2013 Quarterly Report
MARCH 31, 2013

Dear CoBank Customer-Owner:

We're pleased to report that CoBank achieved another period of strong financial performance in the first quarter of 2013, despite a number of challenges in the broader economic environment and the impact of prolonged low interest rates on the banking industry.

Average volume in the bank's loan portfolio grew 6 percent during the quarter to $73.4 billion as compared to the first quarter of 2012. The increase was driven primarily by greater lending to affiliated Farm Credit associations, reflecting increased financing activity at the producer level of the U.S. farm economy, as well as increased borrowing by rural infrastructure customers.

However, profitability for the quarter declined by 9 percent, to $208.8 million. The decrease was the result of a number of factors, including lower net interest income, a higher provision for loan losses, higher Farm Credit System insurance premiums and a greater level of losses on early extinguishments of debt, net of prepayment income.

Net interest income declined primarily due to continuing low interest rates, which impacted the bank's returns on invested capital, its funding position and its portfolio of liquidity investment securities. A prolonged period of extremely low interest rates has pressured net interest income for most banks, CoBank included, and we expect to be dealing with this dynamic in our business until we return to a more normalized rate environment.

Credit quality in the bank's loan portfolio declined modestly during the quarter but remained favorable by historical standards. At quarter end, 1.20 percent of the bank's loans were classified as adverse assets, compared to 1.01 percent at December 31, 2012 and 1.02 percent in the prior-year quarter. The bank recorded a $15.0 million provision for loan losses during the quarter, compared to $5.0 million in the same period last year. Nonaccrual loans increased to $245.8 million from $170.2 million at December 31, 2012 and $125.0 million at March 31, 2012. The increases in the provision and nonaccrual loans related primarily to credit concerns involving a small number of communications customers. The bank's allowance for credit losses totaled $619.2 million at quarter end, or 1.82 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

Capital levels at the bank remain well in excess of regulatory minimums. As of March 31, 2013, shareholders' equity totaled $6.5 billion, and the bank's permanent capital ratio was 15.7 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the bank's independent regulator.

One benefit of the low interest rate environment has been our ability to issue new preferred stock at favorable rates. Following the close of the quarter we further enhanced our capital position by issuing $200 million in additional non-cumulative perpetual preferred stock, which has a fixed dividend rate of 6.125 percent. Third-party capital supplements our member capital and retained earnings, and increases our capacity to meet the needs of customers in all market conditions. We continue to monitor the capital markets closely and to look for additional opportunities to optimize our capital position and overall cost of capital.

At quarter end, the bank held approximately $20.9 billion in cash and investments. The bank averaged 193 days of liquidity during the quarter and had 189 days at March 31, 2013, compared with the 90-day FCA minimum.

As we have said previously, we expect the near-term earnings environment to be less favorable for CoBank given the low interest rates cited above as well as increasing competition for our customers' business and other economic and market challenges. As a result, CoBank will be placing an increased focus on driving a higher level of operating efficiency. We remain confident in CoBank's continued ability to deliver strong financial performance and patronage while reliably meeting the needs of its customers across rural America.

Our board and associates are grateful for the business of our customer-owners and ever mindful of the enormous trust they place in CoBank. We thank you for your ongoing support and look forward to reporting to you on our future progress.

Everett Dobrinski
Chairman of the Board

Robert B. Engel
President and Chief Executive Officer

May 10, 2013

Financial Highlights
CoBank, ACB

($ in Thousands)

	March 31, 2013 (Unaudited)	December 31, 2012
Total Loans	$ 72,996,286	$ 71,980,458
Less: Allowance for Loan Losses	450,627	437,376
Net Loans	72,545,659	71,543,082
Total Assets	95,008,467	92,477,758
Total Shareholders' Equity	6,518,686	6,441,144

For the Three Months Ended March 31, (Unaudited)	2013	2012
Net Interest Income	$ 302,427	$ 313,076
Provision for Loan Losses	15,000	5,000
Net Fee Income	24,038	26,337
Net Income	208,801	230,499
Net Interest Margin	1.33 %	1.45 %
Return on Average Assets	0.90	1.03
Return on Average Common Shareholders' Equity	14.38	17.14
Return on Average Total Shareholders' Equity	13.26	15.81
Average Total Loans	$ 73,412,948	$ 69,421,937
Average Earning Assets	91,907,574	87,062,842
Average Total Assets	93,666,846	89,592,224

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

CoBank, ACB

Business Overview

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

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

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes and with our 2012 Annual Report to Shareholders.

Consolidated Results of Operations

Net income decreased 9 percent to $208.8 million for the three months ended March 31, 2013, compared to $230.5 million during the same period in 2012. The decline in earnings was driven principally by lower net interest income, a higher provision for loan losses, greater losses on early extinguishments of debt (net of prepayment income) and an increase in Farm Credit Insurance Fund (Insurance Fund) premiums assessed by the Farm Credit System Insurance Corporation (Insurance Corporation).

Net interest income decreased 3 percent to $302.4 million for the three months ended March 31, 2013, compared to $313.1 million for the same period in 2012. The decrease in net interest income was primarily driven by the continuing low interest rate environment, which resulted in lower returns on our invested capital, our funding position and our portfolio of liquidity investment securities. To a lesser extent, lower net interest income also resulted from lower spreads in our lending portfolios due to increasing competition. These factors, together with a shift in the mix of loan volume within our Agribusiness operating segment, led to a decrease in our overall net interest margin, which declined to 1.33 percent for the three months ended March 31, 2013 from 1.45 percent for the same period in 2012. Net interest income includes $24.3 million and $21.0 million of net accretion of merger-related asset and liability fair value adjustments for the three months ended March 31, 2013 and 2012, respectively. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with U.S. AgBank, FCB (AgBank).

Our average loan volume increased during the first three months of 2013, as compared to the same period in 2012, generating earnings that partially offset the overall decline in net interest income. Average loan volume was $73.4 billion during the first three months of 2013 compared to $69.4 billion in the same period of 2012. The 6 percent increase in average loan volume primarily resulted from growth in lending to Farm Credit Association customers in our Strategic Relationships operating segment and to rural energy customers in our Rural Infrastructure operating segment.

We recorded a $15.0 million provision for loan losses in the first three months of 2013, compared to $5.0 million for the same period in 2012. The increase in our provision for loan losses primarily reflects modest deterioration in the overall credit quality in our loan portfolio, as well as specific reserves related to a small number of communications customers. Adversely classified assets increased to 1.20 percent of total loans and related accrued interest at March 31, 2013 compared to 1.01 percent at December 31, 2012 and 1.02 percent at March 31, 2012. Nonaccrual loans increased to $245.8 million as of March 31, 2013 from $170.2 million at December 31, 2012 and $125.0 million as of March 31, 2012, primarily due to credit quality deterioration impacting a limited number of communications customers. Recoveries, net of charge offs, totaled $9.1 million in the first three months of 2013 compared to net charge-offs of $1.6 million during the same period of 2012.

Noninterest income decreased to $25.8 million for the three months ended March 31, 2013 from $32.4 million for the same period in 2012. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, reduced by losses on early extinguishments of debt and impairment losses on investment securities. Losses on early extinguishments of debt, net of prepayment income, increased to $7.2 million for the first three months of 2013 compared to $1.5 million in the 2012 period. Our net fee income decreased to $24.0 million from $26.3 million due to a lower level of arrangement fee income. There were no credit impairments recognized on investment securities in the first quarter of 2013 or the first quarter of 2012.

Total operating expenses for the three months ended March 31, 2013 increased to $66.3 million from $58.6 million for the same period in 2012. The change included an increase in Insurance Fund premium expense of $5.2 million, driven by an increase in Insurance Fund premium rates and, to a lesser extent, growth in average loan volume in our Rural Infrastructure operating segment. Insurance Fund premium rates were 10 basis points of adjusted insured debt obligations in the first quarter of 2013 compared to five basis points throughout 2012. The increase in Insurance Fund premium rates resulted from growth in overall Farm Credit System assets in 2012. Our employee compensation expense increased to $34.8 million for the first three months of 2013 from $33.8 million in the same period of 2012. As of March 31, 2013, we had 880 employees, compared to 865 at December 31, 2012 and 836 at March 31, 2012.

Our income tax expense decreased to $38.2 million for the three months ended March 31, 2013, compared to $51.4 million for the same prior-year period due to the decrease in pre-tax earnings. Our effective tax rate was 15.5 percent and 18.2 percent for the three months ended March 31, 2013 and 2012, respectively. The decrease in our effective tax rate resulted primarily from a shift in the mix of earnings between our tax-exempt and taxable business activities, including the impact of growth in lending in our Strategic Relationships operating segment and a larger provision for loan losses in our Rural Infrastructure operating segment in 2013.

Our annualized return on average common shareholders' equity decreased to 14.38 percent for the three months ended March 31, 2013 from 17.14 percent for the same period in 2012, and our annualized return on average assets decreased to 0.90 percent for the three months ended March 31, 2013, compared to 1.03 percent for the same period in 2012. These decreases reflect the lower level of earnings in the first three months of 2013 as well as a change in mix from higher earning assets to lower earning assets.

Subsequent Event

On April 19, 2013 we issued $200 million of Series G non-cumulative perpetual preferred stock. This transaction is more fully discussed on page 11 and in Note 11 to the accompanying condensed consolidated financial statements.

Operating Segment Financial Review

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

Loans outstanding and the allowance for loan losses by operating segment at March 31, 2013 and 2012 are reported in Notes 3 and 10 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, which we hold as a liquidity reserve to support our lending operations, as well as gains and losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated. Net income by operating segment is summarized in the following table and is more fully detailed in Note 10 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment ($ in Thousands)

For the Three Months Ended March 31,	2013	2012
Operating Segment:		
Agribusiness	**$ 103,674**	$ 112,749
Strategic Relationships	**57,670**	63,198
Rural Infrastructure	**50,128**	57,163
Total Operating Segments	**211,472**	233,110
Corporate/Other	**(2,671)**	(2,611)
Total	**$ 208,801**	$ 230,499

Agribusiness

The Agribusiness operating segment includes loans and other financial services provided to cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Agribusiness loans outstanding totaled $23.2 billion at March 31, 2013, compared to $21.4 billion at December 31, 2012. The increase was primarily driven by seasonal lending to farm supply and grain marketing cooperatives, where peak volume generally occurs in the first quarter of the year. The Agribusiness segment includes our Agricultural Export Finance Division, which provides short-term and medium-term trade finance to support the export of U.S. agricultural products. As of March 31, 2013, the Agricultural Export Finance Division had $4.7 billion in loans outstanding, 76 percent of which were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease-related products and financial services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of March 31, 2013, FCL had $2.1 billion in leases outstanding.

Agribusiness average loan volume increased modestly to $23.7 billion for the first three months of 2013 from $23.0 billion for the same period of 2012. The increase in Agribusiness volume reflects greater levels of lending to agricultural export finance customers and large agribusiness and food customers, as well as growth in our leasing portfolio. These factors were partially offset by lower levels of average seasonal lending to farm supply and grain marketing cooperatives due to lower grain inventory levels at many of these cooperatives in 2013.

