2014 Quarterly Report
MARCH 31, 2014

Dear CoBank Customer-Owner:

We're pleased to report that CoBank recorded another period of strong financial performance in the first quarter of 2014. Demand for loans strengthened across many of the industries we serve; profitability increased; and credit quality, capital levels and liquidity all continued to be very solid. Our customer-owners can be confident that the bank remains financially strong and well-positioned to meet their needs, today and in the future.

CoBank's average loan volume for the first quarter of 2014 was $76.4 billion, up 4 percent from the same period last year. The increase resulted from higher levels of borrowing in a number of customer segments, including affiliated Farm Credit associations, rural power providers, and food and agribusiness companies, partially offset by lower seasonal borrowing by grain and farm supply cooperatives.

Net interest income for the quarter increased 2 percent to $309.0 million, from $302.4 million in the same period last year. Higher average loan volume was a key driver of the increase, as were higher earnings derived from the bank's balance sheet positioning.

Net income for the first quarter rose 11 percent to $231.3 million, from $208.8 million in the first quarter of 2013. In addition to higher net interest income, profitability increased due to the fact that no provision for loan losses was taken during the quarter, whereas we recorded a $15.0 million provision in the same period last year. A decrease in losses on early extinguishments of debt, net of prepayment fees, and gains on the sale of investment securities also contributed to the improvement in our earnings.

Credit quality in our loan portfolio continues to be very strong. At quarter-end, 0.71 percent of the bank's loans were classified as adverse assets, unchanged from December 31, 2013. Nonaccrual loans were $150.1 million at March 31, 2014, compared to $147.8 million at December 31, 2013. The bank's allowance for credit losses totaled $614.9 million at quarter-end, or 1.62 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

Capital levels remain well in excess of regulatory minimums. As of March 31, 2014, shareholders' equity totaled $6.8 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. At quarter-end, the bank held approximately $23.3 billion in cash and investments and had 164 days of liquidity, which is in excess of FCA liquidity requirements.

It would be premature for us to predict whether the growth in demand experienced in the first quarter will continue through the year ahead. Some of the market conditions we experienced last year, including extremely low grain inventories at country elevators, have improved. Other challenges continue, including intense competition and a low interest rate environment that has pressured returns on invested capital for all banks.

As always, CoBank is focused not on short-term results but on maintaining the financial strength of the bank, operating efficiently, delighting our customers and fulfilling our mission in rural America. We are grateful for the business of our customer-owners and ever mindful of the enormous trust they place in us. Thank you for your ongoing support and the opportunity to serve as your financial partner.

Everett Dobrinski
Chairman of the Board

Robert B. Engel
Chief Executive Officer

May 9, 2014

Financial Highlights
CoBank, ACB

($ in Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Total Loans	$ 77,500,344	$ 73,603,375
Less: Allowance for Loan Losses	466,955	447,126
Net Loans	77,033,389	73,156,249
Total Assets	101,628,756	97,644,392
Total Shareholders' Equity	6,817,314	6,704,616

For the Three Months Ended March 31, (Unaudited)	2014	2013
Net Interest Income	$ 308,966	$ 302,427
Provision for Loan Losses	-	15,000
Net Fee Income	23,727	24,038
Net Income	231,271	208,801
Net Interest Margin	1.27 %	1.33 %
Return on Average Assets	0.93	0.90
Return on Average Common Shareholders' Equity	15.23	14.38
Return on Average Total Shareholders' Equity	13.89	13.26
Average Total Loans	$ 76,430,747	$ 73,412,948
Average Earning Assets	98,771,493	91,907,574
Average Total Assets	100,346,906	93,666,846

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 agribusiness 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 2013 Annual Report to Shareholders.

Consolidated Results of Operations

Net income increased 11 percent to $231.3 million for the three months ended March 31, 2014, compared to $208.8 million during the same period in 2013. The increase in earnings primarily resulted from an increase in net interest income, the absence of a provision for loan losses and an increase in the overall level of noninterest income.

Net interest income increased 2 percent to $309.0 million for the three months ended March 31, 2014, compared to $302.4 million for the same period in 2013. The increase in net interest income was primarily driven by higher average loan and investment securities volume as well as increased earnings from our balance sheet positioning. These increases were partially offset by lower returns on invested capital and a reduction in the amount of income from net accretion of merger-related asset and liability fair value adjustments. Net accretion for the three months ended March 31, 2014 was $14.5 million compared to $24.3 million in the same period of 2013. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with U.S. AgBank, FCB (AgBank).

Average loan volume was $76.4 billion during the first three months of 2014 compared to $73.4 billion in the same period of 2013. The 4 percent increase in average loan volume primarily resulted from growth in lending to Farm Credit Association customers in our Strategic Relationships operating segment, rural energy customers in our Rural Infrastructure operating segment and food and agribusiness companies in our Agribusiness operating segment, partially offset by lower seasonal borrowing by grain and farm supply cooperatives.

Net interest margin declined to 1.27 percent for the three months ended March 31, 2014 from 1.33 percent for the same period in 2013. The reduction in our net interest margin included the impact of lower merger-related accretion, the increase in loan volume in the lower-risk, lower-spread Strategic Relationships operating segment and lower seasonal agribusiness lending.

We recorded no provision for loan losses in the first three months of 2014 due to stable credit quality in our loan portfolio. In the first three months of 2013 we recorded a $15.0 million provision for loan losses primarily related to modest deterioration in credit quality in our loan portfolio as well as specific reserves related to a small number of communications customers. Our overall credit quality remains very strong and was relatively unchanged during the first three months of 2014, as adversely classified assets were 0.71 percent of total loans and related accrued interest at both March 31, 2014 and December 31, 2013. Nonaccrual loans were $150.1 million at March 31, 2014, a slight increase from $147.8 million at December 31, 2013, primarily due to a small number of agribusiness customers whose loans were classified as nonaccrual during the period. Loan recoveries, net of charge offs, totaled $0.2 million in the first three months of 2014 compared to $9.1 million during the same period of 2013.

Noninterest income increased to $38.3 million for the three months ended March 31, 2014 from $25.8 million for the same period in 2013. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. Our net fee income was $23.7 million for the three months ended March 31, 2014 compared to $24.0 million for the same period in 2013. We extinguish debt to offset the current and prospective impact of prepayments in our loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. Losses on early extinguishments of debt, net of prepayment income, decreased to $1.7 million for the first three months of 2014 compared to $7.2 million in the first three months of 2013, as the 2013 period included a greater level of debt extinguishments incurred to position our balance sheet. Other noninterest income increased by $7.3 million in the three months ended March 31, 2014, as compared to the same period in 2013, due to gains resulting from the sale of certain investment securities and an increased level of patronage income received from other System institutions. During the first three months of 2014, we sold three impaired non-agency investment securities with a combined book value of $23.1 million for gains totaling $4.9 million. These securities had been excluded from our liquidity reserve due to credit quality deterioration and were sold due to favorable market conditions. There were no sales of investment securities during the 2013 period.

Total operating expenses for the three months ended March 31, 2014 increased to $69.7 million from $66.3 million for the same period in 2013. The increase was driven by higher Farm Credit Insurance Fund (Insurance Fund) premium expense of $3.2 million, due to an increase in Insurance Fund premium rates and growth in our average loan and investment securities volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 12 basis points of adjusted insured debt obligations in the 2014 period compared to 10 basis points throughout 2013. The increase in Insurance Fund premium rates resulted from growth in overall System assets in 2013 and the Insurance Corporation's projections for growth in 2014. Our employee compensation expense increased to $36.2 million for the first three months of 2014 from $34.8 million in the same period of 2013 driven by higher levels of incentive compensation expense resulting from stronger financial performance. As of March 31, 2014, we had 820 employees, compared to 843 at December 31, 2013. The decline in staffing reflects our emphasis on maintaining efficient operations.

Our income tax expense increased to $46.3 million for the three months ended March 31, 2014, compared to $38.2 million for the same prior-year period primarily due to the increase in pre-tax earnings. Our effective tax rates were 16.7 percent and 15.5 percent for the three months ended March 31, 2014 and 2013, respectively. The increase in our effective tax rate resulted primarily from increased earnings in the taxable portion of our business.

As a result of the higher level of earnings in the first three months of 2014, our annualized return on average common shareholders' equity increased to 15.23 percent for the three months ended March 31, 2014 from 14.38 percent for the same period in 2013, and our annualized return on average assets increased to 0.93 percent for the three months ended March 31, 2014, compared to 0.90 percent for the same period in 2013.

