2013 Quarterly Report
SEPTEMBER 30, 2013

Dear CoBank Customer-Owner:

Throughout 2013, the financial services industry, including CoBank, has been grappling with the challenges of low loan demand, a weak broader economy, increased competition, and low interest rates engineered by the U.S. Federal Reserve. These factors contributed to a moderate decrease in net interest income and net income at CoBank during the first three quarters of 2013.

Nonetheless, CoBank's overall business and financial performance continues to be very solid. Credit quality in our loan portfolio is strong, and capital and liquidity levels remain well above regulatory minimums. 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 third quarter of 2013 was $70.3 billion, essentially unchanged from the same period last year. For the first nine months of 2013, average loan volume increased 3 percent as compared to the same period of 2012. Throughout the year, the bank has seen moderately higher levels of borrowing by affiliated Farm Credit associations and rural energy customers, partially offset by a decline in lending to farmer cooperatives in our Agribusiness operating segment. The decrease in agribusiness lending resulted primarily from lower grain inventories at many agricultural cooperatives around the country, which reduced demand for seasonal loans. Total loan and lease volume at September 30, 2013 was $70.4 billion.

Net interest income declined in the third quarter by 9 percent, to $276.4 million, as compared to the same period last year. For the first nine months of 2013, net interest income decreased 5 percent to $875.5 million. The decreases were driven primarily by continued low interest rates, which have impacted the bank's returns on invested capital, its balance sheet positioning and its portfolio of liquidity investments.

Net income for the third quarter decreased 4 percent to $208.1 million, from $217.7 million in the third quarter of 2012. For the first nine months of 2013, net income decreased 10 percent to $628.9 million. Nine-month net income in 2012 included significantly higher noninterest income due to $44.6 million in refunds received from the Farm Credit System Insurance Corporation in the second quarter. Excluding the impact of the refund, net income for the nine-month period declined 6 percent.

At quarter-end, 0.76 percent of the bank's loans were classified as adverse assets, compared to 1.01 percent at December 31, 2012. Nonaccrual loans were $151.7 million at September 30, 2013, compared to $170.2 million at December 31, 2012. The bank recorded no provision for loan losses during the third quarter, compared to a $10.0 million provision in the same quarter last year. The bank's allowance for credit losses totaled $625.0 million at quarter end, or 2.08 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

As of September 30, 2013, shareholders' equity totaled $6.6 billion, and the bank's permanent capital ratio was 17.3 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 $22.7 billion in cash and investments. The bank had 218 days of liquidity at September 30, 2013, compared with the 90-day regulatory minimum.

As we have said previously, it is impossible to predict with certainty when the interest rate environment will return to historical norms. Though CoBank's business results will generally benefit if longer-term interest rates increase, we have the financial strength and flexibility to continue to serve our customers regardless of the monetary environment.

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

Everett Dobrinski Chairman of the Board	Robert B. Engel Chief Executive Officer

November 8, 2013

Financial Highlights
CoBank, ACB

($ in Thousands)

	September 30, 2013 (Unaudited)	December 31, 2012
Total Loans	**$ 70,377,891**	$ 71,980,458
Less: Allowance for Loan Losses	**450,237**	437,376
Net Loans	**69,927,654**	71,543,082
Total Assets	**94,127,350**	92,477,758
Total Shareholders' Equity	**6,609,288**	6,441,144

For the Nine Months Ended September 30, (Unaudited)	2013	2012
Net Interest Income	**$ 875,453**	$ 925,238
Provision for Loan Losses	**20,000**	20,000
Net Fee Income	**86,005**	82,874
Net Income	**628,903**	700,541
Net Interest Margin	**1.28 %**	1.41 %
Return on Average Assets	**0.90**	1.04
Return on Average Common Shareholders' Equity	**14.17**	16.92
Return on Average Total Shareholders' Equity	**12.96**	15.56
Average Total Loans	**$ 71,757,332**	$ 69,718,192
Average Earning Assets	**91,530,973**	87,559,818
Average Total Assets	**93,238,243**	90,129,322

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 2012 Annual Report to Shareholders.

Consolidated Results of Operations

Net income decreased 10 percent to $628.9 million for the nine months ended September 30, 2013, compared to $700.5 million during the same period in 2012. The 2012 period included $44.6 million in refunds from the Farm Credit System Insurance Corporation (Insurance Corporation). Excluding the impact of these refunds and related income taxes, net income declined 6 percent primarily due to lower net interest income and an increase in Farm Credit Insurance Fund (Insurance Fund) premiums.