Agribusiness net income decreased 8 percent in the first three months of 2013 to $103.7 million from $112.7 million for the same period in 2012. This decrease resulted primarily from lower net interest income which declined $8.2 million due to the impact of the continuing low interest rate environment on returns generated by our invested capital, our funding position and our investment portfolio. To a lesser extent, the decrease in Agribusiness net interest income resulted from lower overall spreads due to increasing competition and a shift in the mix of loan volume. The shift in mix of loan volume included lower levels of seasonal lending to farm supply and grain cooperatives and higher levels of guaranteed lending in our Agricultural Export Finance Division, where lower spreads are commensurate with lower risk.

Agribusiness recorded a provision for credit losses of $5.0 million during the first three months of 2013, compared to $4.1 million in the same prior-year period. Nonaccrual loans increased to $88.0 million at March 31, 2013, as compared to $70.5 million at December 31, 2012, due largely to the movement of a limited number of Agribusiness loans to nonaccrual status. Recoveries, net of charge-offs, totaled $8.4 million for the three months ended March 31, 2013. Agribusiness net charge-offs were $2.0 million for the three months ended March 31, 2012.

Agribusiness noninterest income decreased to $18.0 million for the first three months of 2013, as compared to $20.9 million in the same period of 2012, largely due to a lower level of arrangement fee income. Agribusiness operating expenses increased to $37.3 million for the first three months of 2013 from $33.7 million in the 2012 period, primarily due to increased Insurance Fund premiums and, to a much lesser degree, higher employee compensation expense.

Strategic Relationships

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with our affiliated Association customer-owners and our funding relationships with other System institutions. Our affiliated Associations include 29 Associations serving 23 states in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of March 31, 2013, the Strategic Relationships portfolio totaled $35.5 billion, including $31.9 billion in wholesale loans to our affiliated Associations and $3.6 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, $3.4 billion of which are participations in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume increased 5 percent to $35.8 billion for the three-month period ended March 31, 2013, compared to $33.9 billion for the same prior-year period. The increase was the result of growth in lending to affiliated Associations primarily driven by their increased lending to producers. Strategic Relationships net income decreased to $57.7 million for the first three months of 2013, as compared to $63.2 million for the same prior-year period. The decrease was a result of the impact of the low interest rate environment on earnings generated by our invested capital, our funding position and our investment portfolio. These factors were partially offset by the growth in average loan volume, as previously mentioned.

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

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, investor-owned utilities, rural local exchange carriers, wireless providers, data transport networks, cable television systems, data centers, and rural water and waste water companies. Rural Infrastructure loans outstanding totaled $14.2 billion at March 31, 2013, compared to $13.9 billion at December 31, 2012.

Rural Infrastructure average loan volume increased 12 percent to $13.9 billion for the first three months of 2013. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the power supply industry and continued market penetration in the electric distribution industry.

Rural Infrastructure net income decreased 12 percent to $50.1 million for the first three months of 2013 from $57.2 million for the same period in 2012. The reduction in earnings was due to an increase in the provision for loan losses, a decrease in noninterest income, and an increase in operating expenses. Partially offsetting these items was an increase in net interest income and lower income tax expense.

Rural Infrastructure recorded a provision for loan losses of $10.0 million for the first three months of 2013 compared to $1.0 million for the same period in 2012. Nonaccrual loans in the Rural Infrastructure segment increased to $157.8 million at March 31, 2013 from $99.7 million at December 31, 2012. The increases in the provision for loan losses and the level of nonaccrual loans are largely due to credit concerns surrounding a small number of our communications customers. Nevertheless, overall credit quality remains strong in our Rural Infrastructure operating segment. Rural Infrastructure recorded recoveries, net of charge-offs, of $0.7 million for the three months ended March 31, 2013, compared to net recoveries of $0.4 million for the same period of 2012.

Rural Infrastructure net interest income increased by $2.5 million as a result of the increase in average loan volume described above. This was somewhat offset by the impact of the continuing low interest rate environment on returns generated on our invested capital, our funding position and our investment portfolio, as well as lower lending spreads resulting from increasing competition.

Rural Infrastructure noninterest income decreased to $7.1 million for the first three months of 2013 from $11.2 million for the same period in 2012, due largely to increased losses on the early extinguishments of debt, net of prepayment income. Rural Infrastructure operating expenses increased to $19.4 million for the first three months of 2013 compared to $16.3 million for the same prior-year period, primarily due to increased Insurance Fund premiums and, to a much lesser degree, higher employee compensation expense.

Credit Quality, Liquidity, Capital Resources and Other

Loan Quality

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

Loan Quality Ratios

	March 31, 2013			December 31, 2012		
	Wholesale Loans [1]	Retail Loans [2]	Total Bank	Wholesale Loans [1]	Retail Loans [2]	Total Bank
Acceptable	**100.00 %**	**95.55 %**	**97.71 %**	100.00 %	95.73 %	97.91 %
Special Mention	**-**	**2.11**	**1.09**	-	2.20	1.08
Substandard	**-**	**2.14**	**1.10**	-	1.90	0.93
Doubtful	**-**	**0.20**	**0.10**	-	0.17	0.08
Loss	**-**	**-**	**-**	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

[1] Represents loans in our Strategic Relationships operating segment

[2] Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures declined modestly in the first three months of 2013. The total amount of adversely classified loans ('Substandard', 'Doubtful' and 'Loss' loans) and related accrued interest increased to 1.20 percent of total loans and related accrued interest at March 31, 2013 compared to 1.01 percent at December 31, 2012, primarily due to downgrades of a limited number of agribusiness and communications customers. Total nonaccrual loans increased to $245.8 million at March 31, 2013 from $170.2 million at year end 2012 and $125.0 million at March 31, 2012, also primarily due to credit concerns surrounding a limited number of communications customers. While the overall credit quality of our loan portfolio remains strong and has been favorable in recent years, we may see a decline in loan quality to more normal, historical levels. Concentrations within our loan portfolio can cause the levels of our loan quality, nonaccrual loans, charge-offs and provisions for loan losses to vary significantly from period to period.

We recorded a $15.0 million provision for loan losses for the three months ended March 31, 2013. The increase in our provision for loan losses primarily reflects modest deterioration in the overall credit quality in our loan portfolio, as well as specific reserves related to a small number of communications customers. Total recoveries, net of charge-offs for the first three months of 2013, were $9.1 million compared to net charge-offs of $1.5 million in the 2012 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $619.2 million at March 31, 2013, compared to $595.1 million at December 31, 2012. ACL as a percent of total loans increased slightly to 0.85 percent at March 31, 2013, compared to 0.83 percent at December 31, 2012. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.82 percent at March 31, 2013 compared to 1.87 percent at December 31, 2012.

Liquidity and Investments

Our liquidity management objectives are to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate and fund operations on a cost-effective basis. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets via the Federal Farm Credit Banks Funding Corporation, the volatility of our loan volume may cause our liquidity needs to vary significantly from day to day.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and liquidating eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity on a continuous basis. However, as a result of the 2012 merger with AgBank, we maintain a higher minimum of 130 days liquidity. Additionally, through December 31, 2014, if days liquidity falls below 150 days for five consecutive days, the Bank must notify our regulator, the Farm Credit Administration (FCA), and submit to them a written plan to restore and maintain the 150 days level. At March 31, 2013, our liquidity was 189 days, compared to 204 days at December 31, 2012. During the first three months of 2013, we averaged 193 days liquidity.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled $214.1 million and $224.0 million for the first three months of 2013 and 2012, respectively. Further, investments in the Insurance Fund would be used to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), to the extent available, if no other sources existed to repay such debt.

We hold cash and investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled $20.6 billion at March 31, 2013 compared to $18.0 billion at December 31, 2012. The most significant credit risk in our investment portfolio relates to our FHA/VA non-wrapped reperformer mortgage-backed securities (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS). These securities collectively total $914.4 million (fair value) or 4 percent of our total investment securities as of March 31, 2013. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

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

Investment Securities ($ in Millions)

	March 31, 2013			December 31, 2012		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury and Agency Debt	**$ 8,423**	**$ 8,531**	**$ 108**	$ 6,380	$ 6,491	$ 111
Mortgage-Backed:						
U.S. Agency	**10,741**	**10,848**	**107**	10,237	10,353	116
Farmer Mac	**204**	**202**	**(2)**	217	215	(2)
FHA/VA Non-Wrapped Reperformer	**486**	**494**	**8**	507	506	(1)
Non-Agency	**255**	**268**	**13**	271	292	21
Asset-Backed	**125**	**152**	**27**	97	121	24
Corporate Bonds	**71**	**71**	**-**	21	21	-
Total	**$ 20,305**	**$ 20,566**	**$ 261**	$ 17,730	$ 17,999	$ 269

We recorded no impairment losses on investment securities during the first three months of 2013 and 2012. Increasing levels of defaults and foreclosures on residential mortgages, continued high unemployment, a decline in home prices or continued weak economic conditions may result in further downward adjustments to the fair value of certain investment securities and the need to record future impairment losses against earnings.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized losses of $8.4 million for the first three months of 2013, compared to unrealized gains of $19.6 million for the same prior-year period.

Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated AAA by at least one major rating agency must be excluded from our liquidity reserve. Approximately $865.4 million and $877.0 million of these investments securities have been downgraded to ratings below AAA and are no longer included in our liquidity reserve as of March 31, 2013 and December 31, 2012, respectively. Another $208.7 million and $222.6 million of investment securities, primarily representing Farmer Mac MBS, are also excluded from our liquidity reserve as of March 31, 2013 and December 31, 2012, respectively.

On April 18, 2013, the FCA published a final rule designed to strengthen liquidity risk management at System banks, improve the quality of assets in their liquidity reserves, and bolster the ability of the System banks to fund their obligations and continue operations during times of economic, financial, or market adversity. The new regulations will require each System bank to maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and cash-like instruments to cover each bank's financial obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash and highly liquid instruments that are sufficient to cover each bank's obligations for the next 15 and subsequent 60 days, respectively. In addition, a supplemental liquidity buffer must be established that can be drawn upon during an emergency and is sufficient to cover the bank's liquidity needs beyond 90 days. The final rule also requires each bank to strengthen its contingency funding plan. These changes will not materially impact CoBank's management of liquidity as these new rules do not differ significantly from our current liquidity management practices.

Capital Resources

We believe that a sound capital position is critical to our long-term financial success and future growth. We are primarily capitalized by common and preferred stock and by unallocated retained earnings.

Our shareholders' equity totaled $6.5 billion at March 31, 2013, as compared to $6.4 billion at December 31, 2012, and consists of common and preferred stock, unallocated retained earnings and accumulated other comprehensive income.