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, 2014 and 2013 are reported in Notes 3 and 10 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, which we hold primarily as a liquidity reserve, and gains and losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated to the operating segments. 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,	2014	2013
Operating Segment:		
Agribusiness	$ 106,487	$ 103,674
Strategic Relationships	65,531	57,670
Rural Infrastructure	61,286	50,128
Total Operating Segments	233,304	211,472
Corporate/Other	(2,033)	(2,671)
Total	$ 231,271	$ 208,801

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, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Agribusiness loans outstanding totaled $25.5 billion at March 31, 2014, compared to $21.2 billion at December 31, 2013. The increase in loans outstanding was primarily driven by seasonal lending to grain and farm supply cooperatives, where peak volume generally occurs in the first quarter of the year, and by increased lending to food and agribusiness companies. The Agribusiness segment also includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters for international trade of agricultural products. As of March 31, 2014, the Agricultural Export Finance Division had $4.7 billion in loans outstanding, 53 percent of which were guaranteed by the U.S. government. Additionally, our Agribusiness segment includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of March 31, 2014, FCL had $2.4 billion in leases outstanding.

Agribusiness average loan volume increased to $24.4 billion for the first three months of 2014 from $23.7 billion for the same period of 2013. The increase in Agribusiness volume primarily reflects growth in lending to food and agribusiness companies as well as growth in our leasing portfolio, partially offset by lower seasonal borrowing by grain and farm supply cooperatives.

Agribusiness net income increased 3 percent in the first three months of 2014 to $106.5 million from $103.7 million for the same period in 2013. The increase in earnings was largely due to the absence of a provision for loan losses and a higher level of noninterest income in the first three months of 2014.

Agribusiness net interest income decreased by $2.7 million to $153.1 million for the three months ended March 31, 2014 due to lower returns on invested capital and a lower level of accretion of merger-related fair value adjustments. These factors were somewhat offset by the increase in earnings generated from our balance sheet positioning and the impact of higher average loan volume.

As a result of strong credit quality, Agribusiness did not record a provision for loan losses during the first three months of 2014, as compared to a $5.0 million provision for loan losses in the same prior-year period. Nonaccrual loans increased to $69.7 million at March 31, 2014, as compared to $53.2 million at December 31, 2013 primarily due to a small number of customers whose loans were classified as nonaccrual during the first three months of 2014. Loan recoveries, net of charge-offs, totaled $1.3 million for the three months ended March 31, 2014, compared to $8.4 million for the three months ended March 31, 2013.

Agribusiness noninterest income increased to $25.9 million for the first three months of 2014, as compared to $18.0 million in the same period of 2013 primarily as a result of a lower level of losses on early extinguishments of debt, net of prepayment income, and gains on the sale of investment securities. Agribusiness operating expenses increased to $41.0 million for the first three months of 2014 from $37.3 million in the same period of 2013 primarily due to the impact of the increase in Insurance Fund premiums.

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 affiliates include 27 Associations serving 23 states in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of March 31, 2014, the Strategic Relationships portfolio totaled $37.1 billion, compared to $37.9 billion at December 31, 2013. The decrease in loans outstanding is largely due to a typical seasonal decline in lending to affiliated Associations. At March 31, 2014, loans outstanding included $33.2 billion in wholesale loans to our affiliated Associations and $3.9 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, $3.7 billion of which are participations in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume increased 4 percent to $37.3 billion for the three-month period ended March 31, 2014, compared to $35.8 billion for the same prior-year period. The increase was primarily the result of growth in lending to affiliated Associations driven by their increased lending to agricultural producers.

Strategic Relationships net income increased to $65.5 million for the first three months of 2014, as compared to $57.7 million for the same prior-year period. The increase primarily resulted from higher net interest income due to growth in average loan volume and increased earnings generated from balance sheet positioning. These factors were somewhat offset by lower returns on invested capital and a lower level of accretion of merger-related fair value adjustments. Strategic Relationships noninterest income increased by $1.5 million primarily due to gains on the sale of investment securities.

Overall loan quality in our Strategic Relationships portfolio continues to be excellent. 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 a buffer from losses in their respective loan portfolios. Lower spreads 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 in our Strategic Relationships portfolio.

Strategic Relationships operating expenses were $8.1 million for the three months ended March 31, 2014, generally consistent with the $8.2 million recorded in the 2013 period. The impact of increased Insurance Fund premiums on investment securities was offset by lower information services and general and administrative expenses.

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power and energy, communications and water and waste 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 $14.9 billion at March 31, 2014, compared to $14.5 billion at December 31, 2013. The increase in loans outstanding was driven by growth in lending to rural energy and communications customers.

Rural Infrastructure average loan volume increased 6 percent to $14.7 billion for the first three months of 2014, compared to $13.9 billion for the same prior-year period. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the electric distribution and power supply industries.

Rural Infrastructure net income increased 22 percent to $61.3 million for the first three months of 2014 from $50.1 million for the same period in 2013. The increase in earnings primarily resulted from an increase in net interest income, the absence of a provision for loan losses and an increase in noninterest income.

Rural Infrastructure net interest income increased by $3.2 million as a result of the increase in average loan volume and greater earnings generated from our balance sheet positioning. These factors were somewhat offset by lower returns on invested capital.

As a result of strong credit quality, Rural Infrastructure did not record a provision for loan losses for the first three months of 2014, as compared to a $10.0 million provision for loan losses for the same period in 2013. The 2013 provision for loan losses was primarily due to credit concerns surrounding a small number of our communications customers. Nonaccrual loans in the Rural Infrastructure segment decreased to $80.4 million at March 31, 2014 from $94.6 million at December 31, 2013 due to credit quality improvement at a small number of communications customers. Rural Infrastructure recorded loan charge-offs, net of recoveries, of $1.1 million for the three months ended March 31, 2014, compared to net recoveries of $0.7 million for the same period of 2013.

Rural Infrastructure noninterest income increased to $10.4 million for the first three months of 2014 from $7.1 million for the same period in 2013 as a result of a lower level of losses on early extinguishments of debt, net of prepayment income, and gains on the sale of investment securities. Rural Infrastructure operating expenses increased slightly to $19.9 million for the first three months of 2014 compared to $19.4 million for the same prior-year period primarily due to the increase in Insurance Fund premiums.

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, 2014			December 31, 2013		
	Wholesale Loans (1)	Retail Loans (2)	Total Bank	Wholesale Loans (1)	Retail Loans (2)	Total Bank
Acceptable	100.00 %	96.72 %	98.29 %	100.00 %	96.77 %	98.43 %
Special Mention	-	1.92	1.00	-	1.76	0.86
Substandard	-	1.28	0.66	-	1.36	0.66
Doubtful	-	0.08	0.05	-	0.11	0.05
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 remained strong in the first three months of 2014. The total amount of adversely classified loans ('Substandard', 'Doubtful' and 'Loss' loans) and related accrued interest as a percent of total loans and related accrued interest was 0.71 percent at both March 31, 2014 and December 31, 2013. Total nonaccrual loans were $150.1 million at March 31, 2014, a slight increase from $147.8 million at year-end 2013, primarily due to a small number of agribusiness customers whose loans were classified as nonaccrual during the period. While the overall credit quality of our loan portfolio remains strong and has been favorable in recent years, concentrations within our loan portfolio can cause the level of our loan quality, nonaccrual loans, charge-offs and provision for loan losses to vary significantly from period to period.

We did not record a provision for loan losses in the three month period ended March 31, 2014 compared to a $15.0 million provision for loan losses in the three month period ended March 31, 2013. The 2013 provision primarily related to modest deterioration in credit quality in our loan portfolio as well as specific reserves related to a small number of communications customers. Total loan recoveries, net of charge-offs, for the first three months of 2014 were $0.2 million compared to $9.1 million in the 2013 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $614.9 million at March 31, 2014 compared to $614.7 million at December 31, 2013. Our ACL as a percent of total loans was 0.79 percent at March 31, 2014 compared to 0.84 percent at December 31, 2013. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.62 percent at March 31, 2014 compared to 1.85 percent at December 31, 2013.

Liquidity and Investments

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, 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. As more fully described in our 2013 Annual Report, System banks are required by regulation to maintain a three-tiered liquidity reserve covering a minimum of 90 days of liquidity on a continuous basis and to establish an incremental liquidity reserve. As a result of the 2012 merger with AgBank, we maintain a higher minimum level of liquidity. At March 31, 2014, our liquidity was 164 days, compared to 181 days at December 31, 2013, and above the regulatory minimum.

We hold cash and investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled $22.7 billion at March 31, 2014 compared to $21.7 billion at December 31, 2013. 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 $758.0 million (fair value) or 3 percent of our total investment securities as of March 31, 2014. 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.

Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency or whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of March 31, 2014, $716.1 million of non-agency MBS and ABS securities were not included in our liquidity reserve. Another $196.6 million of investment securities, primarily representing Farmer Mac MBS, were not included in our liquidity reserve as of March 31, 2014, pursuant to regulation.