Net interest income decreased 5 percent to $875.5 million for the nine months ended September 30, 2013, compared to $925.2 million for the same period in 2012. The decrease in net interest income was primarily driven by lower seasonal loan volume in our Agribusiness operating segment and by the continued low interest rate environment, which resulted in lower returns on our invested capital, our balance sheet positioning and our portfolio of liquidity investments. To a lesser extent, lower net interest income also resulted from lower spreads in certain of our lending portfolios reflective of increased competition for the business of our customers. These decreases were partially offset by loan growth in our Rural Infrastructure and Strategic Relationships operating segments. The low interest rate environment, lower loan spreads, and the shift in mix of our loan volume to lower-spread, lower-risk industry sectors reduced our net interest margin to 1.28 percent for the nine months ended September 30, 2013 from 1.41 percent for the same period in 2012. Net interest income includes $65.2 million and $68.0 million of net accretion of merger-related asset and liability fair value adjustments for the nine months ended September 30, 2013 and 2012, respectively. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with U.S. AgBank, FCB (AgBank).

Average loan volume was $71.8 billion during the first nine months of 2013 compared to $69.7 billion in the same period of 2012. The 3 percent increase in average loan volume primarily resulted from growth in lending to Farm Credit Association customers in our Strategic Relationships operating segment and to rural energy customers in our Rural Infrastructure operating segment, offset by lower seasonal lending in our Agribusiness operating segment.

We recorded a $20.0 million provision for loan losses in each of the nine-month periods ending September 30, 2013 and 2012. The 2013 provision primarily relates to modest deterioration in credit quality in our communications portfolio and increased exposure to rural energy customers. Our overall credit quality improved during the first nine months of 2013, as adversely classified assets decreased to 0.76 percent of total loans and related accrued interest at September 30, 2013 compared to 1.01 percent at December 31, 2012. Nonaccrual loans decreased to $151.7 million at September 30, 2013 from $170.2 million at December 31, 2012, primarily due to pay downs from a small number of agribusiness customers. Recoveries, net of charge offs, totaled $9.9 million in the first nine months of 2013 compared to net charge-offs of $12.5 million during the same period of 2012.

Noninterest income decreased to $97.0 million for the nine months ended September 30, 2013 from $131.5 million for the same period in 2012. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt and impairment losses on investment securities. Noninterest income in the 2012 period included $44.6 million in refunds from the Insurance Corporation related to the Insurance Fund (see our 2012 Annual Report for full details.) These refunds were classified as miscellaneous gains and losses, which are included in 'Other, Net' within the 'Noninterest Income/Expense' section of the accompanying condensed consolidated statement of income for the nine months ended September 30, 2012. There were no Insurance Fund premium refunds during the 2013 period. Losses on early extinguishments of debt, net of prepayment income, decreased to $12.5 million for the first nine months of 2013 compared to $14.2 million in the 2012 period. Our net fee income increased to $86.0 million from $82.9 million primarily due to higher levels of arrangement fees and unused commitment fees in our Agribusiness operating segment. As a result of credit quality deterioration in certain investment securities, we recorded impairment losses of $2.5 million and $5.0 million in the first nine months of 2013 and 2012, respectively.

Total operating expenses for the nine months ended September 30, 2013 increased to $205.5 million from $190.1 million for the same period in 2012. The increase included higher Insurance Fund premium expense of $14.1 million, primarily driven by an increase in Insurance Fund premium rates, which were 10 basis points of adjusted insured debt obligations in the 2013 period compared to five basis points throughout 2012. The increase in Insurance Fund premium rates resulted from growth in overall Farm Credit System assets in 2012 and the Insurance Corporation's projections for growth in 2013. Our information services expenses increased to $18.0 million in the first nine months of 2013 from $13.9 million in the prior-year period as a result of several information system initiatives, including integration efforts related to our merger with AgBank. Our employee compensation expense increased to $109.4 million for the first nine months of 2013 from $107.5 million in the same period of 2012 driven by higher levels of salary expense and certain severance-related benefits, somewhat offset by lower levels of incentive compensation expense. As of September 30, 2013, we had 849 employees, compared to 865 at December 31, 2012. The decline in staffing reflects our emphasis on maintaining efficient operations, particularly in light of the weak economy and low interest rate environment. Our general and administrative expenses declined to $15.8 million for the first nine months of 2013 from $21.9 million in the same period of 2012 primarily due to a lower level of contributions to System service organizations to enhance their technology platforms for the benefit of our association customers.

Our income tax expense decreased to $118.0 million for the nine months ended September 30, 2013, compared to $146.1 million for the same prior-year period due to the decrease in pre-tax earnings. Our effective tax rate was 15.8 percent and 17.3 percent for the nine months ended September 30, 2013 and 2012, respectively. The decrease in our effective tax rate resulted primarily from a lower level of earnings in taxable business activities, which included the impact of the 2012 refund from the Insurance Corporation and lower net interest income in 2013.

Our annualized return on average common shareholders' equity decreased to 14.17 percent for the nine months ended September 30, 2013 from 16.92 percent for the same period in 2012, and our annualized return on average assets decreased to 0.90 percent for the nine months ended September 30, 2013, compared to 1.04 percent for the same period in 2012. These decreases reflect the lower level of earnings in the first nine months of 2013, including the impact of the Insurance Fund refunds in 2012, as well as the effect of a continued low interest rate environment and a change in mix from higher earning assets to lower earning assets. Additionally, the growth in shareholders' equity over the past year also reduced our return on average common shareholders' equity.

