



2009 Quarterly Report JUNE 30, 2009

Dear CoBank Customer-Owner:

We're pleased to report that CoBank recorded another period of strong financial performance in the second quarter of 2009. Despite challenging conditions in the credit markets and global economy, CoBank has consistently delivered on its value proposition and continues to serve as a stable and dependable source of credit to vital industries throughout rural America.

Net earnings for the second quarter were \$156.1 million, compared to \$158.4 million for the second quarter of 2008. Total earnings for the six months ended June 30 were \$316.0 million, up from \$307.9 million during the same period last year. Total loans and leases for CoBank were \$44.9 billion as of June 30, 2009, compared to \$49.4 billion a year ago.

Our year-to-date earnings show growth despite the fact that commodity prices have retreated markedly from last year's extremely high levels. Commodity price levels are a significant driver of loan demand from our agribusiness customers, and we've seen a \$4.5 billion drop in our loan volume over the past year as prices have declined for grains, oilseeds, farm supplies and other agricultural products. Nonetheless, our year-to-date net income has increased by almost three percent, a fact we believe offers powerful testament to the strength of our business model, our conservative approach to risk management and the efficiency of our operations. Earnings are a key source of capital for the bank, and enable us to fulfill our mission as a strategic provider of financial services to our customer-owners.

Improved net interest margin was the key contributor to net income in the second quarter. In particular, the bank has benefited from the conservative positioning of our balance sheet, as actions taken by the world's central banks have led to a steepened yield curve. CoBank has also seen continued growth in U.S. government-guaranteed loans that support American agricultural exports, in loans to energy customers, and in loans to and participations with affiliated associations and other partners across the Farm Credit System.

As expected, credit quality declined moderately, and we're anticipating continued modest deterioration in the months ahead. The recession has negatively impacted customers in a number of the industries we serve, particularly customers in the dairy, livestock, ethanol and communications industries. Nonaccrual loans and leases increased to \$336.8 million in the quarter, compared to \$290.2 million as of March 31, 2009, and \$217.8 million at year-end. As a result of these credit challenges, we recorded a \$10.0 million provision for credit losses in the second quarter, resulting in a total provision for credit losses of \$30.0 million for the first half of 2009. No such provision was recorded in the first six months of 2008.

Nonetheless, CoBank's overall credit quality remains within historical averages, with over 96 percent of loans and leases classified in the highest regulatory category. In addition, the bank maintains solid levels of loss reserves. Our reserve for credit exposure totaled over \$481.0 million at June 30, 2009, or 1.86 percent of non-guaranteed loans and leases outstanding when loans to Farm Credit associations are excluded. We have benefited from the prudent and disciplined approach we have adopted with regard to loss reserves, which has kept the bank and its shareholders well protected in a difficult environment.

Capital and liquidity levels at the bank remain strong and well in excess of regulatory minimums. At quarter end, the bank held approximately \$16.4 billion in cash and investments. The bank averaged 274 days of liquidity during the first six months of the year, compared with the 90-day minimum established by our regulator, the Farm Credit Administration. We plan to maintain increased levels of liquidity as long as the credit crisis persists, and until funding access and flexibility return to levels more consistent with historical norms.

A true test of any bank's business is how it weathers adverse market and economic conditions. In recent quarters, CoBank has been able to capitalize on investments it has made in people, processes and systems, which have enabled it to operate at a high level of efficiency throughout the economic crisis. While the nation continues to work through the challenges of the recession, CoBank's performance so far this year underscores the value our customer-owners derive from the financial strength and operational disciplines we have built over the past several years.

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

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

Everett Dobrinski
Chairman of the Board

Robert B. Engel
President and Chief Executive Officer

August 4, 2009

Financial Highlights

CoBank, ACB

(\$ in Thousands)

	June 30, 2009 <i>(Unaudited)</i>	December 31, 2008
Total Loans and Leases	\$ 44,854,852	\$ 44,550,121
Less: Allowance for Credit Losses	356,265	329,198
Net Loans and Leases	\$ 44,498,587	\$ 44,220,923
Total Assets	\$ 62,712,759	\$ 61,162,057
Total Shareholders' Equity	3,832,088	3,594,849

For the Six Months Ended June 30,

<i>(Unaudited)</i>	2009	2008
Net Interest Income	\$ 492,937	\$ 449,429
Provision for Credit Losses	30,000	-
Net Fee Income	38,298	28,138
Net Income	315,994	307,943
Net Interest Margin	1.73%	1.57%
Return on Average Assets	1.03	1.06
Return on Average Common Shareholders' Equity	18.90	20.87
Return on Average Total Shareholders' Equity	16.98	18.79
Average Loans and Leases	\$ 45,828,041	\$ 46,425,756
Average Earning Assets	57,594,542	57,612,808
Average Assets	62,125,336	58,537,371

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

CoBank, ACB

Business Overview

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

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

Consolidated Results of Operations

Overall, CoBank continues to perform well despite challenging conditions in credit markets and the broader global economy. Net income was \$316.0 million for the six months ended June 30, 2009, a three percent increase over net income of \$307.9 million during the same period in 2008. The increase in earnings was primarily due to a \$43.5 million increase in net interest income largely resulting from an improvement in our overall net interest margin. Greater fee income of \$10.2 million also contributed to increased earnings. The increase in net interest income and fees was partially offset by a \$30.0 million provision for credit losses, increased noninterest expenses of \$9.3 million and increased income tax expense of \$8.0 million primarily related to higher non-patronage earnings.

Our net interest income increased to \$492.9 million for the six months ended June 30, 2009, compared to \$449.4 million for the same period in 2008. The growth in net interest income primarily resulted from a corresponding increase in net interest margin. Our net interest margin for the six months ended June 30, 2009 increased to 1.73 percent from 1.57 percent during the same prior-year period. As a result of our asset/liability position, our net interest income benefited from a steepened yield curve resulting from actions taken by central banks to counter the impacts of the global credit crisis. Our net interest income and margin also benefited from a change in the fair value of derivatives, as more fully discussed in "Interest Rate Risk Management" on page 12, and increased lending spreads in response to evolving credit risk and market conditions. The benefit of the improvement in net interest margin was reduced somewhat by a shift in the mix and decline in the total amount of average loans and leases outstanding. These changes included a decrease in loans to agribusiness customers combined with an increase in loans to Associations and in U.S. government-guaranteed international loans. Loans to Associations and guaranteed international loans carry lower spreads, commensurate with their lower risk profile.

Average loans and leases outstanding decreased slightly to \$45.8 billion for the first six months of 2009 compared to \$46.4 billion for the same period in 2008. This decrease is due to a significant reduction in loans to agribusiness customers, largely offset by higher levels of loans to Associations, growth in guaranteed international loans and increased loans to energy customers. The significant decrease in average agribusiness loans is the direct result of the significant decline in commodity prices, including grain and oilseed prices, and in the cost of agricultural inputs such as fuel and fertilizer. Such prices reached exceptional levels during the first eight months of 2008, but have decreased since that time due to a number of factors, including reduced demand resulting from the global recession. Increased lending to Association customers primarily resulted from growth at our two largest affiliated Associations and increased participations in the direct loans of other System banks to certain of their affiliated Associations. The global credit crisis helped drive growth in international lending, as

the tightening of global credit markets led to customers increasing their utilization of the export loan guarantee General Sales Manager (GSM) program, where a significant portion of borrowings are guaranteed by the U.S. government. The availability of GSM program funding has also increased. Growth in our energy portfolio primarily resulted from increased financing requirements from our rural electric distribution and generation and transmission customers driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts, particularly in electric distribution.

We recorded a \$30.0 million provision for credit losses in the first six months of 2009. No provision was recorded in the first six months of 2008. While our overall credit quality is within historical averages, credit quality has declined over the past year. Nonaccrual loans and leases increased to \$336.8 million at June 30, 2009 from \$217.8 million at December 31, 2008 and \$76.0 million at June 30, 2008. Nonaccrual loans and leases increased primarily due to the challenges facing certain of our customers in the livestock/poultry, ethanol, dairy and communications industries. Net charge-offs for the first six months of 2009 were \$32.2 million compared to net charge-offs of \$8.7 million for the same period in 2008. The charge-offs in 2009 were primarily related to a limited number of our agribusiness and communications customers.

Noninterest income increased to \$45.4 million for the six months ended June 30, 2009, as compared to \$33.6 million for the same period in 2008, and is composed primarily of net fee income, other gains and losses and loan prepayment fee income, reduced by losses on early extinguishments of debt. The increase in noninterest income resulted primarily from a \$10.2 million increase in net fee income due to greater fees in our agribusiness and energy portfolios. Additionally, other net noninterest income for the six months ended June 30, 2008 included a \$6.0 million other-than-temporary impairment loss on one of our investment securities, which was sold at a small gain in July 2009 (see Note 4 to the accompanying condensed consolidated financial statements).