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 $200.4 million and $214.1 million for the first three months of 2014 and 2013, respectively. Further, the Insurance Fund would be called upon to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), if no other sources existed to repay such debt.

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

Investment Securities ($ in Millions)

	March 31, 2014			December 31, 2013		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury Debt	$ 6,317	$ 6,321	$ 4	$ 5,501	$ 5,504	$ 3
U.S. Agency Debt	4,950	4,964	14	4,458	4,459	1
Mortgage-Backed:						
U.S. Agency	10,360	10,352	(8)	10,655	10,618	(37)
Farmer Mac	173	170	(3)	182	179	(3)
FHA/VA Non-Wrapped Reperformer	434	428	(6)	443	440	(3)
Non-Agency	173	196	23	201	221	20
Asset-Backed	109	134	25	127	152	25
Corporate Bonds	130	131	1	116	115	(1)
Total	$ 22,646	$ 22,696	$ 50	$ 21,683	$ 21,688	$ 5

We recorded no impairment losses on investment securities during the first three months of 2014 and 2013. Increasing levels of defaults and foreclosures on residential mortgages, a decline in home prices or weak economic conditions may result in 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 gains of $44.2 million for the first three months of 2014, compared to unrealized losses of $8.4 million for the same prior-year period. The unrealized gains recorded in the first three months of 2014 primarily reflect the impact of market interest rate changes on the fair value of fixed rate securities.

During the first three months of 2014, we sold one ABS and two non-agency MBS with a combined book value of $23.1 million for total proceeds of $28.0 million. The resulting $4.9 million gain is recorded in Other Noninterest Income in the accompanying condensed consolidated statement of income for the three months ended March 31, 2014. These securities had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions.

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 retained earnings. Our shareholders' equity totaled $6.8 billion at March 31, 2014, as compared to $6.7 billion at December 31, 2013.

At March 31, 2014, 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 2013 Annual Report.

Capital Ratios

	Regulatory Minimums	March 31, 2014	December 31, 2013
Permanent Capital Ratio	7.00 %	15.74 %	16.72 %
Total Surplus Ratio	7.00	14.85	15.74
Core Surplus Ratio	3.50	10.21	10.82
Net Collateral Ratio [1][2]	104.00	107.41	107.57

(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 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, 2014, our core surplus ratio excluding common stock was 8.58 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.

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. We may also issue new debt or equity securities. Such repurchases, exchanges or new issuances, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors.

As described in our 2013 Annual Report, in 2013, the FCA announced its intent to revise sections of its capital regulations so they are consistent with "Basel III," a comprehensive set of reform measures developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector. On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks and associations. The FCA outlined the following objectives of the proposed rule:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government sponsored enterprise.
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The proposed rule will require the 30-day period for congressional review before being published in the Federal Register with a 120-day comment period.

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 $3.4 million and $2.9 million in the first three months of 2014 and 2013, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled a loss of $15.3 million and a gain of $2.1 million in the first three months of 2014 and 2013, respectively.

Other Matters

As more fully described on page 145 of our 2013 Annual Report, in October 2013 the FCA adopted regulations requiring System institutions to hold advisory votes on the compensation of senior officers, including the CEO, when such compensation increases by 15 percent or more as compared to the prior year. The Agricultural Act of 2014, which was signed into law on February 7, 2014, directed the FCA to review these regulations within 60 days. On March 31, 2014, the FCA published an interim final rule rescinding all requirements for advisory votes on senior officer compensation at System institutions. The comment period for the interim rule ended on April 30, 2014. A final effective date for the rule has not yet been published.

Business Outlook

Despite modest improvement in the general economy, we continue to face market conditions that could make the lending and earnings environment less favorable for CoBank. Long-term interest rates remain low by historical standards, and continue to negatively impact the returns on invested capital and investment securities. The timing and impact of Federal Reserve actions relative to tapering its quantitative easing policy create further economic uncertainty. 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 and supplies remain subject to volatility driven by weather conditions, transportation constraints and other factors. Customers in many of the industries we serve are impacted by unpredictable commodity prices and agricultural yields, weather and ongoing political and regulatory uncertainty. Growth in demand for electricity remains modest while rapidly changing technology creates uncertainty in the communications industry. Emerging regulation of carbon emissions may adversely impact energy customers. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio.

We continue to focus on maintaining our financial strength, enhancing our enterprise risk management capabilities and improving the efficiency of our 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 performance 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.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, our continued success will be achieved by 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.

Forward-Looking Statements

Certain of the statements contained in this annual 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:

- Changes that negatively impact the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Credit trends impacting the loan portfolio;
- Loan portfolio growth and seasonal factors;
- Weak U.S. economic conditions;
- Weaknesses in other developed and emerging economies;
- Government policies and political developments in the United States and other countries in which we make loans;
- Changes in the U.S. government's support of the agriculture industry and agricultural exports;
- 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 levels of global crop production, exports, usage and inventories;
- 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, including tax reform;
- 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;
- Cybersecurity risks that could adversely affect our business, financial performance and reputation;
- 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,	
	2014	2013
Interest Income		
Loans	$ 433,023	$ 421,152
Investment Securities	86,794	74,631
Total Interest Income	519,817	495,783
Interest Expense	210,851	193,356
Net Interest Income	308,966	302,427
Provision for Loan Losses	-	15,000
Net Interest Income After Provision for Loan Losses	308,966	287,427
Noninterest Income/Expense		
Net Fee Income	23,727	24,038
Prepayment Income	5,115	26,423
Losses on Early Extinguishments of Debt	(6,843)	(33,600)
Other, Net	16,269	8,985
Total Noninterest Income	38,268	25,846
Operating Expenses		
Employee Compensation	36,220	34,800
Insurance Fund Premium	12,790	9,617
Information Services	4,309	5,213
General and Administrative	3,390	4,574
Occupancy and Equipment	2,075	1,933
Farm Credit System Related	3,866	3,773
Purchased Services	2,648	1,612
Other	4,398	4,794
Total Operating Expenses	69,696	66,316
Income Before Income Taxes	277,538	246,957
Provision for Income Taxes	46,267	38,156
Net Income	$ 231,271	$ 208,801

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,	
	2014	2013
Net Income	$ 231,271	$ 208,801
Other Comprehensive Income (Loss), Net of Tax:		
Net Change in Unrealized Losses/Gains on Investment Securities Not Other-Than-Temporarily Impaired	(9,165)	(5,997)
Net Change in Unrealized Losses/Gains on Other-Than-Temporarily Impaired Investment Securities	48,798	2,815
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	(13,111)	2,043
Net Pension Adjustment	(538)	837
Other Comprehensive Income (Loss)	25,984	(302)
Comprehensive Income	$ 257,255	$ 208,499

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

Condensed Consolidated Balance Sheets
CoBank, ACB

($ in Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Total Loans	$ 77,500,344	$ 73,603,375
Less: Allowance for Loan Losses	466,955	447,126
Net Loans	77,033,389	73,156,249
Cash	558,766	1,335,024
Investment Securities	22,695,715	21,688,489
Interest Rate Swaps and Other Financial Instruments	592,580	674,022
Accrued Interest Receivable and Other Assets	748,306	790,608
Total Assets	$ 101,628,756	$ 97,644,392
Liabilities		
Bonds and Notes	$ 92,721,675	$ 88,457,752
Subordinated Debt	904,685	904,685
Interest Rate Swaps and Other Financial Instruments	107,668	121,307
Reserve for Unfunded Commitments	147,935	167,592
Accrued Interest Payable and Other Liabilities	929,479	1,288,440
Total Liabilities	$ 94,811,442	$ 90,939,776
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity		
Preferred Stock	961,750	961,750
Common Stock	2,667,443	2,677,485
Unallocated Retained Earnings	3,200,682	3,103,926
Accumulated Other Comprehensive Income	(12,561)	(38,545)
Total Shareholders' Equity	$ 6,817,314	$ 6,704,616
Total Liabilities and Shareholders' Equity	$ 101,628,756	$ 97,644,392