For the three months ended September 30, 2013, net income decreased 4 percent to $208.1 million from $217.7 million for the same prior-year period. The decrease was primarily the result of lower net interest income, which declined by $28.7 million as a result of the factors described above. Lower net interest income was somewhat offset by a $16.0 million increase in overall noninterest income resulting from the timing of debt extinguishments and increased fee income. The absence of a provision for loan losses during the three months ended September 30, 2013, as compared to a $10.0 million provision for loan losses in the 2012 period, also partly offset the decline in net interest income.

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 September 30, 2013 and 2012 are reported in Notes 3 and 11 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, which we hold 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. Net income by operating segment is summarized in the following table and is more fully detailed in Note 11 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment ($ in Thousands)

For the Nine Months Ended September 30,	2013	2012
Operating Segment:		
Agribusiness	**$ 280,800**	$ 347,916
Strategic Relationships	**188,214**	197,587
Rural Infrastructure	**165,128**	162,061
Total Operating Segments	**634,142**	707,564
Corporate/Other	**(5,239)**	(7,023)
Total	**$ 628,903**	$ 700,541

Agribusiness

The Agribusiness operating segment includes loans and other financial services provided to cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Agribusiness loans outstanding totaled $18.9 billion at September 30, 2013, compared to $21.4 billion at December 31, 2012. The Agribusiness segment includes our Agricultural Export Finance Division, which provides short-term and medium-term trade finance to support the export of U.S. agricultural products. As of September 30, 2013, the Agricultural Export Finance Division had $4.7 billion in loans outstanding, 64 percent of which were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of September 30, 2013, FCL had $2.1 billion in leases outstanding.

Agribusiness average loan volume decreased to $21.3 billion for the first nine months of 2013 from $22.2 billion for the same period of 2012. The decrease in Agribusiness volume primarily reflects lower levels of seasonal lending to farm supply and grain marketing cooperatives due to lower grain inventory levels, lower agricultural commodity prices and strong grain elevator cash positions. The impact of lower seasonal lending was somewhat offset by greater levels of lending to agricultural export finance customers and large agribusiness and food customers, as well as growth in our leasing portfolio.

Agribusiness net income decreased 19 percent in the first nine months of 2013 to $280.8 million from $347.9 million for the same period in 2012. The reduction in earnings was largely due to lower net interest income and noninterest income, as well as an increase in the provision for loan losses and higher operating expenses. Lower income tax expense partially offset these factors.

Agribusiness net interest income decreased by $50.8 million as a result of lower average seasonal loan volume, as explained above, and the impact of the continued low interest rate environment on returns generated by our invested capital, our balance sheet positioning and our portfolio of liquidity investments. To a lesser extent, the decrease in Agribusiness net interest income also resulted from lower overall spreads due to increased competition for the business of our customers and the impact of improved borrower credit quality on pricing.

Agribusiness noninterest income decreased to $67.4 million for the first nine months of 2013, as compared to $78.6 million in the same period of 2012, primarily as a result of the Insurance Fund refunds received in 2012. This impact was partially offset by an increase in fee income resulting from greater arrangement fees and unused commitment fees.

Agribusiness recorded a provision for loan losses of $5.0 million during the first nine months of 2013, compared to a reversal in the allowance for credit losses of $19.5 million in the same prior-year period. Nonaccrual loans decreased to $53.6 million at September 30, 2013, as compared to $70.5 million at December 31, 2012 primarily due to loan pay downs by a small number of customers. Recoveries, net of charge-offs, totaled $8.9 million for the nine months ended September 30, 2013, compared to net charge-offs of $11.9 million for the nine months ended September 30, 2012. Agribusiness operating expenses increased to $118.2 million for the first nine months of 2013 from $110.0 million in the 2012 period, largely due to 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 affiliated Associations include 29 Associations serving 23 states in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of September 30, 2013, the Strategic Relationships portfolio totaled $37.3 billion, including $33.4 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 5 percent to $36.3 billion for the nine-month period ended September 30, 2013, compared to $34.6 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 decreased to $188.2 million for the first nine months of 2013, as compared to $197.6 million for the same prior-year period. The decrease resulted from lower net interest income due to the impact of the continued low interest rate environment on returns generated by our invested capital, our balance sheet positioning and our portfolio of liquidity investments. These factors were partially offset by the growth in average loan volume, as previously mentioned.

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

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, investor-owned utilities, rural local exchange carriers, wireless providers, data transport networks, cable television systems, data centers, and rural water and waste water companies. Rural Infrastructure loans outstanding totaled $14.2 billion at September 30, 2013, compared to $13.9 billion at December 31, 2012.