Noninterest expenses increased to \$106.0 million for the six months ended June 30, 2009, as compared to \$96.6 million for the same period in 2008, and included a \$4.4 million increase in statutory insurance fund premiums assessed by the Farm Credit System Insurance Corporation (Insurance Corporation). The basis upon which statutory insurance fund premiums are determined changed effective July 1, 2008 as a result of the enacted legislation described in "Insurance Premiums" on page 13. A \$3.2 million increase in other expenses, including general and administrative and purchased services costs, and a \$2.8 million increase in employee compensation also contributed to increased noninterest expenses in the first six months of 2009. Employee compensation increased largely due to increased staffing in the first six months of 2009 as compared to the same prior-year period. Increased staffing relates to several factors, including growth in certain loan portfolios, and the management of increased risks surrounding credit quality deterioration and commodity price volatility.

Our income tax expense increased to \$86.4 million for the six months ended June 30, 2009, as compared to \$78.5 million for the same prior-year period. Our effective tax rate was 21.5 percent and 20.3 percent for the six months ended June 30, 2009 and 2008, respectively. The increase in the effective tax rate primarily results from a modest decrease in the level of expected patronage distributions for 2009 as compared to 2008, due to lower anticipated patronage-based agribusiness loan volume. Patronage payments are deductible for income tax purposes.

Notwithstanding the increase in our earnings, our annualized return on average common shareholders' equity decreased to 18.90 percent for the six months ended June 30, 2009 from 20.87 percent for the same period in 2008. This decrease primarily resulted from the issuance of \$200 million of preferred stock in July 2008. Our annualized return on average assets decreased to 1.03 percent for the six months ended June 30, 2009, as compared to 1.06 percent for the same period in 2008. The slight decline in return on average assets primarily resulted from higher levels of cash being held to enhance our liquidity during 2009.

For the three months ended June 30, 2009, net income decreased to \$156.1 million from \$158.4 million for the same prior-year period. The decrease is primarily due to a \$10.0 million provision for credit losses in the 2009 period, partially offset by improved net interest income of \$7.9 million. The increase in net interest income is reflective of growth in net interest margin, as previously discussed. Noninterest income increased by \$8.1 million due primarily to increased net fee income and the impact of a \$6.0 million other-than-temporary impairment loss

recorded in 2008 on one of our investment securities. Noninterest expenses increased by \$5.8 million, due largely to an increase in statutory insurance fund premiums assessed by the Insurance Corporation and increased employee compensation, as previously discussed.

Operating Segment Financial Review

As an Agricultural Credit Bank, we provide domestic and international financial solutions to farmer-owned cooperatives; farmer-owned financial institutions; energy, communications and water customers; and other related businesses that serve rural America. We conduct our lending and leasing operations through four operating segments: Agribusiness Banking Group (ABG), Strategic Relationships Division (SRD), Communications and Energy Banking Group (CEBG) and Global Financial Services Group (GFSG). Loans and leases outstanding, net of allowance for credit losses, by business segment at June 30, 2009 and 2008, are reported in Note 11 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 segments, whereas underlying investment assets are not allocated.

Net income by operating segment is summarized in the accompanying table and is more fully described in Note 11 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment (\$ in Thousands)

For the Six Months Ended June 30,	2009	2008
Operating Segment:		
Agribusiness	\$ 102,496	\$ 171,915
Strategic Relationships Division	57,975	31,065
Communications and Energy	105,319	73,122
Global Financial Services	52,252	35,650
Total Operating Segments	318,042	311,752
Corporate/Other	(2,048)	(3,809)
Total	\$ 315,994	\$ 307,943

Agribusiness Banking Group (ABG)

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

ABG loans and leases outstanding decreased slightly to \$10.5 billion at June 30, 2009 from \$10.6 billion at December 31, 2008. However, average ABG loan and lease volume decreased significantly during the first six months of 2009 to \$11.5 billion, a \$6.2 billion decline from the \$17.7 billion in average loans and leases for the same period of 2008. The significant decrease in average ABG loans and leases resulted from a significant decline in commodity prices, including prices for grain and oilseeds, and in the cost of agricultural inputs such as fuel and fertilizer. During the first eight months of 2008, such prices reached exceptionally high levels leading to a significant increase in the borrowing requirements of ABG customers during that period. Prices for commodities and agricultural inputs have since declined as a result of a number of factors, including reduced demand due to the global recession. Generally, higher prices for commodities and agricultural inputs lead to increased financing requirements for our customers, who borrow to finance inventory purchases and receivables.

ABG net income decreased 40 percent in the first six months of 2009 to \$102.5 million from \$171.9 million for the same period in 2008. This decrease resulted from lower net interest income and a \$32.0 million provision for credit losses in the first six months of 2009, partially offset by higher noninterest income. Net interest income decreased \$66.7 million due to the significant decline in average agribusiness loan volume, as described

previously. The favorable impact of the steeper yield curve on the Bank's funding position and increased lending spreads somewhat offset the decline in ABG net interest income resulting from significantly lower volume. ABG recorded a \$32.0 million provision for credit losses for the first six months of 2009. No provision for credit losses was recorded in the first six months of 2008. Nonaccrual loans and leases increased to \$192.5 million at June 30, 2009 from \$82.4 million at December 31, 2008, largely due to credit concerns surrounding a limited number of ethanol and dairy customers. ABG recorded net charge-offs of \$16.1 million for the six months ended June 30, 2009 compared to \$3.0 million for the same period of 2008. ABG's noninterest income increased \$7.4 million primarily due to greater fee income resulting from higher levels of unused commitments. The impact on ABG's operating expenses from the changes to the insurance fund premium base and rate, as discussed on page 13, was offset by the decline in ABG volume noted above.

Strategic Relationships Division (SRD)

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

SRD loans outstanding increased slightly to \$15.2 billion at June 30, 2009 from \$15.0 billion as of December 31, 2008, primarily due to a modest increase in loans to our affiliated Associations. Average SRD loans grew to \$14.8 billion for the first six months of 2009 compared to \$12.8 billion during the same period of 2008. The increase in average loan volume primarily reflects loan growth at our two largest affiliated Associations and increased participations in loans made by other System banks to certain of their affiliated Associations. The credit quality of the SRD loan portfolio is high due to the financial and operating strength of the Associations and the quality and diversification of their loan portfolios. Lower margins in SRD are commensurate with this lower risk profile and lower capital requirements.

SRD net income increased 87 percent to \$58.0 million for the first six months of 2009 from \$31.1 million for the same prior-year period. Improved SRD earnings are primarily the result of stronger net interest income, which grew \$30.4 million due to the benefit of the steeper yield curve on the Bank's funding position and the \$2.1 billion increase in average loan volume described above. SRD's operating expenses increased \$3.3 million for the six months ended June 30, 2009 as compared to the same period of 2008 due to a change in the insurance fund premium assessment formula described on page 13.

Communications and Energy Banking Group (CEBG)

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

CEBG loans outstanding increased slightly to \$11.2 billion at June 30, 2009 from \$11.0 billion at December 31, 2008. Average CEBG loans increased to \$11.1 billion for the first six months of 2009 from \$9.3 billion for the same period in 2008. Growth in CEBG's average loan volume primarily resulted from increased lending activity in the rural electric distribution and generation and transmission sectors driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts, particularly in the electric distribution sector.

While overall CEBG credit quality remains strong as a result of our focus on lending to our core rural utility sectors, nonaccrual loans increased to \$37.9 million at June 30, 2009 from \$24.7 million at December 31, 2008. The increase primarily relates to a limited number of communications customers. CEBG recorded net charge-offs of \$14.4 million for the six months ended June 30, 2009 compared to net recoveries of \$2.8 million for the same period of 2008. These charge-offs relate to our communications portfolio.

CEBG net income increased 44 percent to \$105.3 million for the first six months of 2009 from \$73.1 million for the same period in 2008. Improved earnings primarily resulted from stronger net interest income, which increased \$54.2 million due to the aforementioned benefit of a steeper yield curve on the Bank's funding position, increased lending spreads and a \$1.9 billion increase in average loan volume. As a result of the credit challenges noted previously, CEBG recorded a \$3.0 million provision for credit losses for the first six months of 2009. No provision for credit losses was recorded in the first six months of 2008. Noninterest income improved \$4.3 million primarily as a result of growth in fee income. Operating expenses increased \$6.3 million, resulting principally from increased statutory insurance fund premiums related to higher average loan volume, higher premium rates and a change in the insurance fund premium assessment formula as more fully discussed on page 13.