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,	2014	2013
Cash Flows Provided by Operating Activities		
Net Income	$ 231,271	$ 208,801
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	-	15,000
Deferred Income Taxes	10,434	(4,963)
Depreciation and Amortization/Accretion, Net	22,345	6,622
Net Gains on Sales of Investment Securities	(4,198)	-
Decrease in Accrued Interest Receivable and Other Assets	45,251	10,136
Decrease in Accrued Interest Payable and Other Liabilities	(97,310)	(20,442)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(1,345)	(303)
Purchase of Interest Rate Caps	(5,146)	-
Other	(916)	(728)
Net Cash Provided by Operating Activities	200,386	214,123
Cash Flows Used in Investing Activities		
Net Increase in Loans	(3,916,697)	(1,041,202)
Net Increase in Investment Securities	(999,993)	(2,516,592)
Net Cash Used in Investing Activities	(4,916,690)	(3,557,794)
Cash Flows Provided by Financing Activities		
Net Issuances of Bonds and Notes	4,333,442	2,797,632
Net Retirements of Common Stock	(33,325)	(31,490)
Cash Patronage Distribution Paid	(346,193)	(338,953)
Preferred Stock Dividends Paid	(13,891)	(16,203)
Other	13	380
Net Cash Provided by Financing Activities	3,940,046	2,411,366
Net Decrease in Cash	(776,258)	(932,305)
Cash at Beginning of Period	1,335,024	1,253,509
Cash at End of Period	$ 558,766	$ 321,204
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ 26,202	$ (72,000)
Net Change in Unrealized Gains/Losses on Investment Securities, Before Taxes	44,205	(8,391)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	(15,265)	2,054
Patronage in Common Stock	23,283	18,890

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,	2014	2013
Balance at Beginning of Period	$ 6,704,616	$ 6,441,144
Comprehensive Income	257,255	208,499
Preferred Stock:		
Dividends	(13,872)	(16,388)
Common Stock:		
Issuances	20	17
Redemptions	(33,345)	(31,507)
Cash Patronage Accrued	(97,373)	(83,459)
Other	13	380
Balance at End of Period	$ 6,817,314	$ 6,518,686

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.

CoBank is a member of the Farm Credit System (System). We provide loans and other financial services to agribusiness 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 2013 Annual Report, which includes a description of our organization and lending authority. Also included in the 2013 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.

CoBank is the funding bank for 27 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.

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.

We have evaluated subsequent events through May 9, 2014, which is the date the financial statements were issued. As more fully described beginning on page 11, on May 8, 2014, the Farm Credit Administration (FCA) approved a proposed rule to modify the regulatory capital requirements for System banks and associations.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. For public entities, the new guidance is effective for fiscal years beginning after December 15, 2013 (and interim reporting periods within those years). For nonpublic entities, the guidance is effective for the first annual period ending on or after December 15, 2014, and interim and annual periods thereafter.

As described in the 2013 Annual Report and in Note 9 to these condensed consolidated financial statements, all Systemwide debt securities are the joint and several liabilities of the System banks. CoBank adopted the new standard in 2014. The adoption of this new guidance did not have an effect on our consolidated financial position, results of operations or cash flows.

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

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

	March 31, 2014	December 31, 2013
Agribusiness	$ 25,491	$ 21,182
Strategic Relationships	37,144	37,897
Rural Infrastructure	14,865	14,524
Total	$ 77,500	$ 73,603

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, 2014				
Allowance for Loan Losses				
Beginning Balance at January 1, 2014	$ 284,967	$ -	$ 162,159	$ 447,126
Charge-offs	-	-	(1,587)	(1,587)
Recoveries	1,297	-	462	1,759
Provision for Loan Losses	-	-	-	-
Transfers (to) from Reserve for Unfunded Commitments[2]	15,583	-	4,074	19,657
Ending Balance at March 31, 2014	301,847	-	165,108	466,955
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2014	111,897	-	55,695	167,592
Transfers from (to) Allowance for Loan Losses[2]	(15,583)	-	(4,074)	(19,657)
Ending Balance at March 31, 2014	96,314	-	51,621	147,935
Allowance for Credit Losses	$ 398,161	$ -	$ 216,729	$ 614,890
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 14,000	$ -	$ 21,200	$ 35,200
Collectively Evaluated for Impairment	384,161	-	195,529	579,690
Total	$ 398,161	$ -	$ 216,729	$ 614,890
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 69,733	$ 37,245,980	$ 80,354	$ 37,396,067
Collectively Evaluated for Impairment	25,482,485	-	14,847,873	40,330,358
Total	$ 25,552,218	$ 37,245,980	$ 14,928,227	$ 77,726,425

	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
(Reversal) Provision for Loan Losses	5,000	-	10,000	15,000
Transfers from (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 (to) 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
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

[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, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 22,066,927	$ 2,482,897	$ 37,245,980	$ 14,601,138	$ 76,396,942
Special Mention	610,978	-	-	166,215	777,193
Substandard	381,512	-	-	135,612	517,124
Doubtful	9,904	-	-	25,262	35,166
Loss	-	-	-	-	-
Total	$ 23,069,321	$ 2,482,897	$ 37,245,980	$ 14,928,227	$ 77,726,425
December 31, 2013					
Acceptable	$ 17,789,946	$ 2,604,643	$ 38,015,890	$ 14,267,187	$ 72,677,666
Special Mention	508,526	-	-	121,695	630,221
Substandard	318,719	-	-	169,286	488,005
Doubtful	10,312	-	-	29,092	39,404
Loss	-	-	-	-	-
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296

Aging Analysis

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

March 31, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 36,664	$ -	$ -	$ 6,015	$ 42,679
90 Days Past Due	23,604	-	-	6,939	30,543
Total Past Due	$ 60,268	$ -	$ -	$ 12,954	$ 73,222
Current	23,009,053	2,482,897	37,245,980	14,915,273	77,653,203
Total	$ 23,069,321	$ 2,482,897	$ 37,245,980	$ 14,928,227	$ 77,726,425
Accruing Loans 90 Days or More Past Due	$ 947	$ -	$ -	$ 3,071	$ 4,018
December 31, 2013					
30-89 Days Past Due	$ 12,276	$ -	$ -	$ -	$ 12,276
90 Days Past Due	22,757	-	-	53,425	76,182
Total Past Due	$ 35,033	$ -	$ -	$ 53,425	$ 88,458
Current	18,592,470	2,604,643	38,015,890	14,533,835	73,746,838
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296
Accruing Loans 90 Days or More Past Due	$ 972	$ -	$ -	$ -	$ 972

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, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Nonaccrual Loans(2)	$ 69,733	$ -	$ -	$ 80,354	$ 150,087
Accruing Loans 90 Days or More Past Due	947	-	-	3,071	4,018
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 70,680	$ -	$ -	$ 83,425	$ 154,105
December 31, 2013					
Nonaccrual Loans(2)	$ 53,249	$ -	$ -	$ 94,600	$ 147,849
Accruing Loans 90 Days or More Past Due	972	-	-	-	972
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 54,221	$ -	$ -	$ 94,600	$ 148,821

(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, 2014 and December 31, 2013 are $65.9 million and $66.3 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, 2014	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 27,892	$ -	$ -	$ 3,071	$ 30,963
Unpaid Principal	35,789	-	-	3,099	38,888
Average Balance	26,843	-	-	4,768	31,611
Interest Income Recognized	114	-	-	2,332	2,446
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	42,788	-	-	80,354	123,142
Unpaid Principal	50,338	-	-	89,323	139,661
Allowance for Loan Losses	14,000	-	-	21,200	35,200
Average Balance	27,842	-	-	80,524	108,366
Interest Income Recognized	464	-	-	-	464
Total Impaired Loans					
Carrying Amount	70,680	-	-	83,425	154,105
Unpaid Principal	86,127	-	-	92,422	178,549
Allowance for Loan Losses	14,000	-	-	21,200	35,200
Average Balance	54,685	-	-	85,292	139,977
Interest Income Recognized	578	-	-	2,332	2,910

December 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	$ 33,173	$ -	$ -	$ 9,427	$ 42,600
Unpaid Principal	44,670	-	-	10,889	55,559
Average Balance	50,530	-	-	10,832	61,362
Interest Income Recognized	2,236	-	-	2,477	4,713
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	21,048	-	-	85,173	106,221
Unpaid Principal	24,891	-	-	90,858	115,749
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	20,143	-	-	77,457	97,600
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	54,221	-	-	94,600	148,821
Unpaid Principal	69,561	-	-	101,747	171,308
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	70,673	-	-	88,289	158,962
Interest Income Recognized	2,236	-	-	2,477	4,713

[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 $20.4 million in commitments available to be drawn by borrowers whose loans were classified as impaired at March 31, 2014.

