastructure operating segment. Partially offsetting this item was a \$7.8 million decrease in insurance premiums assessed by the Insurance Corporation. The decrease in premiums largely resulted from a premium rate reduction to 10 basis points of average outstanding insured debt obligations effective January 1, 2010. Premium rates were 20 basis points for all of 2009.

Our income tax expense decreased to \$41.5 million for the three months ended March 31, 2010, as compared to \$45.2 million for the same prior-year period. Our effective tax rate was 19.8 percent and 22.0 percent for the three months ended March 31, 2010 and 2009, respectively. The decrease in the effective tax rate primarily resulted from increased earnings in the tax-exempt portion of CoBank's business activities.

Our annualized return on average common shareholders' equity decreased to 17.98 percent for the three months ended March 31, 2010 from 19.69 percent for the same period in 2009. This decrease primarily resulted from capital growth due to strong 2009 earnings. Our annualized return on average assets increased to 1.17 percent for the three months ended March 31, 2010, as compared to 1.05 percent for the same period in 2009, due primarily to higher noninterest income.

Operating Segment Financial Review

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

Loans outstanding, net of allowance for loan losses, by operating segment at March 31, 2010 and 2009, are reported in Note 9 to the accompanying condensed consolidated financial statements. Net income by operating segment is summarized in the accompanying table and is more fully detailed in Note 9 to the accompanying 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 operating segments, whereas the underlying investment assets are not allocated.

Net Income by Operating Segment (\$ in Thousands)

For the Three Months Ended March 31,	2010	2009
Operating Segment:		
Agribusiness	\$ 106,273	\$ 72,161
Strategic Relationships	25,571	32,343
Rural Infrastructure	37,921	55,178
Total Operating Segments	169,765	159,682
Corporate/Other	(1,106)	175
Total	\$ 168,659	\$ 159,857

Agribusiness

Agribusiness provides financial solutions to cooperatives and other businesses engaged in agricultural activities such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Our Agribusiness segment includes our International Division, which provides short-term and medium-term trade finance to support the export of U.S. agricultural products. As of March 31, 2010, we had \$4.1 billion in international loans, 92 percent of which were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing, which provides lease-related financial services to Association partners, agribusinesses, agricultural producers and rural utilities.

Average Agribusiness loan volume decreased during the first three months of 2010 to \$18.2 billion from \$19.8 billion for the same period of 2009. The decrease primarily resulted from lower prices for agricultural commodities and inputs, as well as lower inventory levels at cooperatives. Prices for agricultural commodities and inputs have declined as a result of a number of factors, including reduced demand due to weak global economic conditions. Generally, higher prices for agricultural commodities and inputs lead to increased financing requirements for many of our customers who borrow to finance inventory purchases and receivables.

Agribusiness net income increased 47 percent in the first three months of 2010 to \$106.3 million from \$72.2 million for the same period in 2009. This increase resulted primarily from a \$26.0 million change in the provision for loan losses and a \$21.2 million increase in noninterest income. Agribusiness recorded a reversal in the reserve for credit exposure of \$6.0 million during the first three months of 2010, as compared to a provision for loan losses of \$20.0 million in the same prior-year period. The current period reversal reflects a modest improvement in Agribusiness loan quality during the first quarter of 2010. Notwithstanding this improvement, certain Agribusiness customer industries, including dairy and forest products, continue to be negatively affected by weakness in parts of the global economy. Agribusiness recorded net charge-offs of \$3.9 million for the three months ended March 31, 2010 compared to \$14.0 million for the same period of 2009. Nonaccrual loans were \$207.2 million at March 31, 2010 compared to \$209.1 million at December 31, 2009.

Noninterest income increased to \$34.0 million for the first three months of 2010, as compared to \$12.8 million in the same prior-year period, primarily due to the refunds of a portion of Insurance Fund premiums paid in prior years, as previously described on page 5, and to a much lesser extent, increased arrangement fees. Agribusiness operating expenses decreased to \$25.3 million for the first three months of 2010 from \$32.0 million in the 2009 period largely due to the lower Insurance Fund premium rate in effect for 2010. Agribusiness net interest income decreased by \$12.1 million and partially offset the aforementioned items. The decrease in net interest income resulted from lower loan volume and the previously-noted decreased benefit of our asset/liability position during 2010, which were somewhat offset by increased lending spreads.

Strategic Relationships

Strategic Relationships manages the direct funding relationships with our four affiliated Association customer-owners (Northwest Farm Credit Services, Farm Credit East, Yankee Farm Credit and Farm Credit of Maine), as well as funding relationships with other System institutions. As of March 31, 2010, the Strategic Relationships portfolio included \$10.9 billion in loans to our four affiliated Associations and \$4.0 billion of participations in loans made by other System banks to certain of their affiliated Associations, including \$3.4 billion in participations of loans made by the Farm Credit Bank of Texas.

Strategic Relationships' average loan volume grew to \$15.1 billion for the first three months of 2010 compared to \$14.8 billion during the same period of 2009. The increase in average loan volume primarily reflects loan growth at our two largest affiliated Associations. The credit quality of many of the Associations' underlying retail loan portfolios has declined over the past year. However, as a wholesale lender to Association customers, we benefit from the diversification of the Association loan portfolios, our strong collateral position and the earnings, capital and loan loss reserves of the Associations that provide us a buffer from losses in their respective loan portfolios. As a result, the overall loan quality in our Strategic Relationships portfolio, while somewhat lower than it was a year ago, remains good. Lower margins in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements.

Strategic Relationships' net income decreased 21 percent to \$25.6 million for the first three months of 2010 from \$32.3 million for the same prior-year period. The decrease in earnings was primarily due to a \$7.5 million decline in net interest income resulting from the previously-noted decreased benefit of our asset/liability position during 2010. Strategic Relationships' 2010 operating results did not benefit from the refunds of Insurance Fund premiums related to prior years as such amounts were passed on to our Association customers.

Rural Infrastructure

Rural Infrastructure 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, data transport networks, cable television systems, and water and wastewater companies.