Global Financial Services Group (GFSG)

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

GFSG loans outstanding increased modestly to \$8.1 billion at June 30, 2009, compared to \$7.9 billion at December 31, 2008. Our Corporate Finance Division portfolio balances decreased slightly to \$3.7 billion at June 30, 2009 from \$3.8 billion at December 31, 2008. International Division loans outstanding increased to \$4.4 billion at June 30, 2009 from \$4.1 billion at December 31, 2008 as the tightening of global credit markets led to customers increasing their usage of trade finance facilities with CoBank. Loans granted under the GSM program have continued to increase due to greater usage and availability of the program. Such guaranteed loans represented 87 percent of International Division loans outstanding as of June 30, 2009 compared to 81 percent as of December 31, 2008. Average GFSG loans grew to \$8.4 billion in the first six months of 2009 from \$6.7 billion for the same period of 2008 due to the significant increase in International Division lending noted above.

Nonaccrual loans decreased slightly to \$106.4 million at June 30, 2009 from \$110.7 million at December 31, 2008. For both periods presented, the amount primarily relates to a Corporate Finance Division poultry customer. GFSG recorded net charge-offs of \$1.7 million for the six months ended June 30, 2009 compared to \$8.6 million for the same period of 2008.

GFSG net income increased 47 percent to \$52.3 million for the six months ended 2009, compared to \$35.7 million for the same period in 2008. The increase is primarily due to a \$26.3 million increase in net interest income resulting from the benefit of a steeper yield curve on the Bank's funding position as noted previously, increased lending spreads and the growth in average International Division loan volume. GFSG net income also increased as a result of a \$5.0 million reversal of the allowance for credit losses for the six months ended June 30, 2009 resulting from slightly improved credit quality, as compared to no provision for credit losses in the 2008 period. GFSG's operating expenses increased \$2.3 million primarily as a result of the changes in insurance fund premiums described on page 13.

Credit Quality, Liquidity, Capital Resources and Other

Credit Quality

As expected, our overall credit quality declined in the first six months of 2009 but remains within historical averages. As previously noted, nonaccrual loans and leases increased to \$336.8 million at June 30, 2009 from \$217.8 million at December 31, 2008. We anticipate continued modest deterioration in credit quality due to the ongoing impacts of the recession on customers in a number of industries we serve, including livestock/poultry, ethanol, dairy, timber and communications.

We recorded a \$30.0 million provision for credit losses for the six months ended June 30, 2009, primarily as a result of challenges facing certain agribusiness customers. Net charge-offs for the first six months of 2009 totaled \$32.2 million and were primarily associated with a limited number of our agribusiness and communications customers.

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

Asset Quality Ratios		
	June 30, 2009	December 31, 2008
Acceptable	96.06%	97.20%
Other Assets Especially Mentioned	1.73	1.24
Substandard	2.13	1.50
Doubtful	0.08	0.06
Loss	-	-
Total	100.00%	100.00%

Liquidity and Investments

Our liquidity management objectives are designed to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate for a period of time, and fund our operations on a cost-effective basis. We believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the agency market via the Federal Farm Credit Banks Funding Corporation. As a result of the ongoing credit crisis, the global level of credit availability and investor demand for unguaranteed debt securities issued by financial institutions has been reduced. Responses by the U.S. government, including actions to protect the housing government sponsored enterprises (GSEs), to capitalize and guarantee the liabilities of commercial banks, and purchase assets from commercial banks, have had the effect of increasing our funding costs. As a member of the Farm Credit System, a AAA-rated GSE, CoBank has continued to maintain adequate access to the debt-funding markets; however, funding costs for longer-term debt, while declining, remain elevated and our ability to issue such debt securities remains reduced.

We have taken actions to enhance our liquidity during the credit crisis, including issuing longer-term debt when possible, and holding higher levels of liquid assets, including cash. As a result, cash on our consolidated balance sheet was \$3.9 billion at June 30, 2009 and \$3.1 billion at December 31, 2008, compared to \$28.1 million at June 30, 2008. At June 30, 2009, our liquidity was 310 days, compared to 257 days at December 31, 2008 and 142 days at June 30, 2008. During the first six months of 2009, we averaged 274 days liquidity, compared to the regulatory minimum of 90 days. We expect to maintain higher levels of liquidity as long as the credit crisis persists, and until funding access and flexibility return to more stable levels.

Investment securities, cash, federal funds sold, securities purchased under resale agreements and other highly-liquid funds are primarily held for the purpose of maintaining a liquidity reserve and managing short-term surplus funds. Investment securities totaled \$12.5 billion at June 30, 2009 compared to \$11.5 billion at December 31, 2008. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities (\$ in Millions)						
	As of June 30, 2009			As of December 31, 2008		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Agency Debt	\$ 2,756	\$ 2,766	\$ 10	\$ 1,500	\$ 1,541	\$ 41
U.S. Agency Mortgage-Backed	8,775	8,865	90	8,908	8,868	(40)
Non-Agency Mortgage-Backed	792	666	(126)	961	812	(149)
Asset-Backed	286	225	(61)	338	316	(22)
	\$ 12,609	\$ 12,522	\$ (87)	\$ 11,707	\$ 11,537	\$ (170)

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 before a full recovery of our cost basis occurs. Therefore, with the exception of one security, we do not consider these investments to be other-than-temporarily impaired at June 30, 2009. Except for one other-than-temporary impairment recorded for one security in 2008, which we sold in July 2009 (see Note 4 to the accompanying condensed consolidated financial statements), changes in the fair value of these investments are accounted for as a component of accumulated other comprehensive income (loss).

For the six months ended June 30, 2009, we recorded unrealized gains, net of deferred taxes, of \$51.7 million compared to unrealized losses, net of deferred taxes, of \$62.5 million for the same prior-year period. The unrealized gains in the 2009 period primarily relate to the impact of interest rate changes on the values of certain fixed-rate U.S. agency mortgage-backed securities, partially offset by unrealized losses on asset-backed securities.

Unrealized losses on non-agency mortgage-backed securities (Non-Agency Securities) are primarily due to decreased liquidity in the broader financial markets and widened credit spreads. While none of our Non-Agency Securities were other-than-temporarily impaired at June 30, 2009, continued deterioration of the U.S. economy and increasing levels of defaults and foreclosures on home mortgages may result in further downward adjustments to the fair value of our Non-Agency Securities and the need to record an other-than-temporary impairment loss.

The substantial majority of our asset-backed securities (ABS) is composed of home equity asset-backed securities not issued or guaranteed by the U.S. government. Unrealized losses on ABS investments relate to decreased liquidity and widened credit spreads. Our home equity asset-backed securities are supported by first- or second-lien mortgages with \$192.5 million of them insured by bond insurance companies, principally MBIA Insurance Corporation (MBIA) and Ambac Assurance Corporation (Ambac). The market value and future realization of the book value of such securities is largely dependent upon the ability of the bond insurance companies to fulfill their obligations, if required. MBIA and Ambac have been under financial pressure for some time and their credit ratings, capital levels, and operating performance have declined. In February 2009, MBIA announced the restructuring of its financial guaranty insurance operations, which reduced the level of capital available to absorb losses in their structured finance exposures, including the ABS securities held by CoBank. This led to ratings downgrades of MBIA by the major rating agencies. To the extent these insurers' credit ratings are further downgraded, their capital levels further decline, and/or their operating performance continues to diminish to a

level at which we believe their ability to meet their obligations is substantially reduced, we would adjust the values of these securities and consider whether an other-than-temporary loss has occurred.

Farm Credit Administration (FCA) regulations require that mortgage- and asset-backed securities be AAA-rated by at least one major rating agency in order to be included as part of our liquidity reserve. The following table summarizes the securities which have been downgraded below AAA, including those that are rated AAA by one major rating agency but have been downgraded by another agency. 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 June 30, 2009	Number of Positions	Face Value	Market Value
Asset-Backed Securities (Insured)			
AAA/Aaa	1	\$ 8.8	\$ 5.7
A/A	3	113.7	85.3
BBB/Baa	5	128.9	99.6
CC/Ca	1	2.5	1.9
Non-Agency Securities (Insured)			
AA/Aa	1	2.6	2.0
Non-Agency Securities (Uninsured)			
AAA/Aaa	7	113.7	94.5
AA/Aa	4	72.6	54.0
A/A	2	26.2	15.9
BBB/Baa	1	60.0	30.8
BB/Ba	1	33.3	28.7
	26	\$ 562.3	\$ 418.4

As of June 30, 2009, 18 of our securities were no longer rated AAA by at least one major rating agency. We have received permission from the FCA to continue to hold 11 of these securities, which have a total market value of \$203.5 million at June 30, 2009. We have requested permission to continue to hold the remaining seven securities and anticipate that we will receive such approval. These securities, which were downgraded in the second quarter of 2009, have a market value of \$114.7 million as of June 30, 2009.

We perform other-than-temporary impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions at each quarter-end. Subsequent changes in market or credit conditions could change these evaluations.