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, 2014, 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 2013 Annual Report. During the three months ended March 31, 2014 and 2013, respectively, there were no modifications that qualified as TDRs. Included in nonaccrual loans at March 31, 2014 and December 31, 2013 are $65.9 million and $66.3 million, respectively, of existing 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, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 6,317	$ 8	$ (4)	$ 6,321
U.S. Agency Debt	4,950	57	(43)	4,964
Mortgage-Backed:				
U.S. Agency	10,360	97	(105)	10,352
Farmer Mac	173	-	(3)	170
FHA/VA Non-Wrapped Reperformer	434	5	(11)	428
Non-Agency	173	24	(1)	196
Asset-Backed	109	26	(1)	134
Corporate Bonds	130	1	-	131
Total	$ 22,646	$ 218	$ (168)	$ 22,696

($ in Millions)

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 5,501	$ 3	$ -	$ 5,504
U.S. Agency Debt	4,458	55	(54)	4,459
Mortgage-Backed:				
U.S. Agency	10,655	94	(131)	10,618
Farmer Mac	182	-	(3)	179
FHA/VA Non-Wrapped Reperformer	443	6	(9)	440
Non-Agency	201	21	(1)	221
Asset-Backed	127	27	(2)	152
Corporate Bonds	116	-	(1)	115
Total	$ 21,683	$ 206	$ (201)	$ 21,688

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at March 31, 2014 is as follows:

($ in Millions)

	Contractual Maturity				
March 31, 2014	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
U.S. Treasury Debt Securities					
Amortized Cost	$ 2,453	$ 2,278	$ 1,586	$ -	$ 6,317
Fair Value	2,456	2,282	1,583	-	6,321
Weighted Average Yield	0.25 %	0.41 %	2.08 %	- %	0.77 %
U.S. Agency Debt Securities					
Amortized Cost	$ 2	$ 3,425	$ 740	$ 783	$ 4,950
Fair Value	2	3,461	737	764	4,964
Weighted Average Yield	1.00 %	1.57 %	1.59 %	1.25 %	1.52 %
U.S. Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 34	$ 129	$ 10,197	$ 10,360
Fair Value	-	35	132	10,185	10,352
Weighted Average Yield	- %	2.34 %	2.17 %	1.70 %	1.70 %
Farmer Mac Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 173	$ 173
Fair Value	-	-	-	170	170
Weighted Average Yield	- %	- %	- %	2.67 %	2.67 %
FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 434	$ 434
Fair Value	-	-	-	428	428
Weighted Average Yield	- %	- %	- %	5.12 %	5.12 %
Non-Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 7	$ -	$ 166	$ 173
Fair Value	-	7	-	189	196
Weighted Average Yield	- %	0.62 %	- %	6.17 %	5.95 %
Asset-Backed Securities					
Amortized Cost	$ -	$ 35	$ -	$ 74	$ 109
Fair Value	-	35	-	99	134
Weighted Average Yield	- %	0.45 %	- %	10.79 %	7.48 %
Corporate Bonds					
Amortized Cost	$ -	$ 130	$ -	$ -	$ 130
Fair Value	-	131	-	-	131
Weighted Average Yield	- %	1.36 %	- %	- %	1.36 %
Total					
Amortized Cost	$ 2,455	$ 5,909	$ 2,455	$ 11,827	$ 22,646
Fair Value	2,458	5,951	2,452	11,835	22,696

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, 2014 and December 31, 2013. 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, 2014				
U.S. Treasury Debt	$ 1,011	$ (5)	$ -	$ -
U.S. Agency Debt	2,967	(42)	-	-
Mortgage-Backed:				
U.S. Agency	3,697	(63)	1,075	(42)
Farmer Mac	-	-	170	(3)
FHA/VA Non-Wrapped Reperformer	103	(4)	140	(7)
Non-Agency	7	-	19	(1)
Asset-Backed	-	-	9	(1)
Corporate Bonds	35	-	-	-
Total	$ 7,820	$ (114)	$ 1,413	$ (54)
December 31, 2013				
U.S. Treasury Debt	$ 516	$ -	$ -	$ -
U.S. Agency Debt	3,236	(54)	-	-
Mortgage-Backed:				
U.S. Agency	3,492	(93)	679	(38)
Farmer Mac	55	(1)	124	(2)
FHA/VA Non-Wrapped Reperformer	106	(2)	144	(7)
Non-Agency	32	(1)	18	-
Asset-Backed	50	(1)	5	(1)
Corporate Bonds	70	(1)	-	-
Total	$ 7,557	$ (153)	$ 970	$ (48)

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, 2013	$ 65
Additional Credit Impairments Related to Securities Previously Impaired	-
Initial Credit Impairments Related to Securities Not Previously Impaired	-
Sales of Investments with Credit Impairments	(8)
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected	-
Balance at March 31, 2014	$ 57

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 0 to 25 percent (CPR) for impaired investment securities at March 31, 2014. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 8 percent to 43 percent for impaired investment securities at March 31, 2014. Loss severity assumptions are based on 12-month historical severities. Loss severity ranged from 16 percent to 100 percent for impaired investment securities at March 31, 2014.

Acquired Investment Securities

In connection with our January 1, 2012 merger with U.S. AgBank, we acquired investment securities with a contractual outstanding principal and interest balance of $5.2 billion. We recorded these investments on our consolidated balance sheet at an estimated fair value of $4.8 billion. Certain of these investment securities 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 $562.9 million at March 31, 2014 and included FHA/VA non-wrapped reperformer MBS (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 Accounting Standards Codification (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 2014, we recorded no impairment losses related to our acquired credit-impaired investment securities.

The excess of cash flows expected to be collected over fair value is referred to as “accretable amounts” and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts in the first five years following the merger.

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities	($ in Millions)	
	2014	2013
Balance at January 1	$ (165)	$ (210)
Interest Recognized in Earnings	9	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	$ (156)	$ (199)

Note 5 – Changes in Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2014 and 2013 are presented in the following tables.

Changes in Accumulated Other Comprehensive Income (Loss) 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, 2014	$ 27,884	$ (31,646)	$ (2,246)	$ (32,537)	$ (38,545)
Other comprehensive income (loss) before reclassifications	(9,765)	53,003	(12,071)	(907)	30,260
Amounts reclassified from accumulated other comprehensive income (loss)	600	(4,205)	(1,040)	369	(4,276)
Net current-period other comprehensive income (loss)	(9,165)	48,798	(13,111)	(538)	25,984
Balance at March 31, 2014	$ 18,719	$ 17,152	$ (15,357)	$ (33,075)	$ (12,561)

[1] Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income or an increase in accumulated other comprehensive loss.

Changes in Accumulated Other Comprehensive Income (Loss) 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 (loss) before reclassifications	(5,997)	2,815	4,953	-	1,771
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	(2,910)	837	(2,073)
Net current-period other comprehensive income (loss)	(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 or an increase in accumulated other comprehensive loss.

The following tables present the effect of reclassifications from accumulated other comprehensive income (loss) to net income for the three month periods ended March 31, 2014 and 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)			
For the Three Months Ended March 31, 2014		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on available-for-sale investment securities:			
Sales gains and losses	$	(707)	Noninterest Income - Other, Net
Holding gains and losses		-	Noninterest Income - Other, Net
Tax effect		107	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:			
Sales gains and losses		4,906	Noninterest Income - Other, Net
Holding gains and losses		-	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect		(701)	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts		(180)	Interest Expense
Foreign exchange contracts		1,905	Interest Income
Tax effect		(685)	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		(449)	Operating Expenses - Employee Compensation
Prior service cost/credit		(146)	Operating Expenses - Employee Compensation
Tax effect		226	Provision for Income Taxes
Total reclassifications	$	4,276	

Reclassifications from Accumulated Other Comprehensive Income (Loss)			
For the Three Months Ended March 31, 2013		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts	$	(425)	Interest Expense
Foreign exchange contracts		5,224	Interest Income
Tax effect		(1,889)	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		(1,317)	Operating Expenses - Employee Compensation
Prior service cost/credit		(33)	Operating Expenses - Employee Compensation
Tax effect		513	Provision for Income Taxes
Total reclassifications	$	2,073	

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, 2014 and related activity for the first three months of 2014 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, 2013	$ 21,982	$ 2,684	$ 279	$ 24,945
Additions /Accretion	542	37	1,139	1,718
Maturities /Amortization	(1,434)	(40)	(1,174)	(2,648)
Terminations	(84)	-	-	(84)
March 31, 2014	$ 21,006	$ 2,681	$ 244	$ 23,931

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

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 primarily 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, 2014, we expect that $1.5 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 20 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. Derivative transactions with our customers are typically secured through our loan agreements.

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, 2014, our counterparties had posted $373.2 million in cash and $109.8 million in securities as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $6.6 million at March 31, 2014.

Hedge Terminations

During the three months ended March 31, 2014, we terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $84.3 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, 2014 and December 31, 2013 is shown below.

Fair Value of Derivative Financial Instruments

As of March 31, 2014	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 456,852	$ 10,232
Foreign Exchange Contracts	523	605
Total Derivatives Designated as Hedging Instruments	$ 457,375	$ 10,837
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 134,095	$ 95,882
Foreign Exchange Contracts	1,110	949
Total Derivatives Not Designated as Hedging Instruments	$ 135,205	$ 96,831
Total Derivatives	$ 592,580	$ 107,668

[1] These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at March 31, 2014.