Rural Infrastructure average loan volume increased 10 percent to $14.2 billion for the first nine months of 2013, compared to $12.9 billion for the same prior-year period. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the power supply industry and further market penetration in the electric distribution industry.

Rural Infrastructure net income increased 2 percent to $165.1 million for the first nine months of 2013 from $162.1 million for the same period in 2012. The increase in earnings resulted from an increase in net interest income and a lower provision for loan losses, somewhat offset by lower noninterest income and an increase in operating expenses.

Rural Infrastructure net interest income increased by $8.8 million as a result of the increase in average loan volume described above, somewhat offset by the impact of the continued low interest rate environment on returns generated on our invested capital, our balance sheet positioning and our portfolio of liquidity investments, as well as lower lending spreads in certain sectors resulting from increased competition for the business of our customers.

Rural Infrastructure recorded a provision for loan losses of $15.0 million for the first nine months of 2013 compared to $39.5 million for the same period in 2012. The 2013 provision for loan losses is primarily due to moderate deterioration in credit quality in our communications portfolio and increased exposure to rural energy customers, while the 2012 provision primarily reflected reserves for credit challenges impacting specific communications and rural energy customers. Nonaccrual loans in the Rural Infrastructure segment decreased slightly to $98.1 million at September 30, 2013 from $99.7 million at December 31, 2012. Rural Infrastructure recorded recoveries, net of charge-offs, of $1.0 million for the nine months ended September 30, 2013, compared to net charge-offs of $0.6 million for the same period of 2012.

Rural Infrastructure noninterest income decreased to $29.0 million for the first nine months of 2013 from $53.4 million for the same period in 2012 as a result of Insurance Fund refunds received in 2012 and lower fee income. Rural Infrastructure operating expenses increased to $61.7 million for the first nine months of 2013 compared to $55.7 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

	September 30, 2013			December 31, 2012		
	Wholesale Loans (1)	Retail Loans (2)	Total Bank	Wholesale Loans (1)	Retail Loans (2)	Total Bank
Acceptable	**100.00 %**	**96.45 %**	**98.32 %**	100.00 %	95.73 %	97.91 %
Special Mention	**-**	**1.94**	**0.92**	-	2.20	1.08
Substandard	**-**	**1.48**	**0.70**	-	1.90	0.93
Doubtful	**-**	**0.13**	**0.06**	-	0.17	0.08
Loss	**-**	**-**	**-**	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

(1) Represents loans in our Strategic Relationships operating segment

(2) Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures improved in the first nine months of 2013. The total amount of adversely classified loans ('Substandard', 'Doubtful' and 'Loss' loans) and related accrued interest decreased to 0.76 percent of total loans and related accrued interest at September 30, 2013 compared to 1.01 percent at December 31, 2012, primarily due to improved credit quality within our Agribusiness operating segment. Total nonaccrual loans decreased to $151.7 million at September 30, 2013 from $170.2 million at year end 2012 primarily due to loan pay downs from a small number of agribusiness customers. 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 recorded a $20.0 million provision for loan losses in both of the nine month periods ended September 30, 2013 and 2012. The 2013 provision was primarily driven by modest deterioration in credit quality in our communications portfolio and increased exposure to rural energy customers, whereas the 2012 provision was largely due to specific reserves for a small number of communications and rural energy customers. Total recoveries, net of charge-offs for the first nine months of 2013, were $9.9 million compared to net charge-offs of $12.5 million in the 2012 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $625.0 million at September 30, 2013, compared to $595.1 million at December 31, 2012. Our ACL as a percent of total loans increased slightly to 0.89 percent at September 30, 2013, compared to 0.83 percent at December 31, 2012. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 2.08 percent at September 30, 2013 compared to 1.87 percent at December 31, 2012.

Liquidity and Investments

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

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and liquidating eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity on a continuous basis. However, as a result of the 2012 merger with AgBank, we maintain a higher minimum level of liquidity (see our 2012 Annual Report for full details). At September 30, 2013, our liquidity was 218 days, compared to 204 days at December 31, 2012.

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

We hold cash and investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled $22.4 billion at September 30, 2013 compared to $18.0 billion at December 31, 2012. The most significant credit risk in our investment portfolio relates to our FHA/VA non-wrapped reperformer mortgage-backed securities (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS). These securities collectively total $854.0 million (fair value) or 4 percent of our total investment securities as of September 30, 2013. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

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 September 30, 2013, $794.9 million of securities were not included in our liquidity reserve. Another $186.3 million of investment securities, primarily representing Farmer Mac MBS, are not included in our liquidity reserve as of September 30, 2013, 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 $626.7 million and $627.3 million for the first nine months of 2013 and 2012, 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)

	September 30, 2013			December 31, 2012		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury and Agency Debt	$ 10,107	$ 10,137	$ 30	$ 6,380	$ 6,491	$ 111
Mortgage-Backed:						
U.S. Agency	11,132	11,137	5	10,237	10,353	116
Farmer Mac	185	181	(4)	217	215	(2)
FHA/VA Non-Wrapped Reperformer	457	463	6	507	506	(1)
Non-Agency	213	234	21	271	292	21
Asset-Backed	132	157	25	97	121	24
Corporate Bonds	110	110	-	21	21	-
Total	$ 22,336	$ 22,419	$ 83	$ 17,730	$ 17,999	$ 269