Capital Resources

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

We complied with all regulatory capital adequacy standards at June 30, 2009. Our permanent capital ratio (generally average shareholders' equity and subordinated debt, subject to certain limitations, as a percentage of average risk-adjusted assets for the most recent three months) was 13.80 percent at June 30, 2009, compared to 14.75 percent at December 31, 2008, both of which exceeded the 7.0 percent minimum regulatory requirement.

Our core surplus ratio (average unallocated retained earnings, a significant portion of our common stock and non-cumulative preferred stock as a percentage of average risk-adjusted assets for the most recent three months) was 7.33 percent at June 30, 2009, compared to 7.98 percent at December 31, 2008, both of which exceeded the 3.5 percent minimum regulatory requirement. Effective January 1, 2008, the FCA determined that we may include a significant portion of our common stock as core surplus, subject to certain conditions, on a temporary basis, which will likely continue until the earlier of December 31, 2012 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. As part of its determination, the FCA requires that we continue to calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of June 30, 2009, our core surplus ratio excluding common stock was 5.39 percent.

Our net collateral ratio (generally loans and investments divided by total liabilities excluding subordinated debt and other items, subject to certain limitations) at June 30, 2009 was 107.25 percent, compared to 107.75 percent at December 31, 2008, both of which exceeded the regulatory minimum of 103.0 percent and the higher minimum of 104.0 percent required by our regulator during the period in which we have Series A preferred stock or subordinated debt outstanding.

Interest Rate Risk Management

Interest rate risk is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). Derivatives are recorded at fair value as assets or liabilities on the consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Changes in the fair value of derivatives recorded in the consolidated statements of income totaled gains of \$9.2 million and \$3.9 million in the first six months of 2009 and 2008, respectively. The drop in short-term market interest rates across year-end 2008 and into early 2009 created short-term losses on the fair values of certain hedging relationships in late 2008, followed by gains in early 2009 as rates on floating rate derivatives reset and interest rate levels stabilized. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled a gain, net of deferred taxes, of \$2.2 million and a loss, net of deferred taxes, of \$0.2 million in the first six months of 2009 and 2008, 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 June 30, 2009, our counterparties had posted \$1.0 billion in cash and \$82.4 million in securities as collateral with us. At June 30, 2009, a 200 basis point parallel increase in the USD LIBOR/swap curve would have required an outflow of \$1.2 billion to our counterparties to collateralize the fair value position of our derivatives, which would reduce our net collateral ratio and our days liquidity.

Hedge Contract Terminations

During the second quarter of 2009, we terminated approximately \$115.0 million in notional value of interest rate swaps for asset-liability management purposes. We received \$7.2 million in proceeds as a result of the hedge contract terminations, which is reflected under operating activities in the accompanying condensed consolidated statement of cash flows for the six months ended June 30, 2009. The proceeds will be amortized over the next four years as an offset to interest expense on the fixed-rate debt that was hedged by these contracts.

Insurance Premiums

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

Preferred Stock Exchange Offer and Consent Solicitation

We are offering to exchange our newly-issued Series D Non-Cumulative Subordinated Perpetual Preferred Stock for any and all of our outstanding Series A Cumulative Perpetual Preferred Stock upon certain terms and specified conditions set forth in the Exchange Offer and Solicitation Statement (Exchange Offer). The exchange of the Series A Preferred Stock for new Series D Preferred Stock will result in a higher core surplus ratio for us, thereby enhancing our capital position. For each \$1,000 in aggregate liquidation preference of Series A Preferred Stock that is properly tendered, we will issue \$1,000 in aggregate liquidation preference of Series D Preferred Stock (\$950 if tendered after a certain date). In connection with the Exchange Offer, we are also soliciting, upon certain terms and specified conditions set forth in the Exchange Offer, consents from holders of the Series A Preferred Stock to a proposed amendment to the Preferred Stock Purchase Agreement, dated June 20, 2001, which will eliminate certain restrictions on our ability to make open market purchases, or exchanges, of the Series A Preferred Stock. We will not be able to effect the exchange of stock unless we receive consents by holders of a majority of the aggregate outstanding shares of the Series A Preferred Stock. The exchange offer and consent solicitation will expire on August 21, 2009, unless we extend it or terminate it early.

Recent Accounting Pronouncements

Effective June 30, 2009, we adopted the following three Staff Positions issued by the Financial Accounting Standards Board (FASB) which provide guidance on investment valuation, other-than-temporary impairments, and disclosure:

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

The FASB Staff Positions (FSPs) above were effective prospectively for interim and annual periods ending after June 15, 2009, with early adoption permitted. The adoption of these FSPs did not have any effect on our consolidated financial position, results of operations or cash flows. However, the adoption of FSP FAS 115-2 will likely impact the recognition and presentation of other-than-temporary impairments, if any, recorded in the future. See Notes 2, 4 and 6 to the accompanying condensed consolidated financial statements for additional discussion concerning these FSPs and the related effects of adoption.

Effective June 30, 2009, we adopted Statement of Financial Accounting Standards No. 165, Subsequent Events (FAS 165). FAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of FAS 165 did not have any effect on our consolidated financial position, results of operations or cash flows; however, as a result of FAS 165, we disclosed the date through which CoBank has evaluated all events subsequent to the date of the accompanying condensed consolidated financial statements. See Notes 2 and 10 to the accompanying condensed consolidated financial statements for a description of FAS 165 and the effect of its adoption.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 (FAS 166 or Statement). This Statement clarifies whether a transferor has surrendered control over transferred financial assets, and establishes 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 and a transferor's continuing involvement with transferred financial assets. This Statement is effective for interim and annual reporting periods beginning after November 15, 2009. Earlier application is prohibited. This Statement is applicable to transfers occurring on or after the effective date. We will adopt FAS 166 in the first quarter of 2010 and do not anticipate that the adoption will have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 (FAS 168 or the Codification). The Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. We will adopt FAS 168 in the third quarter of 2009. The adoption of FAS 168 will not have an effect on our consolidated financial position, results of operations or cash flows.

Business Outlook

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

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

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

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

In response to the conditions noted above, we have enhanced our capital and liquidity positions. We will continue to focus on our core customer segments and, where appropriate, adjust our pricing to reflect current credit risk and funding conditions. We will continue our enhanced credit analysis and monitoring activities, including the review of derivative counterparty credit risk. We will continue to closely monitor asset quality and emphasize effective enterprise-wide management of credit, 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.

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

Forward-Looking Statements

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

- Fluctuations in the agricultural, communications, energy and water, international, financing and leasing sectors;
- Weak U.S. and global economic conditions;
- Sovereign or regulatory actions;
- Macro-economic factors and political policies and developments in the U.S. and other countries in which we make loans;
- The level of interest rates;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the reserve for credit exposure;
- Economic conditions and credit performance of the loan and lease portfolios, portfolio growth and seasonal factors;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments, including the credit quality of insurers of such investments;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines and reporting instructions;
- The resolution of legal proceedings and related matters;
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Environmental-related conditions or laws impacting 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.;
- 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)

<i>(Unaudited)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Interest Income				
Loans and Leases	\$ 372,439	\$ 540,082	\$ 756,738	\$ 1,155,926
Investment Securities	85,847	107,146	176,541	222,865
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	3	2,704	55	7,076
Total Interest Income	458,289	649,932	933,334	1,385,867
Interest Expense	218,610	418,196	440,397	936,438
Net Interest Income	239,679	231,736	492,937	449,429
Provision for Credit Losses	10,000	-	30,000	-
Net Interest Income After Provision for Credit Losses	229,679	231,736	462,937	449,429
Noninterest Income / Expense				
Net Fee Income	19,059	14,036	38,298	28,138
Prepayment Income	1,801	7,565	3,996	13,352
Losses on Early Extinguishments of Debt	(2,497)	(4,129)	(4,127)	(10,772)
Other, Net	4,698	(2,547)	7,254	2,874
Total Noninterest Income	23,061	14,925	45,421	33,592
Noninterest Expenses				
Employee Compensation	26,168	24,007	49,738	46,923
Insurance Fund Premium	14,433	12,170	28,432	24,034
Information Services	3,423	4,412	6,832	8,528
Occupancy and Equipment	1,797	1,635	3,528	3,351
Farm Credit System Related	1,641	1,436	3,351	2,871
Other	7,898	5,928	14,076	10,920
Total Noninterest Expenses	55,360	49,588	105,957	96,627
Income Before Income Taxes	197,380	197,073	402,401	386,394
Provision for Income Taxes	41,243	38,690	86,407	78,451
Net Income	\$ 156,137	\$ 158,383	\$ 315,994	\$ 307,943