Rural Infrastructure's average loan volume increased to \$11.4 billion for the first three months of 2010 from \$11.1 billion for the same period in 2009. Growth in Rural Infrastructure average loan volume primarily resulted from increased lending activity in the generation and transmission and electric distribution sectors primarily driven by capital expenditures on long-term plant enhancements.

Rural Infrastructure net income decreased 31 percent to \$37.9 million for the first three months of 2010 from \$55.2 million for the same period in 2009. Lower earnings included an \$18.5 million provision for loan losses in the 2010 period. No provision for loan losses was recorded in the same period of 2009. The 2010 provision for loan losses resulted from credit challenges related to a limited number of energy customers. Notwithstanding these specific customer challenges, the overall loan quality of our energy portfolio remains strong. Nonaccrual loans in the Rural Infrastructure segment decreased to \$91.4 million at March 31, 2010 from \$98.5 million at December 31, 2009. Rural Infrastructure recorded recoveries, net of charge-offs, of \$1.8 million for the three months ended March 31, 2010 compared to net charge-offs of \$14.5 million for the same period of 2009. The recoveries and charge-offs in both periods related to a limited number of communications customers.

The decline in Rural Infrastructure earnings for the first quarter of 2010 also included a \$23.2 million increase in operating expenses resulting from the settlement of a business dispute, which more than offset the benefit of the lower Insurance Fund premium rate. Net interest income declined slightly to \$77.2 million for the 2010 period as compared to \$79.7 million in the prior-year. The decreased benefit of our asset/liability position more than offset greater net interest income related to increased volume and higher overall lending spreads. Noninterest income improved \$15.5 million as a result of the refunds of a portion of Insurance Fund premiums paid in prior years and, to a lesser extent, increased arrangement fees.

Credit Quality, Liquidity, Capital Resources and Other

Loan Quality

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

Loan Quality Ratios		
	March 31, 2010	December 31, 2009
Acceptable	95.95%	95.83%
Other Assets Especially Mentioned	2.04	2.00
Substandard	1.86	2.02
Doubtful	0.15	0.15
Loss	-	-
Total	100.00%	100.00%

While our overall loan quality stabilized in the first three months of 2010, loan quality remains an area of focus as weakness in parts of the global economy continues to affect customers in a number of industries we serve, including dairy and forest products.

As previously noted, nonaccrual loans decreased to \$298.6 million at March 31, 2010 from \$307.6 million at December 31, 2009. We recorded a \$12.5 million provision for loan losses for the three months ended March 31, 2010, primarily as a result of challenges facing a limited number of energy customers. As discussed previously, notwithstanding these specific customer challenges, the overall loan quality of our energy portfolio remains strong. Net charge-offs for the first three months of 2010 totaled \$2.1 million and were primarily associated with a limited number of our agribusiness customers. Our total reserve for credit exposure increased to \$508.6 million at March 31, 2010, representing 1.17 percent of total loans at March 31, 2010 compared to 1.13 percent at December 31, 2009 and 1.04 percent at March 31, 2009. At March 31, 2010, our reserve for credit exposure represented 2.04 percent of non-guaranteed loans outstanding when loans to Associations are excluded.

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. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, cash and investment holdings, and access to the agency market via the Federal Farm Credit Banks Funding Corporation, the volatility of our loan volume could cause our liquidity to vary significantly from day to day.

As a result of the significant disruption in debt funding markets that began in 2008, and our commitment to meet the needs of our customers, we enhanced our liquidity by issuing longer-term debt and holding higher levels of liquid assets, including cash and short-dated U.S. Treasury securities. During the first three months of 2010, we averaged 251 days liquidity, compared to the regulatory minimum of 90 days. At March 31, 2010, our liquidity was 249 days, compared to 238 days at December 31, 2009 and 250 days at March 31, 2009. As global credit markets have continued to stabilize over the past several months, we expect to adjust our liquidity position closer to our management target of 180 days over the balance of 2010. As of March 31, 2010, we and the other System banks implemented an enhanced liquidity position whereby we now maintain a higher level of U.S. Treasuries and other U.S. government-guaranteed securities.

We hold cash and investment securities to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled \$11.9 billion at March 31, 2010 compared to \$11.8 billion at December 31, 2009. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

	As of March 31, 2010			As of December 31, 2009		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury and Agency Debt	\$ 3,813	\$ 3,833	\$ 20	\$ 3,314	\$ 3,321	\$ 7
U.S. Agency Mortgage-Backed	7,272	7,413	141	7,616	7,740	124
Non-Agency Mortgage-Backed	600	534	(66)	656	574	(82)
Asset-Backed	203	156	(47)	225	173	(52)
	\$ 11,888	\$ 11,936	\$ 48	\$ 11,811	\$ 11,808	\$ (3)

We do not intend to sell the securities in unrealized loss positions and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before a recovery of our cost basis occurs. Therefore, with the exception of three securities discussed below, we do not consider these investments to be other-than-temporarily impaired at March 31, 2010. We regularly perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions. Subsequent changes in market or credit conditions could change these evaluations.

As all of our investment securities are classified as “available for sale”, we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders’ equity, unless such losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains of \$50.8 million (\$31.5 million net of tax) for the first three months of 2010, compared to unrealized gains of \$64.2 million (\$39.8 million net of tax) for the same prior-year period. The unrealized gains in both periods primarily relate to the impact of interest rate changes on the values of certain fixed-rate securities.

Credit risk in our investment portfolio is primarily limited to the 6 percent of investment securities that do not contain either an implied or explicit guarantee of the U.S. government, consisting of our non-agency mortgage-backed securities and asset-backed securities (ABS). The unrealized losses on such securities primarily relate to decreased market liquidity and widened credit spreads. During 2009, we recorded \$15.0 million in impairment losses related to two ABS and one non-agency mortgage-backed security. As a result of deteriorating collateral performance related to one of the previously-impaired ABS, we recorded an additional \$3.0 million impairment loss in the first quarter of 2010.

The substantial majority of our ABS is composed of home equity securities. These securities are supported by first- or second-lien mortgages and \$200.7 million in amortized cost (\$153.5 million fair value) of such securities are insured by two bond insurance companies that have come under considerable financial pressure. We have determined that we can no longer rely on one of these insurers to fulfill its contractual obligations. Further significant deterioration in the financial condition of the other insurer would likely lead to a conclusion that we could no longer rely on this insurer to fulfill its contractual obligations, requiring us to record an impairment loss in earnings for our ABS that it insures. Increasing levels of defaults and foreclosures on home mortgages may result in further downward adjustments to the fair value of our non-agency mortgage-backed securities and ABS and the need to record additional impairment losses in earnings.