On April 19, 2013 we issued $200 million of Series G non-cumulative perpetual preferred stock. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, our Series G preferred stock is included in permanent capital, total surplus and core surplus. Dividends on Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate for life equal to 6.125 percent. This issuance of preferred stock is also discussed in Note 11 to the accompanying condensed consolidated financial statements.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such calls, repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

At March 31, 2013, our permanent capital, total surplus, core surplus and net collateral ratios exceeded regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2012 Annual Report.

Capital Ratios

	Regulatory Minimums	March 31, 2013	December 31, 2012
Permanent Capital Ratio	**7.00 %**	**15.71 %**	16.14 %
Total Surplus Ratio	**7.00**	**14.77**	15.22
Core Surplus Ratio	**3.50**	**9.88**	10.06
Net Collateral Ratio (1)(2)	**104.00**	**107.57**	107.08

(1) The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have subordinated debt outstanding

(2) As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent

Pursuant to FCA guidance, a portion of our common stock is currently included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2014 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of March 31, 2013, our core surplus ratio excluding common stock was 8.19 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level.

The FCA issued Advance Notices of Proposed Rulemaking on capital adequacy in 2007 and 2010 which could ultimately lead to significant changes in the System's regulatory capital rules.

Interest Rate Risk Management

Interest rate risk is primarily managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various strategies and through the execution of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). We do not use derivatives for speculative or trading purposes. Derivatives are recorded at fair value as assets or liabilities on the consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items recorded in the consolidated statements of income totaled gains of $0.7 million and $0.5 million in the first three months of 2013 and 2012, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled gains of $2.1 million and losses of $0.5 million in the first three months of 2013 and 2012, respectively.

Business Outlook

We continue to face challenges that could make the lending and earnings environment less favorable for CoBank. The low interest rate environment continues to negatively impact the return on our invested capital, funding position and investment securities. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending has intensified competition across many of the industries we serve. Agricultural commodity prices remain subject to volatility and growth is weak in the broader economy. Customers in certain of the industries we serve are impacted by unpredictable and volatile agricultural commodity prices and yields, as well as regulatory and political uncertainty. Although the Food, Conservation, and Energy Act of 2008 (commonly referred to as the 2008 Farm Bill) was extended until September 30, 2013, there is considerable uncertainty as to the content and timing of the next farm bill. While drought conditions in parts of the U.S. have improved recently, weather will continue to have a potentially significant impact on commodity price levels, crop planting and yields. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio. A decline in home prices and/or persistently high unemployment could also lead to further losses on certain of our investment securities.

The January 1, 2012 merger with AgBank continues to create opportunities to increase market share in the geographic regions covered by our new 25 affiliated Associations, and has significantly enhanced the geographic and industry diversification of our loan portfolio. It has also provided us with the opportunity to further strengthen business operations and enhance market opportunities for CoBank's products and services.

We are focused on preserving the strength of our balance sheet, enhancing our enterprise risk management capabilities, and improving the efficiency of our operations, including completing the integration of the former AgBank operations. We believe that our strong capital, liquidity and earnings will continue to provide the capacity to serve customers in volatile market conditions and to effectively lower the net cost of borrowing for our customers through consistent and reliable patronage payments. We will continue our disciplined approach to managing risk and will closely monitor asset quality. We will also continue to enhance our financial condition through strong expense discipline. Nevertheless, we will seek opportunities to invest in people, processes, systems and activities that enhance our value proposition and allow us to better fulfill our mission in rural America.

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

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

- Potential changes negatively impacting the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices;
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income, including the impact of drought in many parts of the United States which may negatively affect certain customer sectors;
- Credit performance of the loan portfolio;
- Loan portfolio growth and seasonal factors;
- Weak U.S. and global economic conditions;
- Government policies and political developments in the United States and other countries in which we make loans;
- Legislative actions and the effect of banking and financial services reforms;
- Regulatory actions, including possible amendments to, and interpretations of, risk-based capital guidelines;
- Changes in the U.S. government's support of the agriculture industry and agricultural exports;
- Changes in levels of global crop production and ending stocks;
- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage U.S. fiscal policy;
- Actions taken by the Federal Reserve to manage the monetary policy of the United States;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide debt securities;
- The European sovereign debt crisis and its potential impact on funding markets and LIBOR rates;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative contracts; and
- Our ability to successfully execute and integrate any future business combinations or strategic alliances.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Condensed Consolidated Statements of Income
CoBank, ACB

($ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2013	2012
Interest Income		
Loans	**$ 421,152**	$ 433,784
Investment Securities	**74,631**	84,864
Total Interest Income	**495,783**	518,648
Interest Expense	**193,356**	205,572
Net Interest Income	**302,427**	313,076
Provision for Loan Losses	**15,000**	5,000
Net Interest Income After Provision for Loan Losses	**287,427**	308,076
Noninterest Income/Expense		
Net Fee Income	**24,038**	26,337
Prepayment Income	**26,423**	7,991
Losses on Early Extinguishments of Debt	**(33,600)**	(9,472)
Other, Net	**8,985**	7,569
Total Noninterest Income	**25,846**	32,425
Operating Expenses		
Employee Compensation	**34,800**	33,795
Insurance Fund Premium	**9,617**	4,443
Information Services	**5,213**	4,709
General and Administrative	**4,574**	5,742
Occupancy and Equipment	**1,933**	2,080
Farm Credit System Related	**3,773**	2,929
Purchased Services	**1,612**	733
Other	**4,794**	4,180
Total Operating Expenses	**66,316**	58,611
Income Before Income Taxes	**246,957**	281,890
Provision for Income Taxes	**38,156**	51,391
Net Income	**$ 208,801**	$ 230,499

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

Condensed Consolidated Statements of Comprehensive Income

CoBank, ACB

($ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2013	2012
Net Income	**$ 208,801**	$ 230,499
Other Comprehensive Income (Loss), Net of Tax:		
Net Change in Unrealized Losses/Gains on Investment Securities Not Other-Than-Temporarily Impaired	**(5,997)**	(5,588)
Net Change in Unrealized Losses/Gains on Other-Than-Temporarily Impaired Investment Securities	**2,815**	11,545
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	**2,043**	(364)
Net Pension Adjustment	**837**	2,213
Other Comprehensive Income (Loss)	**(302)**	7,806
Comprehensive Income	**$ 208,499**	$ 238,305

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

Condensed Consolidated Balance Sheets
CoBank, ACB

($ in Thousands)

		March 31, 2013 (Unaudited)		December 31, 2012
Assets				
Total Loans	**$**	**72,996,286**	$	71,980,458
Less: Allowance for Loan Losses		**450,627**		437,376
Net Loans		**72,545,659**		71,543,082
Cash		**321,204**		1,253,509
Investment Securities		**20,565,807**		17,999,191
Interest Rate Swaps and Other Financial Instruments		**905,733**		1,005,115
Accrued Interest Receivable and Other Assets		**670,064**		676,861
Total Assets	**$**	**95,008,467**	$	92,477,758
Liabilities				
Bonds and Notes	**$**	**86,284,945**	$	83,607,119
Subordinated Debt		**904,685**		904,685
Interest Rate Swaps and Other Financial Instruments		**137,097**		157,880
Reserve for Unfunded Commitments		**168,574**		157,703
Accrued Interest Payable and Other Liabilities		**994,480**		1,209,227
Total Liabilities	**$**	**88,489,781**	$	86,036,614
Commitments and Contingent Liabilities (Note 9)				
Shareholders' Equity				
Preferred Stock		**961,750**		961,750
Common Stock		**2,593,333**		2,605,933
Unallocated Retained Earnings		**2,819,475**		2,729,031
Accumulated Other Comprehensive Income		**144,128**		144,430
Total Shareholders' Equity	**$**	**6,518,686**	$	6,441,144
Total Liabilities and Shareholders' Equity	**$**	**95,008,467**	$	92,477,758

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

Condensed Consolidated Statements of Cash Flows

CoBank, ACB

($ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2013	2012
Cash Flows Provided by Operating Activities		
Net Income	$ 208,801	$ 230,499
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	15,000	5,000
Deferred Income Taxes	(4,963)	1,318
Depreciation and Amortization/Accretion, Net	6,622	(7,063)
Losses on Impairment of Available-for-Sale Investments	-	-
Decrease in Accrued Interest Receivable and Other Assets	10,136	114,844
Decrease in Accrued Interest Payable and Other Liabilities	(20,442)	(120,056)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(303)	(103)
Proceeds from Termination of Interest Rate Swaps	-	-
Other	(728)	(466)
Net Cash Provided by Operating Activities	214,123	223,973
Cash Flows Used in Investing Activities		
Net Increase in Loans	(1,041,202)	(3,537,662)
Net (Increase) Decrease in Investment Securities	(2,516,592)	378,793
Net Cash Acquired in Business Combination	-	225,859
Net Cash Used in Investing Activities	(3,557,794)	(2,933,010)
Cash Flows Provided by Financing Activities		
Net Issuances of Bonds and Notes	2,797,632	1,537,470
Net Retirements of Common Stock	(31,490)	(34,073)
Cash Patronage Distribution Paid	(338,953)	(229,900)
Preferred Stock Dividends Paid	(16,203)	(16,294)
Other	380	-
Net Cash Provided by Financing Activities	2,411,366	1,257,203
Net Decrease in Cash	(932,305)	(1,451,834)
Cash at Beginning of Period	1,253,509	2,771,842
Cash at End of Period	$ 321,204	$ 1,320,008
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ (72,000)	$ -
Net Change in Unrealized Losses/Gains on Investment Securities, Before Taxes	(8,391)	19,621
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	2,054	(532)
Patronage in Common Stock	18,890	25,857
Issuance of Preferred Stock Related to Merger	-	225,000
Issuance of Common Stock Related to Merger	-	878,260

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

Condensed Consolidated Statements of Changes in Shareholders' Equity
CoBank, ACB

($ in Thousands) (Unaudited)

For the Three Months Ended March 31,	2013	2012
Balance at Beginning of Period	**$ 6,441,144**	$ 4,895,533
Comprehensive Income	**208,499**	238,305
Preferred Stock:		
Dividends	**(16,388)**	(19,387)
Issuance in Connection with Merger	**-**	225,000
Common Stock:		
Issuance in Connection with Merger	**-**	878,260
Other Issuances	**17**	15
Redemptions	**(31,507)**	(34,088)
Cash Patronage Accrued	**(83,459)**	(76,575)
Net Fair Value Adjustments Related to Merger	**-**	(61,560)
Other	**380**	-
Balance at End of Period	**$ 6,518,686**	$ 6,045,503

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

Notes to Condensed Consolidated Financial Statements

CoBank, ACB

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

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

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

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2012 Annual Report, which includes a description of our organization and lending authority. Also included in the 2012 Annual Report is a summary of significant accounting policies. These quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies.

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.