During the first nine months of 2013 and 2012, we recorded $2.5 million and $5.0 million, respectively, in impairment losses related to a limited number of non-agency MBS. Certain of the securities impaired in 2013 and 2012 were among those identified as credit-impaired investment securities acquired as part of the AgBank merger, which are discussed further in Note 4 to the accompanying condensed consolidated financial statements. Increasing levels of defaults and foreclosures on residential mortgages, continued high unemployment, a decline in home prices or continued weak economic conditions may result in further downward adjustments to the fair value of certain investment securities and the need to record future impairment losses against earnings.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized losses of $185.0 million for the first nine months of 2013, compared to unrealized gains of $63.8 million for the same prior-year period. The unrealized losses in 2013 were primarily the result of the impact of interest rate changes on the values of our fixed-rate securities.

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 unallocated retained earnings. Our shareholders' equity totaled $6.6 billion at September 30, 2013, as compared to $6.4 billion at December 31, 2012.

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock. The dividend rate for our Series G preferred stock is 6.125 percent and is fixed for life. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, our Series G preferred stock is included in permanent capital, total surplus and core surplus. Dividends on Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of preferred stock is also discussed in Note 9 to the accompanying condensed consolidated financial statements.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

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

At September 30, 2013, our permanent capital, total surplus, core surplus and net collateral ratios exceeded regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2012 Annual Report.

Capital Ratios

	Regulatory Minimums		September 30, 2013		December 31, 2012	
Permanent Capital Ratio	**7.00**	%	**17.32**	%	16.14	%
Total Surplus Ratio	**7.00**		**16.30**		15.22	
Core Surplus Ratio	**3.50**		**11.02**		10.06	
Net Collateral Ratio (1)(2)	**104.00**		**107.86**		107.08	

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

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

Pursuant to FCA guidance, a portion of our common stock is currently included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2014 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of September 30, 2013, our core surplus ratio excluding common stock was 9.2 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level.

The FCA issued Advance Notices of Proposed Rulemaking on capital adequacy in 2007 and 2010. In the fall of 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.

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 $1.6 million and $7.4 million in the first nine months of 2013 and 2012, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled gains of $20.0 million and losses of $4.0 million in the first nine months of 2013 and 2012, respectively.

Credit Ratings

In October 2013, Fitch Ratings (Fitch) placed the issuer default credit ratings of the United States on negative ratings watch as a result of the prolonged negotiations surrounding raising the overall U.S. government debt ceiling. The credit ratings of Government Sponsored Enterprises, including the System, are influenced by the credit rating of the United States. As a result, Fitch also placed the issuer default ratings of the System and individual System banks, including CoBank, on negative ratings watch. Notwithstanding these actions, to date we have continued to access the funding necessary to support our lending and business operations. However, such actions and any future ratings downgrades could negatively impact our funding costs, earnings and funding flexibility.

Business Outlook

We continue to face market conditions and other challenges 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 return on our invested capital, balance sheet positioning and investment securities. Growth is weak in the broader economy. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending has intensified competition across many of the industries we serve. Agricultural commodity prices remain subject to volatility and weather will continue to have a potentially significant impact on commodity price levels, crop planting and yields. Customers in many of the industries we serve are impacted by unpredictable agricultural commodity prices and yields, and ongoing political and regulatory uncertainty. The Food, Conservation and Energy Act of 2008 (commonly referred to as the 2008 Farm Bill) expired on September 30, 2013, and the U.S. Congress continues to debate replacement farm bill legislation, though timing of enactment is uncertain and federal support for agricultural programs likely will diminish. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio. Changes in home prices could also lead to changes in the valuation of certain of our investment securities. In addition, continuing political gridlock surrounding the level of U.S. government spending and debt could disrupt funding markets or increase our borrowing costs.