Farm Credit Administration (FCA) regulations require that mortgage- and asset-backed securities be triple-A 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 triple-A, including those that are rated triple-A by one major rating agency but have been downgraded by another agency. Our non-triple-A rated securities represent 4 percent of our total investment securities as of March 31, 2010. The ratings listed below are based on the highest rating received by at least one major rating agency.

Downgraded Investment Securities (\$ in Millions)

As of March 31, 2010	Number of Positions	Amortized Cost	Fair Value
Asset-Backed Securities			
AAA/Aaa	1	\$ 7	\$ 6
BB/Ba	5	114	80
B	1	5	3
CCC/Caa	2	74	64
Non-Agency Securities			
AAA/Aaa	11	104	94
AA/Aa	3	21	16
BBB/Baa	1	18	17
BB/Ba	4	62	52
B	3	52	41
CCC/Caa	1	56	44
	32	\$ 513	\$ 417

We have received permission from our regulator to continue to hold the securities noted in the table above which are no longer rated triple-A by at least one major rating agency.

Capital Resources

We are primarily capitalized by holders of our common and preferred stock, and by unallocated retained earnings. At March 31, 2010, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2009 Annual Report.

Capital Ratios	Regulatory Minimums	March 31, 2010	December 31, 2009
Permanent Capital Ratio	7.0%	15.24%	15.29%
Total Surplus Ratio	7.0	14.87	15.01
Core Surplus Ratio	3.5	8.72	8.77
Net Collateral Ratio	104.0*	108.86	108.67

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

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. Net changes in the fair value of derivatives and hedged items recorded in the consolidated statements of income totaled gains of \$0.7 million and \$9.1 million in the first three months of 2010 and 2009, 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 floating rates on derivatives reset and interest rate levels stabilized. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled losses of \$2.7 million, net of tax, and \$2.6 million, net of tax, in the first three months of 2010 and 2009, respectively.

Collateral Related to Derivatives

Our derivative contracts require the Bank or our counterparties to post cash or securities as collateral when the fair values of the derivatives move based on changes in interest rates. The collateral exchanged between parties is limited by contractual posting thresholds that vary by counterparty. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties. As of March 31, 2010, our counterparties had posted \$901.7 million in cash and \$114.9 million in securities as collateral with us. At March 31, 2010, a 200 basis point parallel increase in the USD LIBOR/swap curve would have required us to return substantially all of the collateral currently posted with us by our counterparties, which would reduce our days liquidity. Further increases in interest rates would require us to post collateral with our counterparties, which would also reduce our net collateral ratio. However, we anticipate that in any such scenario both our days liquidity and net collateral ratio would remain above our management and regulatory minimums.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued provisions concerning accounting for transfers of financial assets. These provisions clarify whether a transferor has surrendered control over transferred financial assets and also establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. Enhanced disclosures are required for transfers of financial assets that are deemed to be secured borrowings and a transferor's continuing involvement with transferred financial assets. The accounting requirements were effective for interim and annual reporting periods beginning after November 15, 2009, and are applicable to transfers occurring on or after the effective date. We adopted the new requirements in the first quarter of 2010. The adoption did not have an impact on our consolidated financial position, results of operations or cash flows. See Note 2 to the accompanying condensed consolidated financial statements for further discussion of these provisions.

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, maintaining effective access to the agency debt capital markets, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

Notwithstanding improvement in recent months, volatile capital markets and weakness in parts of the global economy are expected to continue to affect our business in the following areas:

- The credit quality of our lending portfolio for certain customer industries could decline modestly as economic challenges continue to affect our customers;
- Our non-agency mortgage-backed and asset-backed investment securities could experience further losses due to increasing levels of defaults and foreclosures on home mortgages;
- Our asset-backed securities could also experience losses from a further decline in the creditworthiness of bond insurers who insure certain of these investment securities; and
- Funding costs for longer-dated securities remain volatile. Our ability to issue all structures across the yield curve continues to improve but at higher and more volatile costs, particularly for floating-rate debt.

Notwithstanding the conditions noted above, we are well capitalized and our liquidity position remains strong. We will continue our disciplined credit analysis and will closely monitor asset quality while emphasizing effective enterprise-wide management of credit, interest rate, liquidity and operational risks. We will also continue to enhance our financial condition through prudent expense discipline and the retention of a portion of our earnings.

In March of 2010, the board of directors of U.S. AgBank, FCB, one of the five System banks, approved a plan to analyze the long-term strategic direction of U.S. AgBank. As part of the plan, U.S. AgBank chose to evaluate CoBank as a potential merger partner. We are in the process of responding to their request for information and evaluating whether and how a merger would enhance shareholder value and our combined ability to serve rural America. U.S. AgBank expects to make a decision regarding its strategic direction in the fourth quarter of 2010. Any such merger would be subject to the approval of both banks' shareholders as well as our regulator. U.S. AgBank has total assets in excess of \$24.0 billion and capital in excess of \$1.0 billion at March 31, 2010.