Merger with U.S. AgBank

As more fully discussed in our 2012 Annual Report to Shareholders, U.S. AgBank, FCB (AgBank) was merged into CoBank effective January 1, 2012. CoBank acquired the assets and assumed the liabilities of AgBank at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($1.04 billion) was substantially equal to the fair value of the equity interests exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net decrease of $61.6 million was recorded in retained earnings related to the merger.

Fair value adjustments to AgBank's assets and liabilities included a $553.0 million increase to loans and a $700.4 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. In addition, we acquired investment securities with a contractual outstanding principal and interest balance of $5.2 billion, which we recorded on our consolidated balance sheet at an estimated fair value of $4.8 billion. For the acquired investment securities, the excess of cash flows expected to be collected over the fair value is referred to as an 'accretable amount,' while the difference between the contractually required cash flows and the expected cash flows is referred to as a 'non-accretable amount,' as more fully discussed on page 29. The fair value adjustments related to loans and debt, as well as accretable amounts related to investment securities, are being amortized into net interest income on an effective yield basis, with the majority being recognized in the first five years following the merger. The net accretion of merger-related adjustments increased net interest income by $24.3 million and $21.0 million during the three months ended March 31, 2013 and 2012, respectively.

Supplemental CoBank District Financial Information

CoBank is the funding bank for 29 Farm Credit System Associations, which are collectively referred to as our "affiliated Associations." The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." The supplemental information beginning on page 45 includes certain combined financial information of our affiliated Associations and the District.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In December 2011 and in January 2013, the Financial Accounting Standards Board (FASB) issued guidance creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with retrospective application required. We adopted the new requirements in the first quarter of 2013. The adoption did not impact our consolidated financial position, results of operations or cash flows. We disclose the gross amounts of our derivative exposures and related cash collateral balances in our consolidated balance sheet. Adoption of this guidance had a minimal impact on our disclosures, which are contained in Note 6.

In February 2013, the FASB issued guidance requiring entities to disclose certain information about changes in accumulated other comprehensive income (AOCI). The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. For public entities, the guidance is effective prospectively for all reporting periods presented, including interim periods, beginning after December 15, 2012. For nonpublic entities, the guidance is effective prospectively for annual reporting periods beginning after December 15, 2013. For interim reporting periods, nonpublic entities are not required to report the effects of reclassifications on net income but are required to report information about the amounts reclassified out of accumulated other comprehensive income by component for each reporting period. Early adoption is permitted. We adopted these provisions in the first quarter of 2013 under the nonpublic entity guidelines. The adoption did not impact our consolidated financial position, results of operations or cash flows. Refer to Note 5 for additional discussion and disclosure.

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

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

	March 31, 2013	December 31, 2012
Agribusiness	**$ 23,237**	$ 21,394
Strategic Relationships	**35,528**	36,707
Rural Infrastructure	**14,231**	13,879
Total	**$ 72,996**	$ 71,980

Allowance for Credit Losses

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

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
March 31, 2013				
Allowance for Loan Losses				
Beginning Balance at January 1, 2013	$ 277,595	$ -	$ 159,781	$ 437,376
Charge-offs	(523)	-	(26)	(549)
Recoveries	8,929	-	742	9,671
Provision for Loan Losses	5,000	-	10,000	15,000
Transfers to Reserve for Unfunded Commitments[2]	(9,694)	-	(1,177)	(10,871)
Ending Balance at March 31, 2013	281,307	-	169,320	450,627
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2013	106,692	-	51,011	157,703
Transfers from Allowance for Loan Losses[2]	9,694	-	1,177	10,871
Ending Balance at March 31, 2013	116,386	-	52,188	168,574
Allowance for Credit Losses	$ 397,693	$ -	$ 221,508	$ 619,201
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 12,200	$ -	$ 43,178	$ 55,378
Collectively Evaluated for Impairment	385,493	-	178,330	563,823
Acquired with Deteriorated Credit Quality	-	-	-	-
Total	$ 397,693	$ -	$ 221,508	$ 619,201
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 88,025	$ 35,626,380	$ 157,752	$ 35,872,157
Collectively Evaluated for Impairment	23,213,117	-	14,144,767	37,357,884
Total	$ 23,301,142	$ 35,626,380	$ 14,302,519	$ 73,230,041

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
March 31, 2012				
Allowance for Loan Losses				
Beginning Balance at January 1, 2012	$ 269,317	$ -	$ 118,739	$ 388,056
Charge-offs	(2,607)	-	-	(2,607)
Recoveries	653	-	404	1,057
Provision for Loan Losses	4,050	-	950	5,000
Transfers from Reserve for Unfunded Commitments[2]	22,271	-	369	22,640
Ending Balance at March 31, 2012	293,684	-	120,462	414,146
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2012	116,467	-	37,452	153,919
Transfers to Allowance for Loan Losses[2]	(22,271)	-	(369)	(22,640)
Ending Balance at March 31, 2012	94,196	-	37,083	131,279
Allowance for Credit Losses	$ 387,880	$ -	$ 157,545	$ 545,425
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 14,554	$ -	$ 9,300	$ 23,854
Collectively Evaluated for Impairment	373,326	-	148,245	521,571
Total	$ 387,880	$ -	$ 157,545	$ 545,425
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 72,454	$ 33,976,985	$ 52,577	$ 34,102,016
Collectively Evaluated for Impairment	23,226,656	-	12,903,126	36,129,782
Total	$ 23,299,110	$ 33,976,985	$ 12,955,703	$ 70,231,798

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

[2] These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans

The information in the tables under the Credit Quality, Aging Analysis and Impaired Loans captions is presented by operating segment, with guaranteed and non-guaranteed loans in our Agribusiness segment separately identified.

Credit Quality

The following table presents our loans and related accrued interest, classified by management pursuant to our regulator's Uniform Loan Classification System.

March 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 18,470,555	$ 3,594,560	$ 35,626,380	$ 13,862,589	$ 71,554,084
Special Mention	624,864	8	-	168,906	793,778
Substandard	596,545	-	-	209,945	806,490
Doubtful	14,610	-	-	61,079	75,689
Loss	-	-	-	-	-
Total	$ 19,706,574	$ 3,594,568	$ 35,626,380	$ 14,302,519	$ 73,230,041
December 31, 2012					
Acceptable	$ 16,786,810	$ 3,512,387	$ 36,831,056	$ 13,579,205	$ 70,709,458
Special Mention	618,149	4	-	160,913	779,066
Substandard	520,928	-	-	150,528	671,456
Doubtful	13,570	-	-	47,072	60,642
Loss	-	-	-	-	-
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622

Aging Analysis

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

March 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 3,726	$ -	$ -	$ -	$ 3,726
90 Days Past Due	19,173	-	-	5,092	24,265
Total Past Due	$ 22,899	$ -	$ -	$ 5,092	$ 27,991
Current	19,683,675	3,594,568	35,626,380	14,297,427	73,202,050
Total	$ 19,706,574	$ 3,594,568	$ 35,626,380	$ 14,302,519	$ 73,230,041
Accruing Loans 90 Days or More Past Due	$ 248	$ -	$ -	$ -	$ 248
December 31, 2012					
30-89 Days Past Due	$ 7,609	$ -	$ -	$ -	$ 7,609
90 Days Past Due	21,608	-	-	5,296	26,904
Total Past Due	$ 29,217	$ -	$ -	$ 5,296	$ 34,513
Current	17,910,240	3,512,391	36,831,056	13,932,422	72,186,109
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622
Accruing Loans 90 Days or More Past Due	$ 2,513	$ -	$ -	$ -	$ 2,513

Impaired Loans

Impaired loan information is shown in the following tables. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

March 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Nonaccrual Loans(2)	$ 88,025	$ -	$ -	$ 157,752	$ 245,777
Accruing Loans 90 Days or More Past Due	248	-	-	-	248
Restructured Loans	-	-	-	-	-
Total Impaired Loans	**$ 88,273**	**$ -**	**$ -**	**$ 157,752**	**$ 246,025**
December 31, 2012					
Nonaccrual Loans(2)	$ 70,476	$ -	$ -	$ 99,731	$ 170,207
Accruing Loans 90 Days or More Past Due	2,513	-	-	-	2,513
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 72,989	$ -	$ -	$ 99,731	$ 172,720

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

(2) Included in nonaccrual loans at March 31, 2013 and December 31, 2012 are $21.4 million and $24.7 million, respectively, of loans that qualify as troubled debt restructurings

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

March 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 47,351	$ -	$ -	$ 6,528	$ 53,879
Unpaid Principal	79,909	-	-	14,996	94,905
Average Balance	48,779	-	-	6,871	55,650
Interest Income Recognized	236	-	-	29	265
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	40,922	-	-	151,224	192,146
Unpaid Principal	44,360	-	-	157,022	201,382
Allowance for Loan Losses	12,200	-	-	43,178	55,378
Average Balance	29,327	-	-	101,823	131,150
Interest Income Recognized	-	-	-		-
Total Impaired Loans					
Carrying Amount	88,273	-	-	157,752	246,025
Unpaid Principal	124,269	-	-	172,018	296,287
Allowance for Loan Losses	12,200	-	-	43,178	55,378
Average Balance	78,106	-	-	108,694	186,800
Interest Income Recognized	236	-	-	29	265

December 31, 2012	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Strategic Relationships[(1)]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 52,902	$ -	$ -	$ 6,907	$ 59,809
Unpaid Principal	97,720	-	-	15,744	113,464
Average Balance	56,076	-	-	24,333	80,409
Interest Income Recognized	1,674	-	-	1,702	3,376
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	20,087	-	-	92,824	112,911
Unpaid Principal	23,058	-	-	96,747	119,805
Allowance for Loan Losses	10,656	-	-	32,700	43,356
Average Balance	15,528	-	-	37,584	53,112
Interest Income Recognized	4,351	-	-	-	4,351
Total Impaired Loans					
Carrying Amount	72,989	-	-	99,731	172,720
Unpaid Principal	120,778	-	-	112,491	233,269
Allowance for Loan Losses	10,656	-	-	32,700	43,356
Average Balance	71,604	-	-	61,917	133,521
Interest Income Recognized	6,025	-	-	1,702	7,727

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

Commitments on Impaired Loans

There were $24.7 million in commitments available to be drawn by borrowers whose loans were classified as impaired at March 31, 2013.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of March 31, 2013, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2012 Annual Report. During the three months ended March 31, 2013 and 2012, respectively, there were no modifications that qualified as TDRs. Included in nonaccrual loans at March 31, 2013 and December 31, 2012 are $21.4 million and $24.7 million, respectively, of loans that qualify as troubled debt restructurings.