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

Condensed Consolidated Balance Sheets

CoBank, ACB

(\$ in Thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Total Loans and Leases	\$ 44,854,852	\$ 44,550,121
Less: Allowance for Credit Losses	356,265	329,198
Net Loans and Leases	44,498,587	44,220,923
Cash	3,868,832	3,127,204
Investment Securities	12,522,445	11,536,848
Federal Funds Sold, Securities Purchased		
Under Resale Agreements and Other	5,000	5,000
Interest Rate Swaps and		
Other Financial Instruments	1,131,390	1,674,753
Accrued Interest Receivable and Other Assets	686,505	597,329
Total Assets	\$ 62,712,759	\$ 61,162,057
Liabilities		
Bonds and Notes	\$ 56,823,112	\$ 55,365,422
Subordinated Debt	1,000,000	1,000,000
Interest Rate Swaps and		
Other Financial Instruments	182,619	140,948
Accrued Interest Payable and Other Liabilities	749,971	906,615
Reserve for Unfunded Commitments	124,969	154,223
Total Liabilities	58,880,671	57,567,208
Commitments and Contingencies (Note 9)		
Shareholders' Equity		
Preferred Stock	700,000	700,000
Common Stock (Note 8)	1,438,342	1,401,192
Unallocated Retained Earnings	1,784,519	1,638,596
Accumulated Other Comprehensive Loss	(90,773)	(144,939)
Total Shareholders' Equity	3,832,088	3,594,849
Total Liabilities and Shareholders' Equity	\$ 62,712,759	\$ 61,162,057

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

Condensed Consolidated Statements of Cash Flows

CoBank, ACB

(\$ in Thousands)

For the Six Months Ended June 30, (Unaudited)	2009	2008
Cash Flows Provided by Operating Activities		
Net Income	\$ 315,994	\$ 307,943
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Provision for Credit Losses	30,000	-
Deferred Income Taxes	20,403	50,186
Depreciation and Amortization/Accretion, Net	(5,574)	10,977
Increase in Accrued Interest Receivable and Other Assets	(118,055)	(64,367)
Decrease in Accrued Interest Payable and Other Liabilities	(62,018)	(57,892)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(9,503)	(6,695)
Proceeds from Termination of Interest Rate Swaps	7,222	-
Other	(80)	5,437
Net Cash Provided by Operating Activities	178,389	245,589
Cash Flows Used in Investing Activities		
Net Increase in Loans and Leases	(343,299)	(8,955,269)
Net Increase in Investment Securities	(902,520)	(985,316)
Net Increase in Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	-	(219,600)
Net Cash Used in Investing Activities	(1,245,819)	(10,160,185)
Cash Flows Provided by Financing Activities		
Net Issuance of Bonds and Notes	2,055,812	9,619,936
Net Issuance of Subordinated Debt	-	496,750
Net Retirements of Common Stock	(7,468)	(40,713)
Cash Patronage Distribution	(209,565)	(155,013)
Preferred Stock Dividends	(29,721)	(18,721)
Net Cash Provided by Financing Activities	1,809,058	9,902,239
Net Increase (Decrease) in Cash	741,628	(12,357)
Cash at Beginning of Period	3,127,204	40,415
Cash at End of Period	\$ 3,868,832	\$ 28,058
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Unrealized Losses on Investment Securities, Before Taxes	\$ 83,377	\$ (100,771)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments, Before Taxes	3,505	(319)
Patronage in Common Stock	44,618	60,768

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

CoBank, ACB

(\$ in Thousands)

For the Six Months Ended June 30, <i>(Unaudited)</i>	2009	2008
Balance at Beginning of Period	\$ 3,594,849	\$ 3,233,424
Adjustments for the Adoption of a New Accounting Pronouncement (Note 2)	-	(609)
Balance at Beginning of Period, as Adjusted	3,594,849	3,232,815
Comprehensive Income:		
Net Income	315,994	307,943
Other Comprehensive Income, Net of Taxes:		
Net Change in Unrealized Losses on Investment Securities	51,694	(62,478)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	2,173	(198)
Net Pension Adjustment	299	(2)
Comprehensive Income	370,160	245,265
Preferred Stock Dividends	(29,721)	(18,721)
Common Stock Issued	58	45
Common Stock Retired	(7,526)	(40,758)
Cash Patronage	(95,732)	(109,858)
Balance at End of Period	\$ 3,832,088	\$ 3,308,788

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 six months ended June 30, 2009 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 39 and 40 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, which can also be accessed through links on our CoBank website under “Farm Credit Partners.”

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

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on determining whether a market for a financial asset or liability is not active and whether a transaction is not orderly for fair value measurement purposes under Statement of Financial Accounting Standards No. 157, Fair Value Measurements. FSP FAS 157-4 was effective prospectively for interim and annual periods ending after June 15, 2009. We adopted FSP FAS 157-4 in the second quarter of 2009. The adoption did not have any effect on our consolidated financial position, results of operations or cash flows. See additional detail regarding the adoption of FSP FAS 157-4 in Note 6.

In April 2009, the FASB issued Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2). FSP FAS 115-2 provides other-than-temporary impairment guidance, which under certain circumstances allows for recording the portion of an impairment related to credit losses in earnings and the portion of impairment related to all other factors in other comprehensive income (loss). To qualify for such treatment, management is required to assert that it does not have the intent to sell a security and that it is more likely than not that it will not be required to sell such security before a full recovery of its cost basis occurs. FSP FAS 115-2 was effective for interim and annual periods ending after June 15, 2009. We adopted FSP FAS 115-2 in the second quarter of 2009. The adoption did not have any effect on our consolidated financial position, results of operations or cash flows; however, we have expanded our disclosures related to investments. See additional detail regarding the adoption of FSP FAS 115-2 in Note 4.

In April 2009, the FASB issued Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 requires entities to include disclosures about the fair value of its financial instruments whenever interim financial statements are issued during the fiscal year, whether recognized or not recognized in the statement of financial position, as required by Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments. Entities must also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. FSP FAS 107-1 was effective for interim periods ending after June 15, 2009. We adopted FSP FAS 107-1 in the second quarter of 2009. FSP FAS 107-1 did not have any effect on our consolidated financial position, results of operations or cash flows; however, we have expanded our disclosures related to the fair value of financial instruments. See additional detail regarding the adoption of FSP FAS 107-1 in Note 6.

Effective June 30, 2009, we adopted Statement of Financial Accounting Standards No. 165, Subsequent Events (FAS 165). FAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, FAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. It also establishes the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and prescribes related disclosures. FAS 165 did not have any effect on our consolidated financial position, results of operations or cash flows; however, as a result of FAS 165, we disclosed the date through which CoBank has evaluated all events subsequent to the date of the accompanying condensed consolidated financial statements. See additional detail regarding the adoption of FAS 165 in Note 10.

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Allowance for Credit Losses, Beginning of Period	\$ 334,979	\$ 446,376	\$ 329,198	\$ 447,226
Provision for Credit Losses	10,000	-	30,000	-
Charge-offs	(4,894)	(9,973)	(34,038)	(12,981)
Recoveries	1,238	2,087	1,851	4,245
Transfer to Allowance for Credit Losses from Reserve for Unfunded Commitments	14,942	-	29,254	-
Allowance for Credit Losses, End of Period	356,265	438,490	356,265	438,490
Reserve for Unfunded Commitments, Beginning of Period	139,911	-	154,223	-
Transfer from Reserve for Unfunded Commitments to Allowance for Credit Losses	(14,942)	-	(29,254)	-
Reserve for Unfunded Commitments, End of Period	124,969	-	124,969	-
Total Reserve for Credit Exposure	\$ 481,234	\$ 438,490	\$ 481,234	\$ 438,490

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

Impaired Loan and Lease Information

	June 30, 2009	December 31, 2008
Nonaccrual Loans and Leases	\$ 336,829	\$ 217,797
Accruing Loans and Leases 90 Days or More Past Due	7,064	3,844
Restructured Loans	72	160
Total Impaired Loans and Leases	\$ 343,965	\$ 221,801
Impaired Loans and Leases with Related Specific Allowance	\$ 141,476	\$ 92,735
Impaired Loans and Leases without Related Specific Allowance	202,489	129,066
Total Impaired Loans and Leases	\$ 343,965	\$ 221,801
Specific Allowance on Impaired Loans and Leases	\$ 33,385	\$ 25,337
Other Property Owned	498	3

Nonaccrual loans and leases at June 30, 2009 do not include \$132.2 million in loans to foreign banks due to the existence of U.S. government guarantees on a significant portion of such loans. For the six months ended June 30, 2009, we charged off the unguaranteed portion of these loans totaling \$2.6 million, while the remaining \$129.6 million of the loans were performing according to the contractual U.S. government guarantees and remained in accruing status.