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

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

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

- 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 performance of 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;
- Legislative actions and the effect of banking and financial services reforms;
- Regulatory actions, including possible amendments to, and interpretations of, risk-based capital guidelines;
- Changes in the U.S. government's support of the agriculture industry and agricultural exports;
- Changes in levels of global crop production, crop exports, and ending stocks;
- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage U.S. fiscal policy;
- Actions taken by the Federal Reserve to manage the monetary policy of the United States;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide debt securities;
- Cyber-security 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 September 30,		For the Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Interest Income				
Loans	**$ 404,355**	$ 421,921	**$ 1,239,893**	$ 1,278,781
Investment Securities	**75,494**	79,818	**228,107**	244,375
Total Interest Income	**479,849**	501,739	**1,468,000**	1,523,156
Interest Expense	**203,473**	196,657	**592,547**	597,918
Net Interest Income	**276,376**	305,082	**875,453**	925,238
Provision for Loan Losses	**-**	10,000	**20,000**	20,000
Net Interest Income After Provision for Loan Losses	**276,376**	295,082	**855,453**	905,238
Noninterest Income/Expense				
Net Fee Income	**32,948**	27,356	**86,005**	82,874
Prepayment Income	**17,594**	12,981	**49,484**	37,021
Losses on Early Extinguishments of Debt	**(18,710)**	(21,578)	**(61,976)**	(51,232)
Total Other-Than-Temporary Impairment Losses	**(120)**	(529)	**(1,852)**	(972)
Portion Recognized in Other Comprehensive Loss	**(380)**	(1,471)	**(648)**	(4,028)
Net Other-Than-Temporary Impairment Losses Included in Earnings	**(500)**	(2,000)	**(2,500)**	(5,000)
Other, Net	**9,232**	7,840	**25,958**	67,835
Total Noninterest Income	**40,564**	24,599	**96,971**	131,498
Operating Expenses				
Employee Compensation	**38,321**	36,098	**109,388**	107,456
Insurance Fund Premium	**8,704**	4,562	**27,700**	13,600
Information Services	**6,237**	4,854	**17,992**	13,886
General and Administrative	**5,706**	9,363	**15,761**	21,913
Occupancy and Equipment	**2,067**	2,284	**6,172**	6,688
Farm Credit System Related	**2,855**	2,897	**9,652**	9,226
Purchased Services	**1,889**	1,897	**5,800**	4,397
Other	**3,654**	4,147	**13,037**	12,904
Total Operating Expenses	**69,433**	66,102	**205,502**	190,070
Income Before Income Taxes	**247,507**	253,579	**746,922**	846,666
Provision for Income Taxes	**39,441**	35,925	**118,019**	146,125
Net Income	**$ 208,066**	$ 217,654	**$ 628,903**	$ 700,541

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 September 30,		For the Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net Income	**$ 208,066**	$ 217,654	**$ 628,903**	$ 700,541
Other Comprehensive (Loss) Income, Net of Tax:				
Net Change in Unrealized Losses/Gains on Investment Securities Not Other-Than-Temporarily Impaired	**(15,396)**	31,523	**(147,351)**	16,421
Net Change in Unrealized Losses/Gains on Other-Than-Temporarily Impaired Investment Securities	**432**	12,473	**(45)**	29,730
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	**(1,729)**	60	**18,877**	(3,859)
Net Pension Adjustment	**837**	703	**2,510**	3,617
Other Comprehensive (Loss) Income	**(15,856)**	44,759	**(126,009)**	45,909
Comprehensive Income	**$ 192,210**	$ 262,413	**$ 502,894**	$ 746,450

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

Condensed Consolidated Balance Sheets
CoBank, ACB

($ in Thousands)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Total Loans	**$ 70,377,891**	$ 71,980,458
Less: Allowance for Loan Losses	**450,237**	437,376
Net Loans	**69,927,654**	71,543,082
Cash	**308,051**	1,253,509
Investment Securities	**22,419,234**	17,999,191
Interest Rate Swaps and Other Financial Instruments	**724,917**	1,005,115
Accrued Interest Receivable and Other Assets	**747,494**	676,861
Total Assets	**$ 94,127,350**	$ 92,477,758
Liabilities		
Bonds and Notes	**$ 85,239,797**	$ 83,607,119
Subordinated Debt	**904,685**	904,685
Interest Rate Swaps and Other Financial Instruments	**118,807**	157,880
Reserve for Unfunded Commitments	**174,769**	157,703
Accrued Interest Payable and Other Liabilities	**1,080,004**	1,209,227
Total Liabilities	**$ 87,518,062**	$ 86,036,614
Commitments and Contingent Liabilities (Note 10)		
Shareholders' Equity		
Preferred Stock	**961,750**	961,750
Common Stock	**2,630,862**	2,605,933
Unallocated Retained Earnings	**2,998,255**	2,729,031
Accumulated Other Comprehensive Income	**18,421**	144,430
Total Shareholders' Equity	**$ 6,609,288**	$ 6,441,144
Total Liabilities and Shareholders' Equity	**$ 94,127,350**	$ 92,477,758

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

Condensed Consolidated Statements of Cash Flows
CoBank, ACB

($ in Thousands) (Unaudited)