Note 4 – Investment Securities

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

($ in Millions)

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 8,423	$ 108	$ -	$ 8,531
Mortgage-Backed:				
U.S. Agency	10,741	120	(13)	10,848
Farmer Mac	204	-	(2)	202
FHA/VA Non-Wrapped Reperformer	486	14	(6)	494
Non-Agency	255	17	(4)	268
Asset-Backed	125	30	(3)	152
Corporate Bonds	71	-	-	71
Total	$ 20,305	$ 289	$ (28)	$ 20,566

($ in Millions)

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 6,380	$ 112	$ (1)	$ 6,491
Mortgage-Backed:				
U.S. Agency	10,237	122	(6)	10,353
Farmer Mac	217	-	(2)	215
FHA/VA Non-Wrapped Reperformer	507	5	(6)	506
Non-Agency	271	26	(5)	292
Asset-Backed	97	27	(3)	121
Corporate Bonds	21	-	-	21
Total	$ 17,730	$ 292	$ (23)	$ 17,999

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at March 31, 2013 is as follows:

($ in Millions)

	Contractual Maturity				
March 31, 2013	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
U.S. Treasury and Agency Debt Securities					
Amortized Cost	$ -	$ 6,999	$ 705	$ 719	$ 8,423
Fair Value	-	7,018	787	726	8,531
Weighted Average Yield	- %	0.52 %	3.44 %	1.67 %	0.86 %
U.S. Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 33	$ 231	$ 10,477	$ 10,741
Fair Value	-	34	235	10,579	10,848
Weighted Average Yield	- %	3.65 %	2.22 %	1.55 %	1.57 %
Farmer Mac Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 204	$ 204
Fair Value	-	-	-	202	202
Weighted Average Yield	- %	- %	- %	1.83 %	1.83 %
FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 486	$ 486
Fair Value	-	-	-	494	494
Weighted Average Yield	- %	- %	- %	5.92 %	5.92 %
Non-Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 4	$ 6	$ 245	$ 255
Fair Value	-	4	6	258	268
Weighted Average Yield	- %	0.66 %	0.67 %	7.40 %	7.12 %
Asset-Backed Securities					
Amortized Cost	$ -	$ 33	$ -	$ 92	$ 125
Fair Value	-	33	-	119	152
Weighted Average Yield	- %	0.45 %	- %	9.07 %	6.79 %
Corporate Bonds					
Amortized Cost	$ -	$ 71	$ -	$ -	$ 71
Fair Value	-	71	-	-	71
Weighted Average Yield	- %	1.02 %	- %	- %	1.02 %

While the substantial majority of our mortgage-backed securities (MBS) and asset-backed securities (ABS) have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because borrowers have the right to call or prepay obligations with or without penalties.

The following tables show the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013				
U.S. Treasury and Agency Debt	**$ 265**	**$ -**	**$ -**	**$ -**
Mortgage-Backed:				
U.S. Agency	**2,367**	**(13)**	**138**	**-**
Farmer Mac	**202**	**(2)**	**-**	**-**
FHA/VA Non-Wrapped Reperformer	**218**	**(6)**	**15**	**-**
Non-Agency	**17**	**-**	**53**	**(4)**
Asset-Backed	**-**	**-**	**10**	**(3)**
Corporate Bonds	**20**	**-**	**-**	**-**
Total	**$ 3,089**	**$ (21)**	**$ 216**	**$ (7)**
December 31, 2012				
U.S. Treasury and Agency Debt	$ 1,191	$ (1)	$ -	$ -
Mortgage-Backed:				
U.S. Agency	764	(6)	67	-
Farmer Mac	143	(2)	-	-
FHA/VA Non-Wrapped Reperformer	283	(5)	15	(1)
Non-Agency	6	-	83	(5)
Asset-Backed	-	-	10	(3)
Corporate Bonds	21	-	-	-
Total	$ 2,408	$ (14)	$ 175	$ (9)

We do not intend to sell the securities in unrealized loss positions, nor is it likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of our cost basis occurs.

Credit Losses on Impaired Investment Securities

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

Credit Losses on Impaired Investments	**($ in Millions)**
Balance at December 31, 2012	$ 64
Additional Credit Impairments Related to Securities Previously Impaired	-
Initial Credit Impairments Related to Securities Not Previously Impaired	-
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected	-
Balance at March 31, 2013	$ 64

For these impaired investment securities, we estimate the component of unrealized losses attributable to credit losses primarily using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults, and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. For prepayment assumptions, we use the lower of the three- or six-month historical voluntary prepayment rate. Prepayment rates used ranged from zero to 17 percent (CPR) for impaired investment securities at March 31, 2013. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 8 percent to 42 percent for impaired investment securities at March 31, 2013. Loss severity assumptions are based on actual performance, where available, or are obtained from an independent third-party. Loss severity ranged from 41 percent to 100 percent for impaired investment securities at March 31, 2013.

Acquired Credit-Impaired Investment Securities

Certain of the investment securities acquired in connection with the AgBank merger were determined to have deteriorated credit quality and it was evident that we would not be able to collect all of the contractually required payments. The carrying amount of these investment securities was $654.3 million at March 31, 2013 and included FHA/VA non-wrapped reperformer mortgage-backed securities (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS, and ABS. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a non-accretable amount. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

Quarterly, we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized against earnings. During the first three months of 2013, we recorded no impairment losses related to our acquired credit-impaired investment securities.

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities	**($ in Millions)**	
Balance at January 1, 2013	$	(210)
Interest Recognized in Earnings		11
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows		-
Total Other-Than-Temporary Impairment Losses Included in Earnings		-
Balance at March 31, 2013	$	(199)

Note 5 – Changes in Accumulated Other Comprehensive Income

Changes in AOCI for the three months ended March 31, 2013 are presented in the following table.

Changes in Accumulated Other Comprehensive Income by Component [(1)]

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at January 1, 2013	$ 188,624	$ 19,215	$ (11,261)	$ (52,148)	$ 144,430
Other comprehensive income before reclassifications	(5,997)	2,815	4,953	-	1,771
Amounts reclassified from AOCI	-	-	(2,910)	837	(2,073)
Net current-period other comprehensive income	(5,997)	2,815	2,043	837	(302)
Balance at March 31, 2013	$ 182,627	$ 22,030	$ (9,218)	$ (51,311)	$ 144,128

(1) Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income.

Note 6 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts of derivatives at March 31, 2013 and related activity for the first three months of 2013 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, 2012	**$ 23,020**	**$ 3,049**	**$ 292**	**$ 26,361**
Additions /Accretion	**650**	**-**	**867**	**1,517**
Maturities /Amortization	**(1,110)**	**-**	**(876)**	**(1,986)**
Terminations	**(33)**	**-**	**-**	**(33)**
March 31, 2013	**$ 22,527**	**$ 3,049**	**$ 283**	**$ 25,859**

The notional amounts of derivatives at March 31, 2012 and related activity for the first three months of 2012 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, 2011	$ 23,255	$ 1,999	$ 299	$ 25,553
Acquired Related to Merger	1,280	1,465	-	2,745
Additions /Accretion	1,371	-	718	2,089
Maturities /Amortization	(532)	(1,000)	(730)	(2,262)
Terminations	(36)	(105)	-	(141)
March 31, 2012	$ 25,338	$ 2,359	$ 287	$ 27,984

Accounting for Derivative Instruments and Hedging Activities

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

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

Fair Value Hedges

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

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At March 31, 2013, we expect that $0.9 million of expense will be reclassified from other comprehensive income into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 10 years.

Derivatives Not Designated as Hedges

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

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, we are exposed to counterparty credit risk.

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

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of March 31, 2013, our counterparties had posted a net $494.3 million in cash and $188.8 million in securities as collateral with us. At March 31, 2013, a parallel increase of 2.0 percentage points in the USD LIBOR/swap curve would have required us to return the majority of the collateral currently posted with us by our counterparties. We estimated that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by counterparties to our derivative positions, net of collateral held by us, was $5.1 million at March 31, 2013.

Hedge Terminations

During the three months ended March 31, 2013, we terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $33.0 million. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheets as of March 31, 2013 and December 31, 2012 is shown below.

Fair Value of Derivative Financial Instruments

As of March 31, 2013		Fair Value of Derivative Assets[(1)]		Fair Value of Derivative Liabilities[(2)]
Derivatives Designated as Hedging Instruments				
Interest Rate Contracts	$	728,697	$	-
Foreign Exchange Contracts		3,149		228
Total Derivatives Designated as Hedging Instruments	$	731,846	$	228
Derivatives Not Designated as Hedging Instruments				
Interest Rate Contracts	$	171,287	$	134,444
Foreign Exchange Contracts		2,600		2,425
Total Derivatives Not Designated as Hedging Instruments	$	173,887	$	136,869
Total Derivatives	$	905,733	$	137,097

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at March 31, 2013

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at March 31, 2013

Fair Value of Derivative Financial Instruments

As of December 31, 2012		Fair Value of Derivative Assets[(1)]		Fair Value of Derivative Liabilities[(2)]
Derivatives Designated as Hedging Instruments				
Interest Rate Contracts	$	810,295	$	-
Foreign Exchange Contracts		319		2,108
Total Derivatives Designated as Hedging Instruments	$	810,614	$	2,108
Derivatives Not Designated as Hedging Instruments				
Interest Rate Contracts	$	192,377	$	153,774
Foreign Exchange Contracts		2,124		1,998
Total Derivatives Not Designated as Hedging Instruments	$	194,501	$	155,772
Total Derivatives	$	1,005,115	$	157,880

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at December 31, 2012

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at December 31, 2012

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2013 and 2012 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivatives and Hedged Items [(1)]			
Three Months Ended March 31,		**2013**		**2012**
Interest Rate Contracts	$	2,440	$	593
Total	$	2,440	$	593

(1) Located in Interest Expense in the condensed consolidated statements of income for the three months ended March 31, 2013 and 2012

Derivative Financial Instruments in Cash Flow Hedging Relationships						
Three Months Ended March 31, 2013		**Amount of Gain or (Loss) Recognized in OCI on Derivatives[1]**		**Amount of Gain or (Loss) Reclassified from OCI to Income on Derivatives[1]**		**Amount of Gain or (Loss) Recognized in Income on Derivatives[2]**
Interest Rate Contracts	$	2,143	$	(425) [3]	$	-
Foreign Exchange Contracts		4,710		5,224 [4] [5]		(57) [4]
Total	$	6,853	$	4,799	$	(57)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the condensed consolidated statement of income for the three months ended March 31, 2013

[4] Located in Interest Income – Loans in the condensed consolidated statement of income for the three months ended March 31, 2013

[5] Fully offset by a $5,224 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the three months ended March 31, 2013

Derivative Financial Instruments in Cash Flow Hedging Relationships						
Three Months Ended March 31, 2012		**Amount of Gain or (Loss) Recognized in OCI on Derivatives[1]**		**Amount of Gain or (Loss) Reclassified from OCI to Income on Derivatives[1]**		**Amount of Gain or (Loss) Recognized in Income on Derivatives[2]**
Interest Rate Contracts	$	(852)	$	(435) [3]	$	-
Foreign Exchange Contracts		(3,620)		(3,505) [4] [5]		(46) [4]
Total	$	(4,472)	$	(3,940)	$	(46)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the condensed consolidated statement of income for the three months ended March 31, 2012

[4] Located in Interest Income – Loans in the condensed consolidated statement of income for the three months ended March 31, 2012