We believe CoBank continues to experience opportunities 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 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, energy, communications, water, international, financing and leasing sectors;
- Weak U.S. and global economic conditions;
- Legislative and regulatory actions;
- Government policies and developments in the U.S. and other countries in which we make loans;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines;
- Environmental-related conditions or laws affecting our lending activities;
- Changes in the U.S. government’s support of the agriculture industry;
- 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.;
- 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;
- Credit performance of the loan 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 resolution of legal proceedings and related matters;
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur that affect agricultural productivity and income;
- 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) (Unaudited)

For the Three Months Ended March 31,	2010	2009
Interest Income		
Loans	\$ 339,441	\$ 384,299
Investment Securities	67,703	90,694
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	1	52
Total Interest Income	407,145	475,045
Interest Expense		
Net Interest Income	230,720	253,258
Provision for Loan Losses	12,500	20,000
Net Interest Income After Provision for Loan Losses	218,220	233,258
Noninterest Income / Expense		
Net Fee Income	22,353	19,239
Prepayment Income	2,441	2,195
Losses on Early Extinguishments of Debt	(1,994)	(1,630)
Total Other-Than-Temporary Impairment Losses	(9,569)	-
Portion of Loss Recognized in Other Comprehensive Loss	6,569	-
Net Other-Than-Temporary Impairment Losses Included in Earnings	(3,000)	-
Other, Net	38,961	2,556
Total Noninterest Income	58,761	22,360
Noninterest Expenses		
Employee Compensation	23,671	23,570
General and Administrative	25,055	3,154
Insurance Fund Premium	6,202	13,999
Information Services	3,712	3,409
Occupancy and Equipment	1,552	1,731
Farm Credit System Related	1,798	1,710
Other	4,789	3,024
Total Noninterest Expenses	66,779	50,597
Income Before Income Taxes	210,202	205,021
Provision for Income Taxes	41,543	45,164
Net Income	\$ 168,659	\$ 159,857

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

Condensed Consolidated Balance Sheets

CoBank, ACB

(\$ in Thousands)

	March 31, 2010 <i>(Unaudited)</i>	December 31, 2009
Assets		
Total Loans	\$ 43,644,987	\$ 44,174,464
Less: Allowance for Loan Losses	385,688	369,817
Net Loans	43,259,299	43,804,647
Cash	731,865	923,083
Investment Securities	11,936,102	11,808,207
Federal Funds Sold, Securities Purchased		
Under Resale Agreements and Other	-	5,000
Interest Rate Swaps and		
Other Financial Instruments	1,026,559	984,074
Accrued Interest Receivable and Other Assets	643,502	635,691
Total Assets	\$ 57,597,327	\$ 58,160,702
Liabilities		
Bonds and Notes	\$ 51,179,034	\$ 51,911,314
Subordinated Debt	1,000,000	1,000,000
Interest Rate Swaps and		
Other Financial Instruments	79,799	123,379
Accrued Interest Payable and Other Liabilities	1,068,432	940,007
Reserve for Unfunded Commitments	122,876	128,373
Total Liabilities	53,450,141	54,103,073
Commitments and Contingencies (Note 8)		
Shareholders' Equity		
Preferred Stock	700,000	700,000
Common Stock	1,498,429	1,520,054
Unallocated Retained Earnings	1,954,138	1,871,986
Accumulated Other Comprehensive Loss	(5,381)	(34,411)
Total Shareholders' Equity	4,147,186	4,057,629
Total Liabilities and Shareholders' Equity	\$ 57,597,327	\$ 58,160,702

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

Condensed Consolidated Statements of Cash Flows

CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2010	2009
Cash Flows Provided by Operating Activities		
Net Income	\$ 168,659	\$ 159,857
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Provision for Loan Losses	12,500	20,000
Deferred Income Taxes	(19,576)	8,182
Depreciation and Amortization/Accretion, Net	500	(3,357)
Losses on Impairment of Available for Sale Investment	3,000	-
Increase in Accrued Interest Receivable and Other Assets	(6,740)	(61,923)
(Decrease) Increase in Accrued Interest Payable and Other Liabilities	(33,179)	16,018
Net Gains on Interest Rate Swaps and Other Financial Instruments	(403)	(8,980)
Other	(149)	1,396
Net Cash Provided by Operating Activities	124,612	131,193
Cash Flows Provided by (Used in) Investing Activities		
Net Decrease (Increase) in Loans	528,714	(1,214,491)
Net Decrease (Increase) in Investment Securities	221,439	(916,676)
Net Decrease in Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	5,000	-
Net Cash Provided by (Used in) Investing Activities	755,153	(2,131,167)
Cash Flows (Used in) Provided by Financing Activities		
Net (Retirements) Issuances of Bonds and Notes	(825,138)	1,634,238
Net Retirements of Common Stock	(43,955)	(7,492)
Cash Patronage Distribution Paid	(185,940)	(209,557)
Preferred Stock Dividends Paid	(15,950)	(14,861)
Net Cash (Used in) Provided by Financing Activities	(1,070,983)	1,402,328
Net Decrease in Cash	(191,218)	(597,646)
Cash at Beginning of Period	923,083	3,127,204
Cash at End of Period	\$ 731,865	\$ 2,529,558
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	\$ (301,505)	\$ (50,016)
Net Change in Unrealized Losses/Gains on Investment Securities, Before Taxes	50,805	64,235
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments, Before Taxes	(4,387)	(4,422)
Patronage in Common Stock	22,330	21,166

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2010	2009
Balance at Beginning of Period	\$ 4,057,629	\$ 3,594,849
Comprehensive Income:		
Net Income	168,659	159,857
Other Comprehensive Income, Net of Taxes:		
Net Change in Unrealized Losses/Gains on Investment Securities		
Not Other-Than-Temporarily Impaired	27,711	39,826
Other-Than-Temporarily Impaired Investment Securities	3,788	-
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	(2,720)	(2,622)
Net Pension Adjustment	251	149
Comprehensive Income	197,689	197,210
Preferred Stock Dividends	(15,950)	(14,861)
Common Stock Issued	25	29
Common Stock Retired	(43,980)	(7,521)
Cash Patronage	(48,227)	(45,555)
Balance at End of Period	\$ 4,147,186	\$ 3,724,151

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 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, 2010 are not necessarily indicative of results to be expected for the entire fiscal year.

The accompanying 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 35 and 36 includes certain combined financial information of our affiliated Associations and the District.

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

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2009 Annual Report, which includes a description of our organization and lending authority. Also included in the 2009 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, 2009. These 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.

We have evaluated subsequent events through May 10, 2010, which is the date the financial statements were issued.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued provisions concerning accounting for transfers of financial assets. These provisions clarify whether a transferor has surrendered control over transferred financial assets, and establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. Enhanced disclosures are required for transfers of financial assets that are deemed to be secured borrowings and for a transferor’s continuing involvement with transferred financial assets. The accounting requirements were effective for interim and annual reporting periods beginning after November 15, 2009, and are applicable to transfers occurring on or after the effective date. The adoption of these new provisions had no impact on our consolidated financial position, results of operations or cash flows.