[2] These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at March 31, 2014.

Fair Value of Derivative Financial Instruments

As of December 31, 2013	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 527,375	$ 12,118
Foreign Exchange Contracts	595	1,828
Total Derivatives Designated as Hedging Instruments	$ 527,970	$ 13,946
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 144,774	$ 106,247
Foreign Exchange Contracts	1,278	1,114
Total Derivatives Not Designated as Hedging Instruments	$ 146,052	$ 107,361
Total Derivatives	$ 674,022	$ 121,307

[1] These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at December 31, 2013.

[2] These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at December 31, 2013.

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, 2014 and 2013 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,	2014	2013
Interest Rate Contracts	$ 1,842	$ 2,440
Total	$ 1,842	$ 2,440

[1] Located in Interest Expense in the condensed consolidated statements of income for the three months ended March 31, 2014 and 2013

Derivative Financial Instruments in Cash Flow Hedging Relationships

Three Months Ended March 31, 2014	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives[1]	Amount of Gain or (Loss) Recognized in Income on Derivatives[2]
Interest Rate Contracts	$ (14,690)	$ (180) [3]	$ -
Foreign Exchange Contracts	1,150	1,905 [4] [5]	(180) [4]
Total	$ (13,540)	$ 1,725	$ (180)

[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, 2014

[4] Located in Interest Income – Loans in the condensed consolidated statement of income for the three months ended March 31, 2014

[5] Fully offset by a $1,905 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, 2014

Derivative Financial Instruments in Cash Flow Hedging Relationships

Three Months Ended March 31, 2013	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) 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 Not Designated as Hedging Relationships		
	Net Amount of Gain or (Loss) Recognized in Income On Derivatives[1]	
Three Months Ended March 31,	2014	2013
Interest Rate Contracts	$ 1,572	$ 370
Foreign Exchange Contracts	17	68
Total	$ 1,589	$ 438

[1] Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the three months ended March 31, 2014 and 2013

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, 2014				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 498,147	$ 373,240	$ 109,781	$ 15,126
Customer	94,433	-	-	94,433
Accrued Interest Receivable on Derivative Contracts	70,090	-	-	70,090
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,098	11,000	-	72,098
Customer	24,570	-	-	24,570
Accrued Interest Payable on Derivative Contracts	3,992	-	-	3,992
As of December 31, 2013				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 585,687	$ 424,570	$ 132,510	$ 28,607
Customer	88,335	-	-	88,335
Accrued Interest Receivable on Derivative Contracts	83,452	-	-	83,452
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,921	10,130	-	73,791
Customer	37,386	-	-	37,386
Accrued Interest Payable on Derivative Contracts	3,952	-	-	3,952

[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, 2014 and December 31, 2013, 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 Financial Accounting Standards Board (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, 2014 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, 2014 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 non-binding 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 Plus Accrued Interest

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at March 31, 2014 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 is calculated internally using third-party models. Market value for FHA/VA non-wrapped reperformer MBS is determined by taking the lower of the value calculated internally using third-party models and the value determined by a third-party pricing service. 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 where information is available.

Level 3 assets at March 31, 2014 also include $29.9 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 pages 39 and 40 because they are not measured on a recurring basis.

Our Level 3 liabilities at March 31, 2014 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.

No transfers into or out of the three levels of assets occurred during the three months ended March 31, 2014 and 2013.

The following table presents quantitative information about Level 3 fair value measurements as of March 31, 2014.

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	$ 61	Third-Party Pricing Service	Prepayment Rate	*
Farmer Mac Mortgage-Backed	170	Discounted Cash Flow	Prepayment Rate	9-13 percent
			Mark-to-Market Spread	1 percent
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	428	Lower of Discounted Cash Flow	Prepayment Rate	6-10 percent *
		or Third-Party Pricing Service	Lifetime Default Rate	1-21 percent *
			Loss Severity	11-13 percent *
Asset-Backed	99	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Impaired Loans	30	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent

* Excludes ranges 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, 2014 and December 31, 2013 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
March 31, 2014				
($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 6,321	$ -	$ 6,321
U.S. Agency Debt	-	4,964	-	4,964
Mortgage-Backed:				
U.S. Agency	-	10,291	61	10,352
Farmer Mac	-	-	170	170
FHA/VA Non-Wrapped Reperformer	-	-	428	428
Non-Agency	-	196	-	196
Asset-Backed	-	35	99	134
Corporate Bonds	-	131	-	131
Interest Rate Swaps and Other Financial Instruments	-	593	-	593
Assets Held in Trust (included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)	-	11	-	11
Total Assets	$ 58	$ 22,542	$ 758	$ 23,358
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 108	$ -	$ 108
Collateral Liabilities (included in Bonds and Notes)	-	373	-	373
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 481	$ 10	$ 491

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2013				
($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 5,504	$ -	$ 5,504
U.S. Agency Debt	-	4,459	-	4,459
Mortgage-Backed:				
U.S. Agency	-	10,563	55	10,618
Farmer Mac	-	-	179	179
FHA/VA Non-Wrapped Reperformer	-	-	440	440
Non-Agency	-	221	-	221
Asset-Backed	-	46	106	152
Corporate Bonds	-	115	-	115
Interest Rate Swaps and Other Financial Instruments	-	674	-	674
Assets Held in Trust (included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)	-	10	-	10
Total Assets	$ 58	$ 21,592	$ 780	$ 22,430
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 121	$ -	$ 121
Collateral Liabilities (included in Bonds and Notes)	-	425	-	425
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 546	$ 10	$ 556

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, 2013	$ 55	$ 179	$ 440	$ 106	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	2	-
Included in Other Comprehensive Income	9	-	(2)	-	-
Sales	-	-	-	(7)	-
Issuances	-	-	-	-	2
Settlements	(3)	(9)	(15)	(3)	(2)
Accretion	-	-	5	1	-
Balance at March 31, 2014	$ 61	$ 170	$ 428	$ 99	$ 10
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	-
Issuances	-	-	-	-	1
Settlements	(5)	(13)	(24)	(7)	(2)
Accretion	-	-	3	2	-
Balance at March 31, 2013	$ 73	$ 202	$ 494	$ 119	$ 9

Estimated Fair Value of Certain 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, 2014 and December 31, 2013.

($ in Millions)

	March 31, 2014			December 31, 2013		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	$ 77,033	$ 78,191	Level 3	$ 73,156	$ 73,941	Level 3
Financial Liabilities:						
Bonds and Notes	$ 92,722	$ 93,025	Level 3	$ 88,458	$ 88,297	Level 3
Subordinated Debt	905	948	Level 3	905	909	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	$ -	$ (91)	Level 3	$ -	$ (105)	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
Net 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	Non-binding 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 noncontributory, unfunded nonqualified supplemental executive retirement plans 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, non-elective 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.

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

We contributed $0.7 million to our funded qualified defined benefit pension plans during the three months ended March 31, 2014, and anticipate that we will contribute approximately $3.3 million more to such plans during the remainder of 2014. We expect to contribute a total of $0.5 million, net of collected retiree premiums, to our other postretirement benefit plans in 2014. 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, farmer delivery patterns and other factors, we provide a significant amount of revolving loan commitments. At March 31, 2014, commitments to extend credit and commercial letters of credit were $22.8 billion and $459.4 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 $211.7 billion at March 31, 2014.

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, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide debt securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At March 31, 2014, the aggregated assets of the Insurance Fund totaled $3.6 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide 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, 2014 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 as well as gains and losses 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 53 percent of these loans are guaranteed by the U.S. government.