[5] Fully offset by a $3,505 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the three months ended March 31, 2012

Derivative Financial Instruments Not Designated as Hedging Relationships				
	Net Amount of Gain or (Loss) Recognized in Income On Derivatives[1]			
Three Months Ended March 31,		**2013**		**2012**
Interest Rate Contracts	$	(1,760)	$	(27)
Foreign Exchange Contracts		48		(27)
Total	$	(1,712)	$	(54)

[1] Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the three months ended March 31, 2013 and 2012

Asset/Liability Offsetting

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

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

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Cash Collateral Received/ Pledged[1]	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Investment Securities Received/Pledged as Collateral[1]	Net Amount
As of March 31, 2013				
Assets:				
Derivatives - Dealer	**$ 742,787**	**$ 510,200**	**$ 188,800**	**$ 43,787**
Derivatives - Customer	**162,946**	**-**	**-**	**162,946**
Accrued Interest Receivable on Derivative Contracts	**82,051**	**-**	**-**	**82,051**
Liabilities:				
Derivatives - Dealer	**133,377**	**15,910**	**-**	**117,467**
Derivatives - Customer	**3,720**	**-**	**-**	**3,720**
Accrued Interest Payable on Derivative Contracts	**2,437**	**-**	**-**	**2,437**
As of December 31, 2012				
Assets:				
Derivatives - Dealer	$ 818,749	$ 555,920	$ 195,300	$ 67,529
Derivatives - Customer	186,366	-	-	186,366
Accrued Interest Receivable on Derivative Contracts	86,653	-	-	86,653
Liabilities:				
Derivatives - Dealer	152,896	17,000	-	135,896
Derivatives - Customer	4,984	-	-	4,984
Accrued Interest Payable on Derivative Contracts	1,947	-	-	1,947

[1] Cash collateral received is recognized in the condensed consolidated balance sheets whereas investment securities received are not recognized in the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012, respectively

Note 7 – Fair Value Measurements

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

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at March 31, 2013 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at March 31, 2013 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, the substantial majority of agency MBS, corporate bonds and a limited number of ABS.

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

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

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

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

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at March 31, 2013 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, the majority of ABS and a small portion of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for all Farmer Mac MBS and FHA/VA non-wrapped reperformer MBS is calculated internally using third-party models. Market value for Level 3 ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs.

Level 3 assets at March 31, 2013 also include $62.0 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the 'Assets and Liabilities Measured at Fair Value on a Recurring Basis' tables on page 38 and 39 because they are not measured on a recurring basis.

Our Level 3 liabilities at March 31, 2013 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.

The following table presents quantitative information about Level 3 fair value measurements as of March 31, 2013.

Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Assets				
Investment Securities:				
U.S. Agency Mortgage-Backed	$ 73	Third-Party Pricing Service	Prepayment Rate	*
Farmer Mac Mortgage-Backed	202	Discounted Cash Flow	Prepayment Rate	8-13 percent
			Mark-to-Market Spread	1 percent
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	494	Discounted Cash Flow	Prepayment Rate	6-10 percent
			Lifetime Default Rate	1-21 percent
			Loss Severity	11-13 percent
Asset-Backed	119	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Impaired Loans	62	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 9	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent

* Excludes ranges for Level 3 U.S. Agency MBS and all ABS which are determined by a third-party pricing service

** Range of inputs are unique to each collateral property

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

March 31, 2013

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury and Agency Debt	$ -	$ 8,531	$ -	$ 8,531
Mortgage-Backed:				
U.S. Agency	-	10,775	73	10,848
Farmer Mac	-	-	202	202
FHA/VA Non-Wrapped Reperformer	-	-	494	494
Non-Agency	-	268	-	268
Asset-Backed	-	33	119	152
Corporate Bonds	-	71	-	71
Interest Rate Swaps and Other Financial Instruments	-	906	-	906
Assets Held in Trust (included in Other Assets)	52	-	-	52
Collateral Assets (included in Other Assets)	-	16	-	16
Total Assets	**$ 52**	**$ 20,600**	**$ 888**	**$ 21,540**
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 137	$ -	$ 137
Collateral Liabilities (included in Bonds and Notes)	-	510	-	510
Standby Letters of Credit (included in Other Liabilities)	-	-	9	9
Total Liabilities	**$ -**	**$ 647**	**$ 9**	**$ 656**

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2012				
($ in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investment Securities:				
U.S. Treasury and Agency Debt	$ -	$ 6,491	$ -	$ 6,491
Mortgage-Backed:				
U.S. Agency	-	10,275	78	10,353
Farmer Mac	-	-	215	215
FHA/VA Non-Wrapped Reperformer	-	-	506	506
Non-Agency	-	292	-	292
Asset-Backed	-	-	121	121
Corporate Bonds	-	21	-	21
Interest Rate Swaps and Other Financial Instruments	-	1,005	-	1,005
Assets Held in Trust (included in Other Assets)	51	-	-	51
Collateral Assets (included in Other Assets)	-	17	-	17
Total Assets	$ 51	$ 18,101	$ 920	$ 19,072
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 158	$ -	$ 158
Collateral Liabilities (included in Bonds and Notes)	-	556	-	556
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 714	$ 10	$ 724

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

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis					
($ in Millions)	**Agency Mortgage-Backed Securities**	**Farmer Mac Mortgage-Backed Securities**	**FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities**	**Asset-Backed Securities**	**Standby Letters of Credit**
Balance at December 31, 2012	$ 78	$ 215	$ 506	$ 121	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	-	-
Included in Other Comprehensive Income	-	-	9	3	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Issuances	-	-	-	-	1
Settlements	(5)	(13)	(24)	(7)	(2)
Accretion	-	-	3	2	-
Balance at March 31, 2013	$ 73	$ 202	$ 494	$ 119	$ 9
Balance at December 31, 2011	$ -	$ -	$ -	$ 54	$ 10
Level 3 Assets Acquired in Merger	89	253	554	59	-
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	-	-
Included in Other Comprehensive Income	(1)	-	2	12	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Issuances	-	-	-	-	2
Settlements	(3)	(15)	(18)	(7)	(2)
Accretion	-	-	9	-	-
Balance at March 31, 2012	$ 85	$ 238	$ 547	$ 118	$ 10

Estimated Fair Value of Other Financial Instruments

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of March 31, 2013 and December 31, 2012.

($ in Millions)

	March 31, 2013			December 31, 2012		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	**$ 72,546**	**$ 74,630**	**Level 3**	$ 71,543	$ 73,800	Level 3
Financial Liabilities:						
Bonds and Notes	**$ 86,285**	**$ 87,763**	**Level 3**	$ 83,607	$ 85,183	Level 3
Subordinated Debt	**905**	**977**	**Level 3**	905	990	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (91)**	**Level 3**	$ -	$ (100)	Level 3

Net Loans

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

Bonds and Notes

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

Subordinated Debt

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

Commitments to Extend Credit

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

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

Information About Valuation Techniques and Inputs to Other Fair Value Measurements

	Valuation Technique	Input
Loans	Discounted Cash Flow	Prepayment Rate
		Mark-to-Market Spread
		Benchmark Yield Curve
		Probability of Default
		Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve
		Farm Credit Spread
Subordinated Debt	Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

Note 8 – Employee Benefit Plans

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

Retirement-eligible employees may also be eligible for other postretirement benefits, which primarily include access to healthcare benefits. Substantially all participants pay the full premiums associated with these other postretirement healthcare benefits. Participant contributions are adjusted annually.

We contributed $0.7 million to our funded qualified defined benefit pension plans during the three months ended March 31, 2013, and anticipate that we will contribute approximately $3.3 million more to such plans during the remainder of 2013. We expect to contribute a total of $0.5 million, net of collected retiree premiums, to our other postretirement benefit plans in 2013. We contributed $0.4 million to our trust funds related to our nonqualified retirement plans during the three months ended March 31, 2013, and anticipate that we will contribute approximately $1.8 million more to such plans during the remainder of 2013. Our actual contributions could differ from the estimates noted above.

Note 9 – Commitments and Contingent Liabilities

Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices and farmer delivery patterns, we provide a significant amount of revolving loan commitments. At March 31, 2013, commitments to extend credit and commercial letters of credit were $29.9 billion and $254.2 million, respectively.

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide debt securities issued by CoBank. Additionally, we are contingently liable for the outstanding Systemwide debt securities issued by the other System banks. Total Systemwide debt securities of the System were $199.0 billion at March 31, 2013.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, the Farm Credit Insurance Fund (Insurance Fund) is a statutorily created insurance fund which assists in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the Insurance Fund. At March 31, 2013, the aggregated assets of the Insurance Fund totaled $3.3 billion. Finally, System banks must maintain certain financial criteria in order to participate in System debt issuances. If these criteria are not met, a troubled System bank's access to and participation in System debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of March 31, 2013 and the liabilities arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

Note 10 – Segment Financial Information

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

The accompanying tables present condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate to our segments net interest income on investment securities. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as "other." Inter-segment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program.

For the three-month periods ended March 31, 2013 and 2012, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended March 31, 2013

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	**$ 155,777**	**$ 65,661**	**$ 82,936**	**$ 304,374**	**$ (1,947)**	**$ 302,427**
Provision for Loan Losses	**5,000**	**-**	**10,000**	**15,000**	**-**	**15,000**
Noninterest Income	**18,041**	**233**	**7,074**	**25,348**	**498**	**25,846**
Operating Expenses	**37,308**	**8,224**	**19,364**	**64,896**	**1,420**	**66,316**
Provision for Income Taxes	**27,836**	**-**	**10,518**	**38,354**	**(198)**	**38,156**
Net Income	**$ 103,674**	**$ 57,670**	**$ 50,128**	**$ 211,472**	**$ (2,671)**	**$ 208,801**
Selected Financial Information at March 31, 2013 ($ in Millions):						
Loans	**$ 23,237**	**$ 35,528**	**$ 14,231**	**$ 72,996**	**$ -**	**$ 72,996**
Less: Allowance for Loan Losses	**(281)**	**-**	**(169)**	**(450)**	**-**	**(450)**
Net Loans	**$ 22,956**	**$ 35,528**	**$ 14,062**	**$ 72,546**	**$ -**	**$ 72,546**
Total Assets	**$ 23,294**	**$ 35,633**	**$ 14,131**	**$ 73,058**	**$ 21,950 ***	**$ 95,008**
*Other assets are comprised of:						
Investment Securities						**$ 20,566**
Other Assets						**1,384**

For the Three Months Ended March 31, 2012

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 163,943	$ 70,489	$ 80,465	$ 314,897	$ (1,821)	$ 313,076
Provision for Loan Losses	4,050	-	950	5,000	-	5,000
Noninterest Income	20,944	201	11,184	32,329	96	32,425
Operating Expenses	33,651	7,492	16,338	57,481	1,130	58,611
Provision for Income Taxes	34,437	-	17,198	51,635	(244)	51,391
Net Income	$ 112,749	$ 63,198	$ 57,163	$ 233,110	$ (2,611)	$ 230,499
Selected Financial Information at March 31, 2012 ($ in Millions):						
Loans	$ 23,235	$ 33,868	$ 12,882	$ 69,985	$ -	$ 69,985
Less: Allowance for Loan Losses	(294)	-	(120)	(414)	-	(414)
Net Loans	$ 22,941	$ 33,868	$ 12,762	$ 69,571	$ -	$ 69,571
Total Assets	$ 23,282	$ 33,981	$ 12,828	$ 70,091	$ 20,004 *	$ 90,095
*Other assets are comprised of:						
Investment Securities						$ 17,467
Other Assets						2,537

Note 11 – Subsequent Events

We have evaluated subsequent events through May 10, 2013, which is the date the financial statements were issued.