In the normal course of business, we provide servicing activities for certain parties to whom we have sold loan participations. Although such servicing qualifies as continuing involvement, our compensation for such servicing activities is market-based and approximates fair value. Servicing fees are immaterial to our consolidated results of operations; therefore, as permitted, we have not provided the further disclosures required under the new provisions.

Note 3 – Allowance for Loan Losses and Reserve for Unfunded Commitments

The following is a summary of changes in the allowance for loan losses and the reserve for unfunded commitments (together, the “Reserve for Credit Exposure”) for the periods presented.

Reserve for Credit Exposure		
For the Three Months Ended March 31,	2010	2009
Allowance for Loan Losses, Beginning of Period	\$ 369,817	\$ 329,198
Provision for Loan Losses	12,500	20,000
Charge-offs	(4,549)	(29,144)
Recoveries	2,423	613
Transfer from Reserve for Unfunded Commitments	5,497	14,312
Allowance for Loan Losses, End of Period	385,688	334,979
Reserve for Unfunded Commitments, Beginning of Period	128,373	154,223
Transfer to Allowance for Loan Losses	(5,497)	(14,312)
Reserve for Unfunded Commitments, End of Period	122,876	139,911
Total Reserve for Credit Exposure	\$ 508,564	\$ 474,890

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

Impaired Loan Information		
	March 31, 2010	December 31, 2009
Nonaccrual Loans	\$ 298,632	\$ 307,630
Accruing Loans 90 Days or More Past Due	5,391	15,235
Restructured Loans	-	-
Total Impaired Loans	\$ 304,023	\$ 322,865
Impaired Loans with Related Specific Allowance	\$ 233,380	\$ 231,871
Impaired Loans without Related Specific Allowance	70,643	90,994
Total Impaired Loans	\$ 304,023	\$ 322,865
Specific Allowance on Impaired Loans	\$ 82,614	\$ 65,812
Other Property Owned	2	280
For the Three Months Ended March 31,	2010	2009
Average Impaired Loans	\$ 301,787	\$ 225,313
Interest Income Recognized on Impaired Loans	47	89

Reserve for Credit Exposure as a Percentage of:	March 31, 2010	December 31, 2009
Total Loans	1.17%	1.13%
Impaired Loans	167%	154%
Nonaccrual Loans	170%	162%

There were \$83.4 million in commitments to extend additional credit to borrowers whose loans were classified as impaired at March 31, 2010.

Note 4 – Investment Securities

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

(\$ in Millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2010				
U.S. Treasury and Agency Debt	\$ 3,813	\$ 20	\$ -	\$ 3,833
U.S. Agency Mortgage-Backed	7,272	151	(10)	7,413
Non-Agency Mortgage-Backed	600	-	(66)	534
Asset-Backed	203	-	(47)	156
Total	\$ 11,888	\$ 171	\$ (123)	\$ 11,936

(\$ in Millions)

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

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at March 31, 2010 is as follows:

U.S. Treasury and Agency Debt Securities (\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 700	\$ 700	0.17%
One to Five Years	2,613	2,618	0.68
Five to Ten Years	500	515	4.11
After Ten Years	-	-	-
Total	\$ 3,813	\$ 3,833	1.04

Mortgage-Backed Securities (\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	-%
One to Five Years	178	179	2.12
Five to Ten Years	723	736	2.89
After Ten Years	6,971	7,032	2.57
Total	\$ 7,872	\$ 7,947	2.59

Asset-Backed Securities (\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 1	\$ 1	0.48%
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	202	155	4.46
Total	\$ 203	\$ 156	4.45

While the substantial majority of our mortgage-backed and asset-backed securities have contractual maturities in excess of 10 years, expected maturities for these securities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without penalties. The expected weighted-average life for our mortgage-backed securities and asset-backed securities was 2.9 years and 3.8 years, respectively, at March 31, 2010.

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

(\$ in Millions)	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2010				
U.S. Treasury and Agency Debt	\$ -	\$ -	\$ -	\$ -
U.S. Agency Mortgage-Backed	302	(1)	1,602	(9)
Non-Agency Mortgage-Backed	-	-	511	(66)
Asset-Backed	-	-	155	(47)
Total	\$ 302	\$ (1)	\$ 2,268	\$ (122)

(\$ in Millions)	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2009				
U.S. Treasury and Agency Debt	\$ 1,303	\$ (5)	\$ -	\$ -
U.S. Agency Mortgage-Backed	329	(2)	2,537	(24)
Non-Agency Mortgage-Backed	9	-	559	(82)
Asset-Backed	-	-	170	(52)
Total	\$ 1,641	\$ (7)	\$ 3,266	\$ (158)

In the first quarter of 2010, we recorded a \$3.0 million other-than-temporary impairment loss in earnings related to one asset-backed security. We had previously recognized an \$8.5 million impairment on this security in 2009, and the additional impairment in 2010 resulted from deteriorating collateral performance. As of March 31, 2010, with the exception of three impaired investments, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before a recovery of our cost basis occurs.

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

Credit Losses on Impaired Investments (\$ in Millions)

Balance at December 31, 2009	\$ 15
Initial Credit Impairments Recorded in Earnings	-
Subsequent Credit Impairments Recorded in Earnings	3
Sales of Investments with Credit Impairments	-
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	-
Balance at March 31, 2010	\$ 18

For impaired investment securities, we estimate the component of unrealized losses attributable to credit losses using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults, and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. Prepayment rate assumptions are based on average six-month historical prepayment rates and ranged from 7 percent to 28 percent for impaired investment securities at March 31, 2010. We apply historical loss and performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 15 percent to 22 percent for impaired investment securities at March 31, 2010. Loss severity assumptions are obtained from an independent third-party and ranged from 59 percent to 100 percent for impaired investment securities at March 31, 2010.

Note 5 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts and related activity of derivatives at March 31, 2010 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, 2009	\$ 30,748	\$ 1,600	\$ 218	\$ 32,566
Additions / Accretion	1,317	-	709	2,026
Maturities / Amortization	(318)	(6)	(712)	(1,036)
Terminations	-	-	-	-
March 31, 2010	\$ 31,747	\$ 1,594	\$ 215	\$ 33,556

Accounting for Derivative Instruments and Hedging Activities

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

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

Fair Value Hedges

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

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At March 31, 2010, we expect that \$1.6 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 three 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 introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore assume no performance risk.