For the Nine Months Ended September 30,	2013	2012
Cash Flows Provided by Operating Activities		
Net Income	$ 628,903	$ 700,541
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	20,000	20,000
Deferred Income Taxes	12,733	(9,503)
Depreciation and Amortization/Accretion, Net	32,429	(16,797)
Losses on Impairment of Available-for-Sale Investments	2,500	5,000
(Increase) Decrease in Accrued Interest Receivable and Other Assets	(55,354)	54,008
Decrease in Accrued Interest Payable and Other Liabilities	(11,757)	(112,523)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(613)	(3,947)
Proceeds from Termination of Interest Rate Swaps	-	-
Other	(2,123)	(9,488)
Net Cash Provided by Operating Activities	626,718	627,291
Cash Flows Used in Investing Activities		
Net Decrease (Increase) in Loans	1,541,112	(3,586,014)
Net Increase in Investment Securities	(4,654,568)	90,230
Net Cash Acquired in Business Combination		225,859
Net Cash Used in Investing Activities	(3,113,456)	(3,269,925)
Cash Flows Provided by Financing Activities		
Net Issuances of Bonds and Notes	1,967,158	1,209,807
Preferred Stock Issued, Net	195,555	-
Preferred Stock Redemption	(200,000)	-
Net Retirements of Common Stock	(31,534)	(34,056)
Cash Patronage Distribution Paid	(338,953)	(229,900)
Preferred Stock Dividends Paid	(51,339)	(55,067)
Other	393	-
Net Cash Provided by Financing Activities	1,541,280	890,784
Net Decrease in Cash	(945,458)	(1,751,850)
Cash at Beginning of Period	1,253,509	2,771,842
Cash at End of Period	$ 308,051	$ 1,019,992
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ -	$ (25,000)
Net Change in Unrealized Losses/Gains on Investment Securities, Before Taxes	(185,036)	63,828
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	19,955	(3,955)
Patronage in Common Stock	56,543	77,627
Issuance of Preferred Stock Related to Merger	-	225,000
Issuance of Common Stock Related to Merger	-	878,260

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

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

($ in Thousands) (Unaudited)

For the Nine Months Ended September 30,	2013	2012
Balance at Beginning of Period	**$ 6,441,144**	$ 4,895,533
Comprehensive Income	**502,894**	746,450
Preferred Stock:		
Dividends	**(49,087)**	(55,896)
Issuance in Connection with Merger	**-**	225,000
Other Issuance (Note 9)	**200,000**	-
Issuance Costs (Note 9)	**(4,445)**	-
Redemption	**(200,000)**	-
Common Stock:		
Issuance in Connection with Merger	**-**	878,260
Other Issuances	**80**	68
Redemptions	**(31,614)**	(34,124)
Cash Patronage Accrued	**(250,077)**	(232,061)
Net Fair Value Adjustments Related to Merger	**-**	(61,560)
Other	**393**	-
Balance at End of Period	**$ 6,609,288**	$ 6,361,670

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

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

CoBank is a member of the Farm Credit System (System). We provide loans and other financial services to 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 2012 Annual Report, which includes a description of our organization and lending authority. Also included in the 2012 Annual Report is a summary of significant accounting policies. These quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies.

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

We have evaluated subsequent events through November 8, 2013, which is the date the financial statements were issued.

Merger with U.S. AgBank

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

Fair value adjustments to AgBank's assets and liabilities included a $553.0 million increase to loans and a $700.4 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. In addition, we acquired investment securities with a contractual outstanding principal and interest balance of $5.2 billion, which we recorded on our consolidated balance sheet at an estimated fair value of $4.8 billion. For the acquired investment securities, the excess of cash flows expected to be collected over the fair value is referred to as an 'accretable amount,' while the difference between the contractually required cash flows and the expected cash flows is referred to as a 'non-accretable amount,' as more fully discussed on page 30. The fair value adjustments related to loans and debt, as well as accretable amounts related to investment securities, are being amortized into net interest income on an effective yield basis, with the majority being recognized in the first five years following the merger. The net accretion of merger-related adjustments increased net interest income by $65.2 million and $68.0 million during the nine months ended September 30, 2013 and 2012, respectively.

Supplemental CoBank District Financial Information

CoBank is the funding bank for 29 Farm Credit System Associations, which are collectively referred to as our "affiliated Associations." The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." The supplemental information beginning on page 46 includes certain combined financial information of our affiliated Associations and the District.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring entities to disclose certain information about changes in accumulated other comprehensive income (AOCI). The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. For public entities, the guidance is effective prospectively for all reporting periods presented, including interim periods, beginning after December 15, 2012. For nonpublic entities, the guidance is effective prospectively for annual reporting periods beginning after December 15, 2013. For interim reporting periods only, nonpublic entities are required to report information about the amounts reclassified out of accumulated other comprehensive income by component for each reporting period, but are not required to report the effects of reclassifications on net income (such information will be required beginning with the annual reporting period ending after December 15, 2013). Early adoption is permitted. We adopted these provisions in the first quarter of 2013 under the nonpublic entity guidelines. Refer to Note 5 for additional discussion and disclosure of amounts reclassified out of accumulated other comprehensive income by component for the nine months ended September 30, 2013. Beginning December 31, 2013, pursuant to the nonpublic adoption guidelines, our disclosure will also include the effects of any reclassifications on net income. The adoption of these provisions did not impact 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)