For the Six Months Ended June 30,	2009	2008
Average Impaired Loans and Leases	\$ 260,517	\$ 60,540
Interest Income Recognized on Impaired Loans and Leases	192	4,552

Reserve for Credit Exposure as a Percentage of:	June 30, 2009	December 31, 2008
Total Loans and Leases	1.07%	1.09%
Impaired Loans and Leases	140	218
Nonaccrual Loans and Leases	143	222

Note 4 – Investment Securities

As discussed in Note 2, we adopted FSP FAS 115-2 in the second quarter of 2009, which expands the disclosure of investments and amends guidance surrounding the recognition and presentation of other-than-temporary impairments. A summary of investment securities available-for-sale follows. See Note 6 for disclosures about the determination of fair value of investments.

(\$ in Millions)

June 30, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Debt	\$ 2,756	\$ 10	\$ -	\$ 2,766
U.S. Agency Mortgage-Backed	8,775	154	(64)	8,865
Non-Agency Mortgage-Backed	792	-	(126)	666
Asset-Backed	286	-	(61)	225
Total	\$ 12,609	\$ 164	\$ (251)	\$ 12,522

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Debt	\$ 1,500	\$ 41	\$ -	\$ 1,541
U.S. Agency Mortgage-Backed	8,908	92	(132)	8,868
Non-Agency Mortgage-Backed	961	-	(149)	812
Asset-Backed	338	3	(25)	316
Total	\$ 11,707	\$ 136	\$ (306)	\$ 11,537

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at June 30, 2009 is as follows:

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

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 500	\$ 500	0.70%
One to Five Years	1,756	1,766	0.96
Five to Ten Years	500	500	4.11
After Ten Years	-	-	-
Total	\$ 2,756	\$ 2,766	1.49

Mortgage-Backed Securities (\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	-%
One to Five Years	200	200	2.12
Five to Ten Years	697	705	3.10
After Ten Years	8,670	8,626	2.86
Total	\$ 9,567	\$ 9,531	2.86

Asset-Backed Securities (\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	-%
One to Five Years	15	15	4.50
Five to Ten Years	-	-	-
After Ten Years	271	210	4.33
Total	\$ 286	\$ 225	4.33

While the substantial majority of our mortgage-backed and asset-backed securities have contractual maturities in excess of ten 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 3.0 years and 3.5 years, respectively, at June 30, 2009.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at June 30, 2009. The unrealized losses, including those existing 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
U.S. Agency Debt	\$ -	\$ -	\$ -	\$ -
U.S. Agency Mortgage-Backed	528	(2)	2,983	(62)
Non-Agency Mortgage-Backed	11	(2)	645	(124)
Asset-Backed	31	(7)	178	(54)
Total	\$ 570	\$ (11)	\$ 3,806	\$ (240)

As of June 30, 2009, with the exception of one security discussed below, we expect to collect all principal and interest payments on our investment securities given the continued performance of these securities and the creditworthiness of the bond insurers. We do not intend to sell these investments, and it is not likely that we will be required to sell them before recovery of our amortized cost occurs. One of our asset-backed securities was determined to be other-than-temporarily impaired, and as a result we recorded a \$6.0 million impairment loss in the second quarter of 2008. We sold this security in July 2009 for proceeds of \$3.4 million and recorded a gain on disposition of \$0.9 million.

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

Uses of Derivatives

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

The notional amounts and related activity of derivatives at June 30, 2009 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

(\$ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2008	\$ 26,452	\$ 1,911	\$ 354	\$ 28,717
Additions / Accretion	7,157	-	2,025	9,182
Maturities / Amortization	2,296	224	2,070	4,590
Terminations	115	-	-	115
June 30, 2009	\$ 31,198	\$ 1,687	\$ 309	\$ 33,194

Accounting for Derivative Instruments and Hedging Activities

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

For our customer transactions, which are not designated as hedging instruments, we record the related 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 contract interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At June 30, 2009, we expect that \$1.0 million of expense will be reclassified from other comprehensive loss into the income statement in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately four years.

Derivatives Not Designated As Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with approved counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these customer-related derivatives are recognized immediately as noninterest income/expense in current period earnings.

Counterparty Credit Risk

The use of derivatives for risk management activities includes the credit risk of dealing with counterparties and market risks related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore assume no performance risk.

To minimize the risk of credit losses on derivative transactions, we deal exclusively with counterparties that have an investment grade or better credit rating from a major credit rating agency, and we closely monitor the credit standing and levels of exposure to individual counterparties. In addition, all derivative transactions are governed by master swap agreements, which include netting agreements. Our master agreements mitigate credit risk by requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. The credit risk is further mitigated by setting limits on the amount of net exposure to each respective counterparty, requiring collateral to support certain credit exposures, and establishing collateral posting thresholds. The master swap agreements also include bilateral collateral arrangements, while derivative agreements with our customers are secured through our loan agreements. We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. As of June 30, 2009, our counterparties had posted \$1.0 billion in cash and \$82.4 million in securities as collateral with us. The maximum amount of losses we could be exposed to in the event of nonperformance by the non-customer counterparties to our derivative positions, net of collateral held by us, was \$58.6 million at June 30, 2009.

A summary of the fair value of our derivative financial instruments included in our consolidated balance sheet at June 30, 2009 is shown below.

Fair Value of Derivative Financial Instruments

	Fair Value of Derivative Assets ⁽¹⁾	Fair Value of Derivative Liabilities ⁽²⁾
Derivatives Designated as Hedging Instruments Under FAS 133		
Interest Rate Contracts	\$ 1,040,303	\$ 101,677
Foreign Exchange Contracts	877	647
Total Derivatives Designated as Hedging Instruments Under FAS 133	\$ 1,041,180	\$ 102,324
Derivatives Not Designated as Hedging Instruments Under FAS 133		
Interest Rate Contracts	\$ 88,157	\$ 78,502
Foreign Exchange Contracts	2,053	1,793
Total Derivatives Not Designated as Hedging Instruments Under FAS 133	\$ 90,210	\$ 80,295
Total Derivatives	\$ 1,131,390	\$ 182,619

⁽¹⁾ These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the accompanying condensed consolidated balance sheet as of June 30, 2009

⁽²⁾ These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the accompanying condensed consolidated balance sheet as of June 30, 2009

A summary of the effect of derivative financial instruments on our consolidated statement of income for the six months ended June 30, 2009 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships Under FAS 133

	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item ⁽¹⁾
Interest Rate Contracts	\$ 8,794
Total	\$ 8,794

⁽¹⁾ Located in Interest Expense in the accompanying condensed consolidated statement of income for the six months ended June 30, 2009

Derivative Financial Instruments in Cash Flow Hedging Relationships Under FAS 133

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative (Effective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Assessment)
Interest Rate Contracts	\$ 5,174	\$ (299) ⁽¹⁾	\$ -
Foreign Exchange Contracts	4,492	6,461 ⁽²⁾	(609) ⁽²⁾
Total	\$ 9,666	\$ 6,162	\$ (609)

⁽¹⁾ Located in Interest Expense in the accompanying condensed consolidated statement of income for the six months ended June 30, 2009

⁽²⁾ Located in Interest Income – Loans and Leases in the accompanying condensed consolidated statement of income for the six months ended June 30, 2009

Derivative Financial Instruments not Designated as Hedging Relationships Under FAS 133

	Net Amount of Gain or (Loss) Recognized in Income On Derivative ⁽¹⁾
Interest Rate Contracts	\$ 668
Foreign Exchange Contracts	18
Total	\$ 686

⁽¹⁾ Located in Other Noninterest Income / Expense in the accompanying condensed consolidated statement of income for the six months ended June 30, 2009

Note 6 – Fair Value Measurements

As discussed in Note 2, we adopted FSP FAS 157-4 in the second quarter of 2009, which provides valuation guidance when a market is not active or transactions are not orderly. Also in the second quarter of 2009, we adopted FSP FAS 107-1, which expands disclosures of the fair value of financial instruments in interim financial statements.