To minimize the risk of credit losses 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 cash collateral balances at gross amounts in our consolidated balance sheets. As of March 31, 2010, our counterparties had posted \$901.7 million in cash and \$114.9 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, net of collateral held by us, was \$88.3 million at March 31, 2010.

The following tables summarize the impact of derivative financial instruments on our consolidated balance sheets at March 31, 2010 and December 31, 2009.

Fair Value of Derivative Financial Instruments

	Fair Value of Derivative Assets ⁽¹⁾	Fair Value of Derivative Liabilities ⁽²⁾
As of March 31, 2010		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 947,043	\$ 11,955
Foreign Exchange Contracts	936	370
Total Derivatives Designated as Hedging Instruments	\$ 947,979	\$ 12,325
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 76,587	\$ 65,708
Foreign Exchange Contracts	1,993	1,766
Total Derivatives Not Designated as Hedging Instruments	\$ 78,580	\$ 67,474
Total Derivatives	\$ 1,026,559	\$ 79,799

⁽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, 2010

⁽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, 2010

Fair Value of Derivative Financial Instruments

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

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

The following tables summarize the effect of derivative financial instruments on our consolidated statements of income for the three months ended March 31, 2010 and 2009.

Derivative Financial Instruments in Fair Value Hedging Relationships

Three Months Ended March 31,	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item ⁽¹⁾	
	2010	2009
Interest Rate Contracts	\$ 765	\$ 8,488
Total	\$ 765	\$ 8,488

⁽¹⁾ Located in Interest Expense in the accompanying condensed consolidated statements of income

Derivative Financial Instruments in Cash Flow Hedging Relationships

Three Months Ended March 31, 2010	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	\$ (4,361)	\$ (316) ⁽¹⁾	\$ -
Foreign Exchange Contracts	(1,555)	(1,212) ⁽²⁾	(94) ⁽²⁾
Total	\$ (5,916)	\$ (1,528)	\$ (94)

⁽¹⁾ Located in Interest Expense in the accompanying condensed consolidated statement of income for the three months ended March 31, 2010

⁽²⁾ Located in Interest Income – Loans in the accompanying condensed consolidated statement of income for the three months ended March 31, 2010

Derivative Financial Instruments in Cash Flow Hedging Relationships

Three Months Ended March 31, 2009	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 in the accompanying condensed consolidated statement of income for the three months ended March 31, 2009

Derivative Financial Instruments not Designated as Hedging Relationships

Three Months Ended March 31,	Net Amount of Gain or (Loss) Recognized in Income On Derivative ⁽¹⁾	
	2010	2009
Interest Rate Contracts	\$ (104)	\$ 624
Foreign Exchange Contracts	(10)	36
Total	\$ (114)	\$ 660

⁽¹⁾ Located in Other Noninterest Income / Expense in the accompanying condensed consolidated statements of income

Note 6 – Fair Value Measurements

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

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at March 31, 2010 consist of U.S. Treasury investments and 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 include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at March 31, 2010 include our derivative contracts, collateral balances related to derivative contracts and investment securities, excluding U.S. Treasury investments and asset-backed securities.

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

The fair value of the majority of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant. The estimated fair values of investment securities also appear in Note 4.

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at March 31, 2010 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading volume and an orderly market for asset-backed securities, we classified this portfolio as Level 3. Market values for such asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of third-party pricing service results. Inputs into these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to observable market inputs.

Level 3 assets at March 31, 2010 also include \$120.3 million of loans originally measured at cost, which were written down to fair value as a result of impairment, and other property owned. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the following tables because they are not measured on a recurring basis.

Our Level 3 liabilities at March 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2010 and December 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, 2010

(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	\$ 1,351	\$ -	\$ -	\$ 1,351
U.S. Agency Debt	-	2,482	-	2,482
U.S. Agency Mortgage-Backed	-	7,413	-	7,413
Non-Agency Mortgage-Backed	-	534	-	534
Asset-Backed	-	-	156	156
Interest Rate Swaps and				
Other Financial Instruments	-	1,027	-	1,027
Assets Held in Trust				
(included in Other Assets)	32	-	-	32
Collateral Assets (included in Other Assets)	-	3	-	3
Total Assets	\$ 1,383	\$ 11,459	\$ 156	\$ 12,998
Liabilities				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 80	\$ -	\$ 80
Collateral Liabilities				
(included in Bonds and Notes)	-	902	-	902
Standby Letters of Credit				
(included in Other Liabilities)	-	-	9	9
Total Liabilities	\$ -	\$ 982	\$ 9	\$ 991

During the first quarter of 2010, there were no transfers into or out of Level 1 or Level 2.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2009

(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	\$ 847	\$ -	\$ -	\$ 847
U.S. Agency Debt	-	2,474	-	2,474
U.S. Agency Mortgage-Backed	-	7,740	-	7,740
Non-Agency Mortgage-Backed	-	574	-	574
Asset-Backed	-	-	173	173
Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	-	5	-	5
Interest Rate Swaps and				
Other Financial Instruments	-	984	-	984
Assets Held in Trust				
(included in Other Assets)	32	-	-	32
Total Assets	\$ 879	\$ 11,777	\$ 173	\$ 12,829
Liabilities				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 123	\$ -	\$ 123
Collateral Liabilities				
(included in Bonds and Notes)	-	914	-	914
Standby Letters of Credit				
(included in Other Liabilities)	-	-	10	10
Total Liabilities	\$ -	\$ 1,037	\$ 10	\$ 1,047

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

(\$ in Millions)	Asset-Backed Investment Securities	Standby Letters of Credit
Balance at December 31, 2008	\$ 316	\$ 7
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	-	-
Included in Other Comprehensive Income	(36)	-
Purchases, Sales, Issuances and Settlements, Net	(17)	2
Transfers into Level 2	(10)	-
Balance at March 31, 2009	\$ 253	\$ 9
Balance at December 31, 2009	\$ 173	\$ 10
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(3)	-
Included in Other Comprehensive Income	5	-
Purchases, Sales, Issuances and Settlements, Net	(19)	(1)
Balance at March 31, 2010	\$ 156	\$ 9

Estimated Fair Value of Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of March 31, 2010 and December 31, 2009.