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock, representing two million shares at $100 per share par value. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears beginning on July 1, 2013 and will accrue at a fixed annual rate for life of 6.125 percent from the date of issuance. The Series G preferred stock is not mandatorily redeemable at any time. However, the Series G preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on July 1, 2018. In addition, the Series G preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. The Series G preferred stock ranks equally, both as to dividends and upon liquidation, to our outstanding Series C, D, E and F preferred stock, and senior to all of our outstanding common stock.

Supplemental District Information

CoBank, ACB and Affiliated Associations

District Overview

CoBank is chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide debt securities. Therefore, we are the primary funding source for our affiliated Associations. We have 29 affiliated Associations serving 23 states in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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

The Farm Credit Act as well as FCA regulations require us to exercise limited supervision over the operating activities of our affiliated Associations. These Associations and CoBank operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

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

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets on pages 55 and 56 present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Financial Highlights

($ in Thousands)

	March 31, 2013	December 31, 2012
Total Loans	$ 80,620,808	$ 79,076,558
Less: Allowance for Loan Losses	766,341	759,626
Net Loans	79,854,467	78,316,932
Total Assets	103,232,017	100,374,523
Total Shareholders' Equity	13,200,869	12,942,545

For the Three Months Ended March 31,	2013	2012
Net Interest Income	$ 587,084	$ 584,118
Provision for Loan Losses	14,469	19,287
Net Fee Income	29,632	34,012
Net Income	381,025	380,560
Net Interest Margin	2.36 %	2.49 %
Return on Average Assets	1.50	1.57
Return on Average Total Shareholders' Equity	11.63	12.56
Average Loans	$ 80,894,408	$ 75,936,622
Average Earning Assets	99,668,146	93,910,383
Average Assets	101,735,904	96,764,611

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

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

The following discussion summarizes the combined results of operations and financial position of the CoBank District (District) as of and for the three months ended March 31, 2013. Comparisons with prior-year periods are included. Affiliated Agricultural Credit Associations and Federal Land Credit Associations are together referred to as "affiliated Associations."

Combined Results of Operations

District net income was $381.0 million for the three months ended March 31, 2013 compared to $380.6 million for the same period of 2012. The slight increase primarily reflects a lower provision for loan losses and a modest increase in net interest income, substantially offset by a decrease in noninterest income and an increase in operating expenses.

Net interest income increased to $587.1 million for the three months ended March 31, 2013 from $584.1 million for the same period in 2012. The increase in net interest income was due to an increase in average loan volume in the District, which grew 7 percent to $80.9 billion in the first three months of 2013 compared to $75.9 billion for the same period of 2012. The increase in average loan volume reflected growth in real estate mortgage loans, production and intermediate-term loans, rural energy lending, agricultural export finance loans, and leases. The impact of growth in average loan volume was mostly offset by the continuing low interest rate environment, which resulted in lower returns on invested capital throughout the District and on CoBank's funding position and portfolio of liquidity investment securities. To a lesser extent, lower net interest income also resulted from lower spreads on the District's lending portfolios due to increasing competition and a shift in the mix of loans within the loan portfolio. These factors led to a decrease in the District's overall net interest margin to 2.36 percent for the first three months of 2013 as compared to 2.49 percent for the same period in 2012.

The District's combined provision for loan losses was $14.5 million for the three months ended March 31, 2013, compared to $19.3 million for the same period of 2012. CoBank recorded a $15.0 million provision for loan losses, which is discussed further on page 5. The Associations recorded a net combined loan loss reversal of $0.5 million for the first three months of 2013, compared to a combined provision for loan losses of $14.3 million in the prior-year period. The current period net loan loss reversal resulted from an overall improvement in loan quality at the Associations.

Noninterest income decreased to $51.6 million for the three months ended March 31, 2013 from $65.1 million for the same period in 2012. The decrease in noninterest income was driven primarily by losses on early extinguishments of debt, net of prepayment income, which increased to $7.0 million for the first three months of 2013 compared to $1.4 million in the 2012 period. The current period losses on early extinguishments of debt were incurred at CoBank. Additionally, net fee income decreased to $29.6 million for the first three months of 2013 from $34.0 million in the same prior-year period, largely as a result of a lower level of arrangement fee income and lower conversion fees reflecting a lower level of customer refinancing activity.

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Total District operating expenses increased 3 percent to $202.2 million for the three-month period ended March 31, 2013 from $195.6 million for the same period of 2012. The change was primarily the result of an increase in Insurance Fund premium expense of $9.0 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 10 basis points of adjusted insured debt obligations in the first quarter of 2013 compared to five basis points throughout 2012. The increase in Insurance Fund premium rates resulted from growth in overall Farm Credit System assets in 2012. Employee compensation expense decreased 4 percent to $121.9 million from $126.8 million for the first three months of 2012. The prior-year period included a $14.1 million one-time expense associated with the transfer of defined benefit pension plan assets and obligations related to the Bank's merger with AgBank. Excluding this item, employee compensation increased by $9.2 million primarily due to increased staffing and annual salary adjustments at various District entities.

Income tax expense decreased to $41.0 million for the three-month period ended March 31, 2013 from $53.8 million for the same period of 2012. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The change in income tax expense at CoBank is explained on page 5.

Loan Portfolio

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

($ in Thousands)

District Loans by Loan Type

	March 31, 2013	December 31, 2012
Real Estate Mortgage	**$ 23,365,969**	$ 23,403,897
Non-affiliated Associations	**3,597,342**	3,590,169
Production and Intermediate-term	**11,857,647**	12,976,059
Agribusiness:		
Loans to Cooperatives	**12,932,107**	11,197,967
Processing and Marketing Operations	**4,171,336**	3,786,031
Farm Related Businesses	**1,486,128**	1,489,009
Communications	**2,837,910**	2,854,413
Energy	**11,239,609**	10,740,816
Water/Wastewater	**1,094,637**	1,119,923
Agricultural Export Finance	**4,760,526**	4,660,523
Rural Residential Real Estate	**874,167**	870,060
Lease Receivables	**2,320,516**	2,308,251
Other	**82,914**	79,440
Total	**$ 80,620,808**	$ 79,076,558

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

District loan volume at March 31, 2013 was $80.6 billion compared to $79.1 billion at December 31, 2012. The increase was driven by growth in period-end agribusiness loans to cooperatives and energy loans included within CoBank's retail portfolio, which is explained on pages 6 and 8, as well as loans to processing and marketing operations. This was partially offset by a decline in Association production and intermediate-term loans due to seasonal paydowns.

Loan Quality

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

District Loan Quality

	March 31, 2013	December 31, 2012
Acceptable	**94.86 %**	94.86 %
Special Mention	**2.22**	2.29
Substandard	**2.78**	2.71
Doubtful	**0.14**	0.14
Loss	**-**	-
Total	**100.00 %**	100.00 %

Loan quality within the District is very favorable, with over 94 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $948.4 million as of March 31, 2013 compared to $857.8 million at December 31, 2012. Nonperforming assets represented 1.18 percent of total District loan volume and other property owned at March 31, 2013 compared to 1.08 percent at December 31, 2012. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.98 percent of total loans at March 31, 2013 compared to 0.92 percent at December 31, 2012. Changes in the level of nonaccrual loans were primarily in CoBank's retail loan portfolio and are discussed on page 9. Other property owned increased to $67.7 million at March 31, 2013 from $47.8 million at December 31, 2012. The increase in other property owned of $19.9 million was due to several acquisitions of property related to nursery, timber, cattle, real estate and food processing operations.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

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

($ in Thousands)

Nonperforming Assets

	March 31, 2013	December 31, 2012
Nonaccrual Loans:		
Real Estate Mortgage	**$ 336,437**	$ 350,187
Production and Intermediate-term	**212,431**	224,217
Agribusiness	**58,620**	36,119
Communications	**137,087**	79,493
Energy	**26,046**	22,141
Water/Wastewater	**-**	200
Rural Residential Real Estate	**12,614**	12,360
Lease Receivables	**5,936**	5,116
Total Nonaccrual Loans	**789,171**	729,833
Accruing Restructured Loans:		
Real Estate Mortgage	**34,544**	35,098
Production and Intermediate-term	**24,839**	26,091
Agribusiness	**3,708**	3,709
Energy	**3,134**	3,145
Rural Residential Real Estate	**316**	316
Total Accruing Restructured Loans	**66,541**	68,359
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	**13,672**	4,474
Production and Intermediate-term	**6,200**	6,750
Agribusiness	**4,641**	-
Rural Residential Real Estate	**197**	77
Lease Receivables	**256**	479
Total Accruing Loans 90 Days or More Past Due	**24,966**	11,780
Total Nonperforming Loans	**880,678**	809,972
Other Property Owned	**67,713**	47,826
Total Nonperforming Assets	**$ 948,391**	$ 857,798
Nonaccrual Loans as a Percentage of Total Loans	**0.98 %**	0.92 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**1.18**	1.08
Nonperforming Assets as a Percentage of Capital	**7.18**	6.63

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

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

($ in Thousands)

Aging of Past Due Loans

March 31, 2013	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 65,444	$ 147,691	$ 213,135	$ 23,364,054	$ 23,577,189	$ 13,672
Production and Intermediate-term	111,485	73,041	184,526	11,752,377	11,936,903	6,200
Agribusiness	13,886	16,464	30,350	18,624,232	18,654,582	4,641
Communications	477	5,093	5,570	2,840,232	2,845,802	-
Energy	-	82	82	11,294,369	11,294,451	-
Water/Wastewater	-	-	-	1,101,749	1,101,749	-
Agricultural Export Finance	-	-	-	4,772,454	4,772,454	-
Rural Residential Real Estate	5,778	4,606	10,384	868,041	878,425	197
Lease Receivables	3,879	1,171	5,050	2,315,866	2,320,916	256
Non-affiliated Associations	-	-	-	3,599,537	3,599,537	-
Other	-	-	-	83,052	83,052	-
Total	$ 200,949	$ 248,148	$ 449,097	$ 80,615,963	$ 81,065,060	$ 24,966

($ in Thousands)

Aging of Past Due Loans

December 31, 2012	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 75,130	$ 127,289	$ 202,419	$ 23,421,193	$ 23,623,612	$ 4,474
Production and Intermediate-term	51,905	64,382	116,287	12,941,245	13,057,532	6,750
Agribusiness	12,870	7,562	20,432	16,512,149	16,532,581	-
Communications	-	5,296	5,296	2,855,692	2,860,988	-
Energy	-	71	71	10,784,164	10,784,235	-
Water/Wastewater	-	-	-	1,126,483	1,126,483	-
Agricultural Export Finance	-	-	-	4,672,186	4,672,186	-
Rural Residential Real Estate	5,089	6,961	12,050	862,087	874,137	77
Lease Receivables	8,854	1,400	10,254	2,298,462	2,308,716	479
Non-affiliated Associations	-	-	-	3,592,333	3,592,333	-
Other	-	-	-	79,580	79,580	-
Total	$ 153,848	$ 212,961	$ 366,809	$ 79,145,574	$ 79,512,383	$ 11,780

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $182.1 million at March 31, 2013.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at March 31, 2013 totaled $766.3 million compared to $759.6 million at December 31, 2012.