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities would include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets. Our Level 1 assets at June 30, 2009 consist of assets held in a trust fund related to deferred compensation, our supplemental executive retirement plan and our executive retirement plan. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities would include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Our Level 2 assets and liabilities at June 30, 2009 include our derivative contracts and investment securities issued or guaranteed by the U.S. government or its agencies as well as non-agency mortgage-backed securities, all of which have unadjusted values from third-party or internal valuation models. Our Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash and short-term in nature. Additionally, our Level 2 assets and liabilities include collateral balances, which are required under collateral support and master agreements associated with our derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Level 3

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

Our Level 3 assets at June 30, 2009 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading volume and an orderly market for asset-backed securities, we classified this portfolio as Level 3 assets. Market values for such asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of outside pricing service models. Inputs into these models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to observable market inputs. Also included in Level 3 assets are certain loans and leases 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. Our Level 3 liabilities at June 30, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of June 30, 2009

	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Agency Debt	\$ -	\$ 2,765,904	\$ -	\$ 2,765,904
U.S. Agency Mortgage-Backed	-	8,865,819	-	8,865,819
Non-Agency Mortgage-Backed	-	666,227	-	666,227
Asset-Backed	-	-	224,495	224,495
Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	-	5,000	-	5,000
Interest Rate Swaps and				
Other Financial Instruments	-	1,131,390	-	1,131,390
Assets Held in Trust				
(included in Other Assets)	24,337	-	-	24,337
Total Assets	\$ 24,337	\$ 13,434,340	\$ 224,495	\$ 13,683,172
Liabilities				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 182,619	\$ -	\$ 182,619
Collateral Liabilities				
(included in Bonds and Notes)	-	988,970	-	988,970
Standby Letters of Credit				
(included in Other Liabilities)	-	-	8,727	8,727
Total Liabilities	\$ -	\$ 1,171,589	\$ 8,727	\$ 1,180,316

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

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

	Asset-Backed Investment Securities	Standby Letters of Credit
Balance at December 31, 2008	\$ 316,000	\$ 6,529
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	-	-
Included in Other Comprehensive Loss	(39,395)	-
Purchases, Sales, Issuances and Settlements, Net	(42,015)	2,198
Transfers Out of Level 3 into Level 2	(10,095)	-
Balance at June 30, 2009	\$ 224,495	\$ 8,727

Certain loans and leases originally measured at cost, which were written down to fair value as a result of impairment, are not included in the tables above. These primarily include impaired loans and leases for which we provide a specific allowance at June 30, 2009 based on the value of the underlying collateral. Additionally, other property owned is also excluded from the tables above and is valued based upon the fair value of collateral acquired. At June 30, 2009, we had \$86.3 million in impaired loans and leases and \$0.5 million of other property owned, both measured at fair value on a non-recurring basis.

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 June 30, 2009 and December 31, 2008.

Estimated Fair Value of Financial Instruments				
(\$ in Millions)	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Net Loans and Leases	\$ 44,499	\$ 44,766	\$ 44,221	\$ 44,551
Financial Liabilities:				
Bonds and Notes	\$ 56,823	\$ 57,319	\$ 55,365	\$ 55,874
Subordinated Debt	1,000	813	1,000	787
Off-Balance Sheet Financial Instruments:				
Commitments to Extend Credit	\$ -	\$ (63)	\$ -	\$ (54)

Net Loans and Leases

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans and leases, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans and leases 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 an employee savings plan pursuant to which we match a certain percentage of employees' elective contributions. Under this plan, employees hired on or after January 1, 2007 receive a fixed percentage of their eligible wages in their retirement account and a higher level of matching contributions than employees hired prior to that date. We also have a noncontributory, unfunded non-qualified supplemental executive retirement plan (SERP) that covers a limited number of our executives and senior managers, as well as an unfunded non-qualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to certain of our most senior executives. In addition, we have other postretirement benefit plans that cover substantially all of our employees. These other postretirement benefit plans are unfunded contributory plans with participant contributions adjusted annually. Substantially all participants pay the full premiums associated with these plans.

We contributed \$5.0 million to our funded qualified defined benefit pension plans during the six months ended June 30, 2009 and anticipate that we will contribute approximately \$18.0 million more to such plans during the remainder of 2009. We expect to contribute a total of \$0.3 million, net of collected retiree premiums, to our other postretirement benefit plans during 2009. Also during 2009, we expect to contribute approximately \$2.5 million into our trust funds related to our SERP and ERP. Given the continued volatility of financial markets, our actual contributions could change from the estimates provided above.

Note 8 – Common Stock

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

Note 9 – Commitments and Contingencies

Under the Farm Credit Act of 1971, as amended, CoBank is primarily liable for its portion of Systemwide debt securities. Additionally, we are contingently liable for the Systemwide debt securities of the other System banks. Total Systemwide debt securities of the System were \$180.4 billion at June 30, 2009.

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

- The statutory requirement for System banks to maintain eligible assets at a level at least equal in value to the total amount of debt for which each System bank is primarily liable;
- Maintenance of certain financial criteria by contract which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances; and
- The Farm Credit Insurance Fund, a statutorily created insurance fund to assist in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the insurance fund. At June 30, 2009, the assets of the insurance fund aggregated \$3.1 billion.

At June 30, 2009, various lawsuits were pending or threatened against the Bank, in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on our consolidated results of operations or financial position.

Note 10 – Subsequent Events

As discussed in Note 2, we adopted FAS 165, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

We have evaluated subsequent events through August 4, 2009, which is the date the financial statements were issued.

Note 11 – Segment Financial Information

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

The accompanying tables present condensed disaggregated information for the segments. Allocation of resources and corporate items, as well as measurement of financial performance, is made at these operating segment levels. We also allocate net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds to our segments. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as “other.” Inter-segment transactions are insignificant.

We do not hold significant assets in any foreign country. Our international loans are U.S. dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program.

For the six months ended June 30, 2009 and 2008, interest earned from an affiliated Association, Northwest, represented ten percent and nine percent, respectively, of our gross interest income and less than ten percent of our net interest income for both periods. No other customer made up ten percent or more of our gross or net interest income for the periods presented.

Condensed Segment Financial Information

CoBANK, ACB

For the Three Months Ended June 30, 2009

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 98,001	\$ 29,787	\$ 76,265	\$ 36,320	\$ 240,373	\$ (694)	\$ 239,679
Provision for Credit Losses	7,000	-	3,000	-	10,000	-	10,000
Noninterest Income	9,021	191	7,417	6,879	23,508	(447)	23,061
Noninterest Expense	23,116	4,346	16,629	10,227	54,318	1,042	55,360
Provision for Income Taxes	18,565	-	13,912	8,726	41,203	40	41,243
Net Income	\$ 58,341	\$ 25,632	\$ 50,141	\$ 24,246	\$ 158,360	\$ (2,223)	\$ 156,137

For the Three Months Ended June 30, 2008

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 132,218	\$ 19,032	\$ 54,403	\$ 26,408	\$ 232,061	\$ (325)	\$ 231,736
Provision for Credit Losses	-	-	-	-	-	-	-
Noninterest Income*	4,422	260	5,060	6,028	15,770	(845)	14,925
Noninterest Expense	23,408	2,667	12,719	8,678	47,472	2,116	49,588
Provision for Income Taxes	24,569	-	9,283	5,471	39,323	(633)	38,690
Net Income	\$ 88,663	\$ 16,625	\$ 37,461	\$ 18,287	\$ 161,036	\$ (2,653)	\$ 158,383

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

Condensed Segment Financial Information

CoBank, ACB

For the Six Months Ended June 30, 2009

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 196,234	\$ 66,174	\$ 155,933	\$ 75,865	\$ 494,206	\$ (1,269)	\$ 492,937
Provision (Reversal) for Credit Losses	32,000	-	3,000	(5,000)	30,000	-	30,000
Noninterest Income	16,087	390	15,982	12,564	45,023	398	45,421
Noninterest Expense	46,308	8,589	30,568	19,077	104,542	1,415	105,957
Provision for Income Taxes	31,517	-	33,028	22,100	86,645	(238)	86,407
Net Income	\$ 102,496	\$ 57,975	\$ 105,319	\$ 52,252	\$ 318,042	\$ (2,048)	\$ 315,994

Selected Financial Information (\$ in Millions):

Loans and Leases, Net of Allowance							
for Credit Losses at June 30, 2009	\$ 10,256	\$ 15,157	\$ 11,097	\$ 7,989	\$ 44,499	\$ -	\$ 44,499
Assets at June 30, 2009	\$ 10,361	\$ 15,208	\$ 11,155	\$ 8,031	\$ 44,755	\$ 17,958*	\$ 62,713
*Other assets are composed of:							
Investment Securities							\$ 12,522
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other							5
Other Assets							5,431

For the Six Months Ended June 30, 2008

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 262,893	\$ 35,820	\$ 101,766	\$ 49,571	\$ 450,050	\$ (621)	\$ 449,429
Provision for Credit Losses	-	-	-	-	-	-	-
Noninterest Income**	8,728	510	11,696	12,604	33,538	54	33,592
Noninterest Expense	46,179	5,265	24,253	16,757	92,454	4,173	96,627
Provision for Income Taxes	53,527	-	16,087	9,768	79,382	(931)	78,451
Net Income	\$ 171,915	\$ 31,065	\$ 73,122	\$ 35,650	\$ 311,752	\$ (3,809)	\$ 307,943

Selected Financial Information (\$ in Millions):