Estimated Fair Value of Financial Instruments				
(\$ in Millions)	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Net Loans	\$ 43,259	\$ 44,012	\$ 43,805	\$ 44,337
Financial Liabilities:				
Bonds and Notes	\$ 51,179	\$ 51,792	\$ 51,911	\$ 52,493
Subordinated Debt	1,000	892	1,000	877
Off-Balance Sheet Financial Instruments:				
Commitments to Extend Credit	\$ -	\$ (73)	\$ -	\$ (72)

Net Loans

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

Bonds and Notes

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

Subordinated Debt

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

Commitments to Extend Credit

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

Note 7– 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 a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional employer defined contributions. We also have a noncontributory, unfunded nonqualified supplemental executive retirement plan (SERP) covering substantially all senior officers and specified other senior managers, as well as a noncontributory unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to three of the senior officers employed pursuant to employment agreements. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

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

We expect to contribute approximately \$4.0 million to our funded qualified defined benefit pension plans and a net \$0.3 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2010. We also expect to contribute approximately \$1.5 million to our trust funds related to our SERP and ERP in 2010. Our actual contributions could differ from these estimates.

Note 8 – Commitments and Contingencies

At March 31, 2010, 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.

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 \$174.6 billion at March 31, 2010.

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;
- 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, 2010, the assets of the insurance fund aggregated \$3.3 billion; and
- Maintenance of certain financial criteria by agreements which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances.

Note 9 – Segment Financial Information

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

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, if any, 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 both of the three-month periods ended March 31, 2010 and 2009, interest earned from an affiliated Association, Northwest, represented 10 percent of our gross interest income and less than 10 percent of our net interest income. No other customer made up 10 percent or more of our gross or net interest income for the periods presented.

Condensed Segment Financial Information

CoBank, ACB

For the Three Months Ended March 31, 2010

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):						
Net Interest Income	\$ 125,711	\$ 28,861	\$ 77,182	\$ 231,754	\$ (1,034)	\$ 230,720
Provision (Reversal) for Loan Losses	(6,000)	-	18,500	12,500	-	12,500
Noninterest Income	33,955	200	24,082	58,237	524	58,761
Operating Expenses	25,316	3,490	37,104	65,910	869	66,779
Provision for Income Taxes	34,077	-	7,739	41,816	(273)	41,543
Net Income	\$ 106,273	\$ 25,571	\$ 37,921	\$ 169,765	\$ (1,106)	\$ 168,659

Selected Financial Information (\$ in Millions):

Loans, Net of Allowance for Loan						
Losses at March 31, 2010	\$ 17,116	\$ 15,029	\$ 11,114	\$ 43,259	\$ -	\$ 43,259
Assets at March 31, 2010	\$ 17,213	\$ 15,078	\$ 11,174	\$ 43,465	\$ 14,132*	\$ 57,597

*Includes the following:

Investment Securities						\$ 11,936
Other Assets						2,196

For the Three Months Ended March 31, 2009

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):						
Net Interest Income	\$ 137,778	\$ 36,387	\$ 79,668	\$ 253,833	\$ (575)	\$ 253,258
Provision for Loan Losses	20,000	-	-	20,000	-	20,000
Noninterest Income	12,751	199	8,565	21,515	845	22,360
Operating Expenses	32,042	4,243	13,939	50,224	373	50,597
Provision for Income Taxes	26,326	-	19,116	45,442	(278)	45,164
Net Income	\$ 72,161	\$ 32,343	\$ 55,178	\$ 159,682	\$ 175	\$ 159,857

Selected Financial Information (\$ in Millions):

Loans, Net of Allowance for Loan						
Losses at March 31, 2009	\$ 19,633	\$ 14,736	\$ 11,029	\$ 45,398	\$ -	\$ 45,398
Assets at March 31, 2009	\$ 19,785	\$ 14,793	\$ 11,088	\$ 45,666	\$ 17,018*	\$ 62,684

*Includes the following:

Investment Securities						\$ 12,569
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other						5
Other Assets						4,444

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 Combining Balance Sheets, Combining Statements of Income, ratios and other financial information on pages 35 and 36 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.

Results of Operations and Financial Condition

District net income increased to \$227 million for the three months ended March 31, 2010 compared to \$188 million during the same period in 2009. The combined net income of the Associations increased to \$74 million for the three months ended March 31, 2010 compared to \$44 million during the same period of 2009. The increase in combined Association net income was primarily the result of increased noninterest income, an improvement in net interest income and a decrease in the provision for loan losses. Association noninterest income increased by \$14 million largely due to refunds of a portion of Farm Credit insurance fund premiums paid in prior years, which, as noted previously, also favorably impacted CoBank's operating results for the first quarter of 2010. Greater Association net interest income of \$12 million resulted from increased lending spreads, which are reflective of increased credit risk and overall market conditions. A \$6 million decrease in the provision for loan losses at the Associations reflected a lower level of net charge-offs.

Loan quality at the Associations was relatively unchanged from December 31, 2009 to March 31, 2010. Notwithstanding, the credit challenges facing certain CoBank customer industries, including dairy and forest products, are also affecting our Associations' customers and could lead to a decline in credit quality in the Associations' loan portfolios.

As of March 31, 2010, the combined Associations' shareholders' equity was \$2.1 billion and capital levels at all Associations were well in excess of minimum regulatory capital requirements.