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

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at March 31, 2013
Real Estate Mortgage	$ 89,743	$ (4,721)	$ 164	$ 20,696	$ (280)	$ 105,602
Production and Intermediate-term	201,398	(3,295)	1,850	(12,620)	(1,186)	186,147
Agribusiness	255,027	(556)	8,317	(7,201)	(7,654)	247,933
Communications	66,265	(26)	733	10,599	(804)	76,767
Energy	93,403	-	9	1,741	(339)	94,814
Water/Wastewater	9,853	-	-	(531)	(34)	9,288
Agricultural Export Finance	6,238	-	647	(8)	(515)	6,362
Rural Residential Real Estate	5,519	(288)	6	2,155	-	7,392
Lease Receivables	32,158	(153)	122	(148)	-	31,979
Other	22	(1)	250	(214)	-	57
Total	$ 759,626	$ (9,040)	$ 12,098	$ 14,469	$ (10,812)	$ 766,341

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Merger Impact	Balance at March 31, 2012
Real Estate Mortgage	$ 52,628	$ (166)	$ 63	$ (4,484)	$ 737	$ 38,720	$ 87,498
Production and Intermediate-term	143,613	(4,792)	1,733	6,707	2,246	47,644	197,151
Agribusiness	232,396	(39)	531	13,981	18,423	14,976	280,268
Communications	46,498	-	401	1,184	(112)	465	48,436
Energy	68,204	-	3	584	430	2,239	71,460
Water/Wastewater	7,518	-	40	161	51	4	7,774
Agricultural Export Finance	12,073	-	58	26	877	16	- 13,050
Rural Residential Real Estate	4,123	(917)	-	1,094	-	55	- 4,355
Lease Receivables	21,761	(105)	117	39	-	902	22,714
Other	65	-	-	(5)	-	-	60
Total	$ 588,879	$ (6,019)	$ 2,946	$ 19,287	$ 22,652	$ 105,021	$ 732,766

District Capital Resources

Combined District shareholders' equity at March 31, 2013 totaled $13.2 billion, a net increase of $258.3 million as compared to $12.9 billion at December 31, 2012. The increase resulted from District net income of $381.0 million and additional other comprehensive income of $3.2 million, somewhat offset by net stock retirements of $36.9 million, accrued patronage of $91.3 million and preferred stock dividends of $17.5 million. The components of the District's accumulated other comprehensive income (loss) are detailed in the following table:

($ in Thousands)

Accumulated Other Comprehensive Income (Loss)

	March 31, 2013	December 31, 2012
Unrealized Gains on Investment Securities	**$ 210,369**	$ 213,983
Net Pension Adjustment	**(298,816)**	(303,628)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(9,218)**	(11,261)
Accumulated Other Comprehensive Income (Loss)	**$ (97,665)**	$ (100,906)

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

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

District Capital Ratios

	March 31, 2013			December 31, 2012		
	Permanent Capital Ratio	**Total Surplus Ratio**	**Core Surplus Ratio**	**Permanent Capital Ratio**	**Total Surplus Ratio**	**Core Surplus Ratio**
CoBank	**15.71%**	**14.77%**	**9.88%**	16.14%	15.22%	10.06%
Associations	**13.12% - 35.22%**	**12.91% - 34.80%**	**12.57% - 29.55%**	13.43% - 35.45%	13.27% - 35.02%	13.07% - 29.78%
Regulatory Minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%

As depicted in the table above, at March 31, 2013, CoBank and all affiliated Associations significantly exceed the FCA's regulatory minimum capital ratios.

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

Letter of Intent to Merge Between Two Associations

Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, two Associations within the District, have entered into a Letter of Intent to merge with a proposed effective date of January 1, 2014.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

($ in Thousands)

For the Three Months Ended March 31,	2013	2012
Interest Income		
Loans	**$ 700,983**	$ 700,557
Investment Securities	**77,895**	88,988
Total Interest Income	**778,878**	789,545
Interest Expense	**191,794**	205,427
Net Interest Income	**587,084**	584,118
Provision for Loan Losses	**14,469**	19,287
Net Interest Income After Provision for Loan Losses	**572,615**	564,831
Noninterest Income/ Expense		
Net Fee Income	**29,632**	34,012
Prepayment Income	**26,561**	8,069
Losses on Early Extinguishments of Debt	**(33,600)**	(9,472)
Other, Net	**28,999**	32,504
Total Noninterest Income	**51,592**	65,113
Operating Expenses		
Employee Compensation	**121,898**	126,822
Insurance Fund Premium	**17,201**	8,169
Information Services	**12,385**	11,734
General and Administrative	**14,592**	14,987
Occupancy and Equipment	**9,656**	9,445
Farm Credit System Related	**6,753**	6,107
Purchased Services	**8,515**	7,816
Other	**11,202**	10,535
Total Operating Expenses	**202,202**	195,615
Income Before Income Taxes	**422,005**	434,329
Provision for Income Taxes	**40,980**	53,769
Net Income	**$ 381,025**	$ 380,560

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets

($ in Thousands)

		March 31, 2013		December 31, 2012
Assets				
Total Loans	**$**	**80,620,808**	$	79,076,558
Less: Allowance for Loan Losses		**766,341**		759,626
Net Loans		**79,854,467**		78,316,932
Cash		**380,204**		1,538,820
Investment Securities		**20,837,898**		18,287,845
Interest Rate Swaps and Other Financial Instruments		**905,713**		1,005,044
Accrued Interest Receivable and Other Assets		**1,253,735**		1,225,882
Total Assets	**$**	**103,232,017**	$	100,374,523
Liabilities				
Bonds and Notes	**$**	**87,441,966**	$	84,490,027
Subordinated Debt		**904,685**		904,685
Interest Rate Swaps and Other Financial Instruments		**136,316**		157,008
Reserve for Unfunded Commitments		**182,059**		171,246
Accrued Interest Payable and Other Liabilities		**1,366,122**		1,709,012
Total Liabilities		**90,031,148**		87,431,978
Shareholders' Equity				
Preferred Stock Issued by Bank		**961,750**		961,750
Preferred Stock Issued by Associations		**334,459**		338,371
Common Stock		**1,227,288**		1,240,695
Paid In Capital		**654,934**		654,933
Unallocated Retained Earnings		**10,120,103**		9,847,702
Accumulated Other Comprehensive Income (Loss)		**(97,665)**		(100,906)
Total Shareholders' Equity		**13,200,869**		12,942,545
Total Liabilities and Shareholders' Equity	**$**	**103,232,017**	$	100,374,523

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 officer have evaluated our disclosure controls and procedures as of the end of the period covered by this quarterly report and have concluded that our disclosure controls and procedures are effective as of that date.

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

Certification Required by Farm Credit Administration Regulations

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

Signed this 10th day of May, 2013.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
Chairman of the Board

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

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

(1) I have reviewed this quarterly report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: May 10, 2013

CERTIFICATION

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

(1) I have reviewed this quarterly report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: May 10, 2013

Leadership
CoBank, ACB

Robert B. Engel, President and Chief Executive Officer

Mary E. McBride, Chief Banking Officer
Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group*
Leili Ghazi, Agribusiness Division – West
Michael W. Hechtner, Agribusiness Division – Central
Lynn M. Scherler, Agribusiness Division – South
G. David Sparks, Agribusiness Division – East
Jonathan B. Logan, Corporate Agribusiness Banking Group
Karen S. Lowe, Agricultural Export Finance Division

Rural Infrastructure
Paul A. Narduzzo, Rural Infrastructure Banking Group
Brett A. Challenger, Energy and Water Services Banking Division
Candace A. Roper, Electric Distribution Banking Division
Todd E. Telesz, Power Supply Banking Division
Robert F. West, Communications Banking Division

Banking Services
Antony M. Bahr, Banking Services Group
Brian J. Klatt, Capital Markets Division
Russell D. Nelson, Farm Credit Leasing Services Corporation**
Leonard G. Sahling, Knowledge Exchange Division

Corporate Communications
Arthur C. Hodges, Jr., Senior Vice President

Ann E. Trakimas, Chief Operating Officer
Finance
David P. Burlage, Chief Financial Officer
Timothy D. Steidle, Treasury Division
Michael R. Vestal, Controller Division

Business Support Services
John Svisco, Chief Administrative Officer
James R. Bernsten, Chief Information Officer
Richard A. Scholz, Non-Credit Services Division
Stephen B. Secor, Operations Division

Regulatory, Legislative and Compliance
Andrew D. Jacob, Regulatory, Legislative and Compliance
L. Todd Van Hoose, Government Affairs

Legal
Gregory J. Buehne, General Counsel

Human Resources
Robert L. O'Toole, Senior Vice President

Gregory E. Somerhalder, Chief Risk Officer
Rodney A. Brown, Asset Review Division
Katia V. Hoffer, Enterprise Risk Management Division
Steven W. Wittbecker, Internal Audit Division

Lori L. O'Flaherty, Chief Credit Officer
Daniel L. Key, Credit Approval Division
Ronald P. Seigley, Special Assets Division
Todd E. Wilson, Enterprise Solutions and Services Division

* The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.
** Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

Office Locations

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Farm Credit Leasing Services Corporation
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(952) 417-7800
(800) 444-2929

Washington, DC Office
50 F Street, N.W., Suite 900
Washington, DC 20001
(202) 650-5860

U.S. Regional Offices

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

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

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

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

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

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

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
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Lubbock, TX 79493
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FCL: (806) 788-3705

Minneapolis Banking Center **
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(800) 282-4150
FCL: (800) 444-2929

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

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

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

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

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

St. Louis Banking Center **
1650 Des Peres Road, Suite 120
St. Louis, MO 63131
(314) 835-4200
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Wichita Banking Center **
245 North Waco
Wichita, KS 67202
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International

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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 2013 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 10, 2013, August 9, 2013, November 9, 2013, and March 1, 2014 (Annual Report).