For the three-month periods ended March 31, 2014 and 2013, 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, 2014

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 153,093	$ 71,886	$ 86,107	$ 311,086	$ (2,120)	$ 308,966
Provision for Loan Losses	-	-	-	-	-	-
Noninterest Income	25,914	1,718	10,374	38,006	262	38,268
Operating Expenses	40,949	8,073	19,860	68,882	814	69,696
Provision for Income Taxes	31,571	-	15,335	46,906	(639)	46,267
Net Income	$ 106,487	$ 65,531	$ 61,286	$ 233,304	$ (2,033)	$ 231,271
Selected Financial Information at March 31, 2014 ($ in Millions):						
Loans	$ 25,491	$ 37,144	$ 14,865	$ 77,500	$ -	$ 77,500
Less: Allowance for Loan Losses	(302)	-	(165)	(467)	-	(467)
Net Loans	$ 25,189	$ 37,144	$ 14,700	$ 77,033	$ -	$ 77,033
Total Assets	$ 25,483	$ 37,248	$ 14,761	$ 77,492	$ 24,137 *	$ 101,629
*Other assets are comprised of:						
Investment Securities						$ 22,696
Other Assets						1,441

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

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 27 affiliated Associations serving 23 states across 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, 2014	December 31, 2013
Total Loans	$ 85,842,471	$ 81,602,878
Less: Allowance for Loan Losses	732,429	739,745
Net Loans	85,110,042	80,863,133
Total Assets	110,652,961	106,354,560
Total Shareholders' Equity	14,322,312	13,973,480

For the Three Months Ended March 31,	2014	2013
Net Interest Income	$ 604,403	$ 587,084
(Loan Loss Reversal)/Provision for Loan Losses	(2,288)	14,469
Net Fee Income	29,296	29,632
Net Income	409,448	381,025
Net Interest Margin	2.25 %	2.36 %
Return on Average Assets	1.50	1.50
Return on Average Total Shareholders' Equity	11.49	11.63
Average Loans	$ 84,660,509	$ 80,894,408
Average Earning Assets	107,242,843	99,668,146
Average Assets	109,221,919	101,735,904

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, 2014. 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 increased by $28.4 million for the three months ended March 31, 2014 as compared to the same period of 2013. The increase in earnings resulted primarily from an increase in net interest income of $17.3 million, a net decline in the provision for loan losses of $16.8 million and a $12.1 million increase in noninterest income. These increases were partially offset by an increase in operating expenses of $11.4 million and $6.4 million in higher income tax expense.

Net interest income increased to $604.4 million for the three months ended March 31, 2014 from $587.1 million for the same period in 2013. Average loan volume in the District grew 5 percent to $84.7 billion in the first three months of 2014 compared to $80.9 billion for the same period of 2013. The increase in average loan volume primarily reflected growth in real estate mortgage loans, production and intermediate-term loans and rural energy lending. The impact of growth in average loan volume on net interest income was partially offset by lower returns on invested capital throughout the District, a reduction in CoBank's income from net accretion of merger-related asset and liability fair value adjustments, lower spreads on the District's lending portfolios due to increased competition for the business of our customers and a shift in the mix toward lower-risk loan portfolios. These factors led to a decrease in the District's overall net interest margin to 2.25 percent for the first three months of 2014 as compared to 2.36 percent for the same period in 2013.

The District recorded a net loan loss reversal of $2.3 million for the three months ended March 31, 2014, compared to a provision for loan losses of $14.5 million for the same period of 2013. CoBank did not record a provision for loan losses in the first three months of 2014 compared to a $15.0 million provision for loan losses in the same period of 2013, which is discussed further beginning on page 4. The Associations recorded a net combined loan loss reversal of $2.3 million for the first three months of 2014, compared to $0.5 million in the prior-year period. The current period net loan loss reversal at the Associations resulted from improved credit quality in addition to reductions in reserves for specific customers.

Noninterest income increased to $63.7 million for the three months ended March 31, 2014 from $51.6 million for the same period in 2013. Net fee income was $29.3 million for the first three months of 2014 compared to $29.6 million in the same prior-year period. Losses on early extinguishments of debt, net of prepayment income, decreased to $1.7 million for the first three months of 2014 compared to $7.0 million in the 2013 period. These losses relate to CoBank and are explained on page 5. Other noninterest income increased by $7.0 million in the three months ended March 31, 2014, as compared to the same period in 2013, due to gains resulting from the sale of three investment securities at CoBank and an increased level of patronage income received from other System institutions, also at CoBank.

Total District operating expenses increased 6 percent to $213.6 million for the first three months of 2014 from $202.2 million for the same period of 2013. The change included an increase in Insurance Fund premium expense of $5.0 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 12 basis points of adjusted insured debt obligations during the first three months of 2014 compared to 10 basis points throughout 2013. Employee compensation expense increased to $125.4 million for the first three months of 2014 from $121.9 million for the same period of 2013. The increase was primarily due to the Associations' increased staffing, as well as annual salary adjustments and increased incentive compensation at CoBank and the Associations.

Income tax expense increased to $47.3 million for the three months ended March 31, 2014 from $41.0 million for the same period of 2013. 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, 2014	December 31, 2013
Real Estate Mortgage	$ 24,420,578	$ 24,459,913
Non-affiliated Associations	3,849,246	3,838,682
Production and Intermediate-term	12,719,801	13,936,988
Agribusiness:		
Loans to Cooperatives	14,262,363	10,002,849
Processing and Marketing Operations	4,906,751	4,369,018
Farm Related Businesses	1,486,904	1,436,470
Communications	2,969,594	2,754,218
Energy	11,714,288	11,586,577
Water/Waste Water	1,167,498	1,131,043
Agricultural Export Finance	4,720,177	4,518,185
Rural Residential Real Estate	862,671	871,202
Lease Receivables	2,646,868	2,594,696
Other	115,732	103,037
Total	$ 85,842,471	$ 81,602,878

District loan volume at March 31, 2014 was $85.8 billion compared to $81.6 billion at December 31, 2013. The increase was driven largely by a seasonal increase in CoBank's agribusiness lending partially offset by a decrease in Association production and intermediate-term lending. The increase in CoBank's lending is explained further on page 4.

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, 2014	December 31, 2013
Acceptable	95.77 %	95.80 %
Special Mention	2.25	2.08
Substandard	1.92	2.05
Doubtful	0.06	0.07
Loss	-	-
Total	100.00 %	100.00 %

Loan quality within the District continues to be very favorable, with nearly 96 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's 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 $682.1 million as of March 31, 2014 compared to $649.8 million at December 31, 2013. Nonperforming assets represented 0.79 percent of total District loan volume and other property owned at March 31, 2014 compared to 0.80 percent at December 31, 2013. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.63 percent of total loans at March 31, 2014 compared to 0.66 percent at December 31, 2013. Accruing loans 90 days or more past due increased to $41.4 million at March 31, 2014 from $8.5 million at December 31, 2013 primarily due to increases at the Associations in the horticulture and fruits, nuts, and vegetables industries.

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, 2014	December 31, 2013
Nonaccrual Loans:		
Real Estate Mortgage	$ 229,153	$ 226,103
Production and Intermediate-term	166,610	168,634
Agribusiness	39,746	26,625
Communications	62,499	78,395
Energy	21,394	19,700
Rural Residential Real Estate	9,595	10,705
Lease Receivables	9,229	5,421
Total Nonaccrual Loans	538,226	535,583
Accruing Restructured Loans:		
Real Estate Mortgage	23,629	24,533
Production and Intermediate-term	24,957	25,832
Agribusiness	2,742	3,213
Energy	2,234	2,707
Rural Residential Real Estate	1,324	1,200
Total Accruing Restructured Loans	54,886	57,485
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	18,828	4,560
Production and Intermediate-term	9,099	3,038
Agribusiness	9,218	512
Water/Waste Water	3,070	-
Rural Residential Real Estate	387	190
Lease Receivables	824	193
Total Accruing Loans 90 Days or More Past Due	41,426	8,493
Total Nonperforming Loans	634,538	601,561
Other Property Owned	47,550	48,275
Total Nonperforming Assets	$ 682,088	$ 649,836
Nonaccrual Loans as a Percentage of Total Loans	0.63 %	0.66 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	0.79	0.80
Nonperforming Assets as a Percentage of Capital	4.76	4.65

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, 2014					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 83,125	$ 56,814	$ 139,939	$ 24,494,055	$ 24,633,994	$ 18,828
Production and Intermediate-term	103,608	77,131	180,739	12,627,527	12,808,266	9,099
Agribusiness	10,079	29,033	39,112	20,681,767	20,720,879	9,218
Communications	-	3,868	3,868	2,972,363	2,976,231	-
Energy	6,016	-	6,016	11,755,951	11,761,967	-
Water/Waste Water	-	3,070	3,070	1,171,692	1,174,762	3,070
Agricultural Export Finance	-	-	-	4,729,843	4,729,843	-
Rural Residential Real Estate	4,825	2,651	7,476	858,858	866,334	387
Lease Receivables	6,478	3,730	10,208	2,637,137	2,647,345	824
Non-affiliated Associations	-	-	-	3,851,450	3,851,450	-
Other	-	-	-	115,967	115,967	-
Total	$ 214,131	$ 176,297	$ 390,428	$ 85,896,610	$ 86,287,038	$ 41,426

($ in Thousands)

Aging of Past Due Loans

	December 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	$ 62,204	$ 47,747	$ 109,951	$ 24,576,776	$ 24,686,727	$ 4,560
Production and Intermediate-term	45,784	66,058	111,842	13,907,985	14,019,827	3,038
Agribusiness	5,370	20,689	26,059	15,836,453	15,862,512	512
Communications	-	54,923	54,923	2,706,053	2,760,976	-
Energy	-	-	-	11,633,602	11,633,602	-
Water/Waste Water	-	-	-	1,137,639	1,137,639	-
Agricultural Export Finance	-	-	-	4,528,308	4,528,308	-
Rural Residential Real Estate	8,098	2,736	10,834	864,177	875,011	190
Lease Receivables	6,257	1,418	7,675	2,587,565	2,595,240	193
Non-affiliated Associations	-	-	-	3,840,908	3,840,908	-
Other	-	-	-	103,247	103,247	-
Total	$ 127,713	$ 193,571	$ 321,284	$ 81,722,713	$ 82,043,997	$ 8,493

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 $180.8 million at March 31, 2014.