Loans and Leases, Net of Allowance							
for Credit Losses at June 30, 2008	\$ 18,949	\$ 13,670	\$ 9,700	\$ 6,685	\$ 49,004	\$ -	\$ 49,004
Assets at June 30, 2008	\$ 19,096	\$ 13,746	\$ 9,763	\$ 6,727	\$ 49,332	\$ 12,992*	\$ 62,324
* Other assets are composed of:							
Investment Securities							\$ 11,313
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other							867
Other Assets							812

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

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

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

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

Combining Balance Sheets (Condensed)

(\$ in Millions) (Unaudited)

As of June 30, 2009	CoBank	Combined Affiliated Associations	Eliminations	Combined CoBank District
Investments, Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	\$ 12,527	\$ -	\$ -	\$ 12,527
Loans and Leases	44,855	12,665	(11,062)	46,458
Less: Allowance for Credit Losses	(356)	(125)	-	(481)
Net Loans and Leases	44,499	12,540	(11,062)	45,977
Other Assets	5,687	693	(520)	5,860
Total Assets	\$ 62,713	\$ 13,233	\$ (11,582)	\$ 64,364
Bonds and Notes	\$ 57,823	\$ 11,168	\$ (11,110)	\$ 57,881
Reserve for Unfunded Commitments	125	8	-	133
Other Liabilities	933	93	(43)	983
Total Liabilities	58,881	11,269	(11,153)	58,997
Total Shareholders' Equity	3,832	1,964	(429)	5,367
Total Liabilities and Shareholders' Equity	\$ 62,713	\$ 13,233	\$ (11,582)	\$ 64,364

As of December 31, 2008

Investments, Federal Funds Sold, Securities Purchased				
Under Resale Agreements and Other	\$ 11,542	\$ -	\$ -	\$ 11,542
Loans and Leases	44,550	12,401	(10,879)	46,072
Less: Allowance for Credit Losses	(329)	(89)	-	(418)
Net Loans and Leases	44,221	12,312	(10,879)	45,654
Other Assets	5,399	754	(565)	5,588
Total Assets	\$ 61,162	\$ 13,066	\$ (11,444)	\$ 62,784
Bonds and Notes	\$ 56,365	\$ 11,015	\$ (10,944)	\$ 56,436
Reserve for Unfunded Commitments	154	7	-	161
Other Liabilities	1,048	132	(72)	1,108
Total Liabilities	57,567	11,154	(11,016)	57,705
Total Shareholders' Equity	3,595	1,912	(428)	5,079
Total Liabilities and Shareholders' Equity	\$ 61,162	\$ 13,066	\$ (11,444)	\$ 62,784

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Combining Statements of Income (Condensed)

(\$ in Millions) (Unaudited)

For the Six Months Ended June 30,	CoBank	Combined Affiliated Associations	Eliminations	Combined CoBank District
2009				
Net Interest Income	\$ 493	\$ 177	\$ -	\$ 670
Provision for Credit Losses	30	60	-	90
Noninterest Income	45	53	(31)	67
Noninterest Expense	106	89	-	195
Provision for Income Taxes	86	(4)	-	82
Net Income	\$ 316	\$ 85	\$ (31)	\$ 370
2008				
Net Interest Income	\$ 449	\$ 147	\$ -	\$ 596
Provision for Credit Losses	-	3	-	3
Noninterest Income	33	47	(26)	54
Noninterest Expense	96	79	-	175
Provision for Income Taxes	78	4	-	82
Net Income	\$ 308	\$ 108	\$ (26)	\$ 390

Key Financial Ratios – Combined CoBank District

(Unaudited)

For the Six Months Ended June 30,	2009	2008
Return on Average Assets	1.16%	1.30%
Return on Average Capital	14.00	16.33
Net Interest Margin	2.26	2.02
Operating Expense as a Percent of Net Interest Income and Noninterest Income	26.34	26.82
Net Charge-offs as a Percent of Average Loans and Leases	0.23	0.05
	June 30, 2009	December 31, 2008
Capital as a Percent of Total Assets	8.34%	8.09%
Risk Funds as a Percent of Loans and Leases	12.88	12.28
Reserve for Credit Exposure as a Percent of Loans and Leases	1.32	1.26
Debt to Capital (:1)	10.99	11.36

Asset Quality Ratios – Combined CoBank District

(Unaudited)

	June 30, 2009	December 31, 2008
Acceptable	93.79%	95.87%
Other Assets Especially Mentioned	2.50	1.80
Substandard	3.55	2.26
Doubtful	0.16	0.07
Loss	-	-
Total	100.00%	100.00%

Controls and Procedures

CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The President and Chief Executive Officer and the Chief Financial and Administrative Officer have evaluated our disclosure controls and procedures as of the end of and for the period covered by this quarterly report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU Section 319, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. We continually assess the adequacy of our internal control over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Certification Required by Farm Credit Administration Regulations

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

Signed this 4th day of August, 2009.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
Chairman of the Board

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

/s/ BRIAN P. JACKSON

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

CERTIFICATION

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

- (1) I have reviewed this quarterly report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: August 4, 2009

CERTIFICATION

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

- (1) I have reviewed this quarterly report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ BRIAN P. JACKSON

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

Dated: August 4, 2009

Leadership

CoBank, ACB

Executive Office

Robert B. Engel, President and Chief Executive Officer

John Svisco, Human Resources Division

Corporate Services Group

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

James R. Bernstein, Chief Information Officer

David P. Burlage, Finance Division

George P. Delaune, Administrative Services Division

Arthur C. Hodges, Jr., Corporate Communications Division

Todd E. Wilson, Operations Division

Legal, Government and Board Relations Group

Mark W. Yonkman, Executive Vice President and General Counsel

Allan S. Kantrowitz, Senior Vice President

Susan D. McPhillips, Deputy General Counsel

L. Todd VanHoose, Legislative and Regulatory Affairs

*Agribusiness Banking Group**

Philip S. DiPofi, Executive Vice President

Robert E. Egerton, Agribusiness Division – East

Amy H. Gales, Agribusiness Division – Central

Dean W. Moreau, Agribusiness Division – West

Russell D. Nelson, Farm Credit Leasing Services Corporation

Communications and Energy Banking Group

Mary E. McBride, Executive Vice President

Jennifer G. Goss, Electric Distribution Division

Aivars (Jake) Udriš, Power Supply, Energy Services and Water Division

Robert F. West, Communications Division

Global Financial Services Group

John C. Holsey, Executive Vice President

Antony M. Bahr, Capital Markets Division

Manuel Fernandez-Quevedo, International Division

Candace A. Roper, Applied Strategic Knowledge Division

Richard A. Scholz, Non-Credit Services Division

Scott S. Trauth, Corporate Finance Division

Credit and Risk Management Group

Douglas E. Wilhelm, Executive Vice President and Chief Credit and Risk Officer

Rodney A. Brown, Asset Review, Collateral and Compliance Division

Gary M. Fitzgerald, Internal Audit Division

Lori L. O'Flaherty, Credit Approval and Administration Division

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

Office Locations

CoBank, ACB

CoBank National Office and Denver Banking Center

5500 S. Quebec Street
Greenwood Village, CO 80111
P. O. Box 5110
Denver, CO 80217
(303) 740-4000
(800) 542-8072

Farm Credit Leasing Services Corporation

600 Highway 169 South, Suite 300
Minneapolis, MN 55426
(952) 417-7800
(800) 444-2929

Washington, DC Office

50 F Street, N.W., Suite 900
Washington, DC 20001
(202) 879-0846

U.S. Regional Offices

Ames Banking Center

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

Arizona Farm Credit Leasing Office*

3003 South Fair Lane
Tempe, AZ 85282
(602) 438-9811

Atlanta Banking Center **

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

California Farm Credit Leasing Office *

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

Fargo Banking Center

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

Florida Farm Credit Leasing Office *

11903 Southern Boulevard, Suite 203
Royal Palm Beach, FL 33411
(561) 965-9001

Louisville Banking Center **

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

Lubbock Banking Center

5715 West 50th
Lubbock, TX 79414
P.O. Box 6770
Lubbock, TX 79493
(806) 785-3978

Maryland Farm Credit Leasing Office *

6546 MidAtlantic Lane
Salisbury, MD 21804
(800) 225-8325

Minneapolis Banking Center **

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

North Carolina Farm Credit Leasing Office*

146 Victory Lane
Statesville, NC 28625
(443) 452-8666

Omaha Banking Center **

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

Pennsylvania Farm Credit Leasing Office*

900 Bent Creek Boulevard
Mechanicsburg, PA 17050
(717) 620-2601

Sacramento Banking Center **

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

Spokane Banking Center

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

Springfield Banking Center **

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

St. Louis Banking Center **

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 Office

Singapore Representative Office

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

* Farm Credit Leasing office only

** Farm Credit Leasing office within this CoBank location

CoBank's 2009 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 8, 2009, August 4, 2009, November 9, 2009, and March 1, 2010 (Annual Report).