Combining Balance Sheets (Condensed)

(\$ in Millions) (Unaudited)

As of March 31, 2010	CoBank	Combined Affiliated Associations	Eliminations	Combined CoBank District
Investments, Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	\$ 11,936	\$ -	\$ -	\$ 11,936
Loans	43,645	12,668	(10,943)	45,370
Less: Allowance for Loan Losses	(386)	(155)	-	(541)
Net Loans	43,259	12,513	(10,943)	44,829
Other Assets	2,402	718	(537)	2,583
Total Assets	\$ 57,597	\$ 13,231	\$ (11,480)	\$ 59,348
Bonds and Notes	\$ 52,179	\$ 11,042	\$ (10,987)	\$ 52,234
Reserve for Unfunded Commitments	123	7	-	130
Other Liabilities	1,148	77	(20)	1,205
Total Liabilities	53,450	11,126	(11,007)	53,569
Total Shareholders' Equity	4,147	2,105	(473)	5,779
Total Liabilities and Shareholders' Equity	\$ 57,597	\$ 13,231	\$ (11,480)	\$ 59,348

As of December 31, 2009

Investments, Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	\$ 11,813	\$ -	\$ -	\$ 11,813
Loans	44,174	12,805	(11,196)	45,783
Less: Allowance for Loan Losses	(370)	(151)	-	(521)
Net Loans	43,804	12,654	(11,196)	45,262
Other Assets	2,544	819	(595)	2,768
Total Assets	\$ 58,161	\$ 13,473	\$ (11,791)	\$ 59,843
Bonds and Notes	\$ 52,911	\$ 11,277	\$ (11,239)	\$ 52,949
Reserve for Unfunded Commitments	128	7	-	135
Other Liabilities	1,064	140	(80)	1,124
Total Liabilities	54,103	11,424	(11,319)	54,208
Total Shareholders' Equity	4,058	2,049	(472)	5,635
Total Liabilities and Shareholders' Equity	\$ 58,161	\$ 13,473	\$ (11,791)	\$ 59,843

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Combining Statements of Income (Condensed)

(\$ in Millions) (Unaudited)

For the Three Months Ended March 31,	CoBank	Combined Affiliated Associations	Eliminations	Combined CoBank District
2010				
Net Interest Income	\$ 231	\$ 98	\$ -	\$ 329
Provision for Loan Losses	13	22	-	35
Noninterest Income	59	41	(16)	84
Noninterest Expense	67	42	-	109
Provision for Income Taxes	41	1	-	42
Net Income	\$ 169	\$ 74	\$ (16)	\$ 227
2009				
Net Interest Income	\$ 253	\$ 86	\$ -	\$ 339
Provision for Loan 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

Key Financial Ratios – Combined CoBank District

(Unaudited)

For the Three Months Ended March 31,	2010	2009
Return on Average Assets	1.50%	1.18%
Return on Average Capital	15.77	14.43
Net Interest Margin	2.27	2.31
Operating Expense as a Percent of Net Interest Income and Noninterest Income	26.49	25.38
Net Charge-offs as a Percent of Average Loans	0.11	0.37
	March 31, 2010	December 31, 2009
Capital as a Percent of Total Assets	9.74%	9.42%
Risk Funds as a Percent of Loans	14.22	13.74
Reserve for Credit Exposure as a Percent of Loans	1.48	1.43
Debt to Capital (:1)	9.27	9.62

Loan Quality Ratios – Combined CoBank District

(Unaudited)

	March 31, 2010	December 31, 2009
Acceptable	92.26%	92.29%
Other Assets Especially Mentioned	3.72	3.71
Substandard	3.79	3.77
Doubtful	0.23	0.23
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, the chief operating officer and the chief financial 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 10th day of May, 2010.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
Chairman of the Board

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

/s/ MARY E. MCBRIDE

Mary E. McBride
Chief Operating Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Senior Vice President and Chief Financial 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 officers 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 officers 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 10, 2010

CERTIFICATION

I, Mary E. McBride, Chief Operating 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 officers 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 officers 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/ MARY E. MCBRIDE

Mary E. McBride
Chief Operating Officer

Dated: May 10, 2010

CERTIFICATION

I, David P. Burlage, Senior Vice President and Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this quarterly report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ DAVID P. BURLAGE

David P. Burlage
Senior Vice President and Chief Financial Officer

Dated: May 10, 2010

Leadership

CoBank, ACB

Executive Office

Robert B. Engel, President and Chief Executive Officer
John Svisco, Human Resources and Administrative Services Divisions

Corporate Services Group

Mary E. McBride, Chief Operating Officer
James R. Bernstein, Chief Information Officer
David P. Burlage, Chief Financial Officer
Arthur C. Hodges, Jr., Corporate Communications Division
Todd E. Wilson, Operations Division

Banking Groups

Philip S. DiPofi, Chief Banking Officer
John C. Holsey, Deputy Chief Banking Officer

Agribusiness

Paul A. Narduzzo, Regional Agribusiness Banking Group*
Robert E. Egerton, Agribusiness Division – East
Amy H. Gales, Agribusiness Division – Central
Mark C. Nonnenmacher, Agribusiness Division – West
Lynn M. Scherler, Agribusiness Division – South
Jonathan B. Logan, Corporate Agribusiness Banking Group
Manuel Fernandez-Quevedo, International Division

Rural Infrastructure

Jennifer G. Goss, Electric Distribution Banking Group
Aivars (Jake) Udris, Energy and Water Banking Group
Robert F. West, Communications Banking Group

Banking Services

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

Credit and Risk Management Group

Douglas E. Wilhelm, 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

Legal, Government and Board Relations Group

Mark W. Yonkman, Chief Legal and Regulatory Officer
Susan D. McPhillips, Deputy General Counsel
Andrew J. Romanow, Deputy General Counsel
L. Todd VanHoose, Legislative and Regulatory Affairs

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

** For segment reporting purposes, Farm Credit Leasing is included with our Agribusiness segment.

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) 879-0838

U.S. Regional Offices

Ames Banking Center

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

Atlanta Banking Center **

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

Austin Banking Center

4801 Plaza on the Lake Drive
Austin, TX 78746
(512) 483-9273

California Farm Credit Leasing Office *

2345 East Earhart Avenue
Stockton, CA 95206
P.O. Box 31990
Stockton, CA 95213
(209) 944-7478

Enfield Banking Center **

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

Fargo Banking Center

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

Florida Farm Credit Leasing Office *

11903 Southern 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) 788-3700
(877) 610-6987

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

St. Louis Banking Center **

1650 Des Peres Road, Suite 120
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

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 2010 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 10, 2010, August 9, 2010, November 9, 2010, and March 1, 2011 (Annual Report).