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, 2014 totaled $732.4 million compared to $739.7 million at December 31, 2013.

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, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Association Merger Impact	Balance at March 31, 2014
Real Estate Mortgage	$ 103,685	$ (685)	$ 460	$ 10,524	$ (17,109)	$ (1,716)	$ 95,159
Production and Intermediate-term	182,301	(1,394)	1,011	(22,871)	2,570	(3,496)	158,121
Agribusiness	233,062	(140)	792	8,535	14,543	(885)	255,907
Communications	64,930	(1,587)	460	(16)	653	-	64,440
Energy	97,354	-	3	(1,619)	3,104	-	98,842
Water/Waste Water	9,425	-	-	119	316	-	9,860
Agricultural Export Finance	7,439	-	7	(1,202)	(2,065)	-	4,179
Rural Residential Real Estate	6,671	(370)	7	970	-	(11)	7,267
Lease Receivables	34,748	-	505	3,199	-	(1)	38,451
Other	130	-	-	73	-	-	203
Total	$ 739,745	$ (4,176)	$ 3,245	$ (2,288)	$ 2,012	$ (6,109)	$ 732,429

($ 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/Waste Water	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

District Capital Resources

Combined District shareholders' equity at March 31, 2014 totaled $14.3 billion, a net increase of $348.8 million as compared to $14.0 billion at December 31, 2013. The increase primarily resulted from District net income of $409.4 million, an increase in Association preferred stock of $30.6 million and a decrease in accumulated other comprehensive loss of $29.5 million, somewhat offset by accrued patronage of $105.5 million and preferred stock dividends of $15.5 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, 2014	December 31, 2013
Unrealized Gains on Investment Securities	$ 40,972	$ 1,305
Net Pension Adjustment	(192,484)	(195,430)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	(15,357)	(2,246)
Accumulated Other Comprehensive Income (Loss)	$ (166,869)	$ (196,371)

The decrease in the District's total accumulated other comprehensive loss during the first three months of 2014 primarily relates to changes in unrealized gains and losses on CoBank's investment securities, as described on page 11.

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, 2014			December 31, 2013		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	15.74%	14.85%	10.21%	16.72%	15.74%	10.82%
Associations	13.18 - 35.21%	12.99 - 34.78%	12.99 - 29.49%	13.59% - 35.69%	13.41% - 35.25%	13.41% - 30.02%
Regulatory Minimum	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at March 31, 2014, 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.

Association Mergers

Effective January 1, 2014, two Association mergers occurred in the CoBank District. The Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, merged to form Golden State Farm Credit, ACA. Additionally, Farm Credit of Maine, ACA merged into Farm Credit East, ACA.

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

($ in Thousands)

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013
Interest Income		
Loans	$ 727,349	$ 700,983
Investment Securities	89,436	77,895
Total Interest Income	816,785	778,878
Interest Expense	212,382	191,794
Net Interest Income	604,403	587,084
(Loan Loss Reversal)/Provision for Loan Losses	(2,288)	14,469
Net Interest Income After Provision for Loan Losses	606,691	572,615
Noninterest Income/ Expense		
Net Fee Income	29,296	29,632
Prepayment Income	5,193	26,561
Losses on Early Extinguishments of Debt	(6,843)	(33,600)
Other, Net	36,044	28,999
Total Noninterest Income	63,690	51,592
Operating Expenses		
Employee Compensation	125,426	121,898
Insurance Fund Premium	22,214	17,201
Information Services	12,035	12,385
General and Administrative	15,196	14,592
Occupancy and Equipment	10,856	9,656
Farm Credit System Related	6,909	6,753
Purchased Services	9,861	8,515
Other	11,106	11,202
Total Operating Expenses	213,603	202,202
Income Before Income Taxes	456,778	422,005
Provision for Income Taxes	47,330	40,980
Net Income	$ 409,448	$ 381,025

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets

($ in Thousands)

	March 31, 2014	December 31, 2013
Assets		
Total Loans	$ 85,842,471	$ 81,602,878
Less: Allowance for Loan Losses	732,429	739,745
Net Loans	85,110,042	80,863,133
Cash	652,757	1,500,552
Investment Securities	22,931,537	21,937,745
Interest Rate Swaps and Other Financial Instruments	591,345	672,955
Accrued Interest Receivable and Other Assets	1,367,280	1,380,175
Total Assets	$ 110,652,961	$ 106,354,560
Liabilities		
Bonds and Notes	$ 93,912,262	$ 89,469,626
Subordinated Debt	904,685	904,685
Interest Rate Swaps and Other Financial Instruments	106,866	120,271
Reserve for Unfunded Commitments	180,767	184,137
Accrued Interest Payable and Other Liabilities	1,226,069	1,702,361
Total Liabilities	96,330,649	92,381,080
Shareholders' Equity		
Preferred Stock Issued by Bank	961,750	961,750
Preferred Stock Issued by Associations	462,614	432,022
Common Stock	1,266,385	1,278,417
Paid In Capital	861,204	654,933
Unallocated Retained Earnings	10,937,228	10,842,729
Accumulated Other Comprehensive Loss	(166,869)	(196,371)
Total Shareholders' Equity	14,322,312	13,973,480
Total Liabilities and Shareholders' Equity	$ 110,652,961	$ 106,354,560

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 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-C Section 315, 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 9th day of May, 2014.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
Chairman of the Board

/s/ ROBERT B. ENGEL

Robert B. Engel
Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

I, Robert B. Engel, 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
Chief Executive Officer

Dated: May 9, 2014

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 9, 2014

Senior Management
CoBank, ACB

Robert B. Engel, Chief Executive Officer

Mary E. McBride, President
- **Thomas E. Halverson,** 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,** Electric Distribution and Rural Water Banking Division
  - **Todd E. Telesz,** Power, Energy and Utilities Banking Division
  - **Robert F. West,** Communications Banking Division
- ***Banking Services***
- **Antony M. Bahr,** Banking Services Group
  - **Brian J. Klatt,** Capital Markets Division
  - **Michael A. Romanowski,** Farm Credit Leasing Services Corporation**
  - **Leonard G. Sahling,** Knowledge Exchange Division
- **Daniel L. Key,** Chief Credit Officer
  - **Michael L. Short,** Special Assets Division
- **Arthur C. Hodges, Jr.,** Corporate Communications Division

Ann E. Trakimas, Chief Operating Officer
- ***Finance***
- **David P. Burlage,** Chief Financial Officer
  - **Timothy D. Steidle,** Treasury Division
  - **Michael R. Vestal,** Controller Division
- ***Information Technology***
- **James R. Bernsten,** Chief Information Officer
- ***Legal***
- **M. Mashenka Lundberg,** General Counsel
- **Christian J. Clayton,** Legal and Loan Processing
- ***Human Resources***
- **Robert L. O'Toole,** Senior Vice President
- ***Operations***
- **Stephen B. Secor,** Senior Vice President
- ***Regulatory and Legislative Affairs***
- **L. Todd VanHoose,** Senior Vice President

Lori L. O'Flaherty, Chief Risk Officer
- **Timothy A. Green,** Asset Review Division
- **Katia V. Hoffer,** Enterprise Risk Management Division
- **Andrew D. Jacob,** Compliance
- **Steven W. Wittbecker,** Internal Audit Division

John Svisco, Chief Business Process and Accountability Officer
- **Joseph M. Rogers,** Non-Credit Services 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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Washington, DC 20001
(202) 650-5860

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Atlanta, GA 30339-5946
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(800) 255-7429
FCL: (770) 618-3226

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(512) 483-9273

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

Enfield Banking Center **
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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 **
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Louisville, KY 40223
(502) 423-5650
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FCL: (800) 942-3309

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(855) 838-9961 Ext. 23969

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

Sacramento Banking Center **
1478 Stone Point Drive, Suite 450
Roseville, CA 95661
(916) 380-3524
(800) 457-0942
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1700 South Assembly Street,
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Spokane, WA 99224-2121
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Spokane, WA 99220-2720
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(800) 378-5577

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* *Farm Credit Leasing office only*
** *Farm Credit Leasing office within this CoBank location*

CoBank's 2014 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 9, 2014, August 8, 2014, November 7, 2014, and March 2, 2015 (Annual Report).