	September 30, 2013	December 31, 2012
Agribusiness	**$ 18,893**	$ 21,394
Strategic Relationships	**37,315**	36,707
Rural Infrastructure	**14,170**	13,879
Total	**$ 70,378**	$ 71,980

Allowance for Credit Losses

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

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
September 30, 2013				
Allowance for Loan Losses				
Beginning Balance at January 1, 2013	$ 277,595	$ -	$ 159,781	$ 437,376
Charge-offs	(1,553)	-	(26)	(1,579)
Recoveries	10,491	-	1,015	11,506
Provision for Loan Losses	5,000	-	15,000	20,000
Transfers (to) from Reserve for Unfunded Commitments[2]	(16,896)	-	(170)	(17,066)
Ending Balance at September 30, 2013	274,637	-	175,600	450,237
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2013	106,692	-	51,011	157,703
Transfers from (to) Allowance for Loan Losses[2]	16,896	-	170	17,066
Ending Balance at September 30, 2013	123,588	-	51,181	174,769
Allowance for Credit Losses	$ 398,225	$ -	$ 226,781	$ 625,006
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 9,570	$ -	$ 28,700	$ 38,270
Collectively Evaluated for Impairment	388,655	-	198,081	586,736
Total	$ 398,225	$ -	$ 226,781	$ 625,006
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 53,579	$ 37,428,075	$ 98,098	$ 37,579,752
Collectively Evaluated for Impairment	18,894,589	-	14,135,201	33,029,790
Total	$ 18,948,168	$ 37,428,075	$ 14,233,299	$ 70,609,542

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
September 30, 2012				
Allowance for Loan Losses				
Beginning Balance at January 1, 2012	$ 269,317	$ -	$ 118,739	$ 388,056
Charge-offs	(13,750)	-	(1,555)	(15,305)
Recoveries	1,860	-	926	2,786
(Reversal) Provision for Loan Losses	(19,450)	-	39,450	20,000
Transfers from (to) Reserve for Unfunded Commitments[2]	(1,858)	-	(17,763)	(19,621)
Ending Balance at September 30, 2012	236,119	-	139,797	375,916
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2012	116,467	-	37,452	153,919
Transfers (to) from Allowance for Loan Losses[2]	1,858	-	17,763	19,621
Ending Balance at September 30, 2012	118,325	-	55,215	173,540
Allowance for Credit Losses	$ 354,444	$ -	$ 195,012	$ 549,456
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 7,999	$ -	$ 47,800	$ 55,799
Collectively Evaluated for Impairment	346,445	-	147,212	493,657
Total	$ 354,444	$ -	$ 195,012	$ 549,456
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 72,379	$ 35,978,624	$ 96,137	$ 36,147,140
Collectively Evaluated for Impairment	20,765,859	-	13,297,045	34,062,904
Total	$ 20,838,238	$ 35,978,624	$ 13,393,182	$ 70,210,044

[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.

September 30, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	**$ 15,042,047**	**$ 3,077,257**	**$ 37,428,075**	**$ 13,883,792**	**$ 69,431,171**
Special Mention	**511,891**	**-**	**-**	**132,831**	**644,722**
Substandard	**307,012**	**-**	**-**	**184,935**	**491,947**
Doubtful	**9,961**	**-**	**-**	**31,741**	**41,702**
Loss	**-**	**-**	**-**	**-**	**-**
Total	**$ 15,870,911**	**$ 3,077,257**	**$ 37,428,075**	**$ 14,233,299**	**$ 70,609,542**
December 31, 2012					
Acceptable	$ 16,786,810	$ 3,512,387	$ 36,831,056	$ 13,579,205	$ 70,709,458
Special Mention	618,149	4	-	160,913	779,066
Substandard	520,928	-	-	150,528	671,456
Doubtful	13,570	-	-	47,072	60,642
Loss	-	-	-	-	-
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622

Aging Analysis

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

September 30, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 12,352	$ -	$ -	$ -	$ 12,352
90 Days Past Due	17,768	-	-	54,123	71,891
Total Past Due	**$ 30,120**	**$ -**	**$ -**	**$ 54,123**	**$ 84,243**
Current	15,840,791	3,077,257	37,428,075	14,179,176	70,525,299
Total	**$ 15,870,911**	**$ 3,077,257**	**$ 37,428,075**	**$ 14,233,299**	**$ 70,609,542**
Accruing Loans 90 Days or More Past Due	**$ 419**	**$ -**	**$ -**	**$ -**	**$ 419**
December 31, 2012					
30-89 Days Past Due	$ 7,609	$ -	$ -	$ -	$ 7,609
90 Days Past Due	21,608	-	-	5,296	26,904
Total Past Due	$ 29,217	$ -	$ -	$ 5,296	$ 34,513
Current	17,910,240	3,512,391	36,831,056	13,932,422	72,186,109
Total	$ 17,939,457	$ 3,512,391	$ 36,831,056	$ 13,937,718	$ 72,220,622
Accruing Loans 90 Days or More Past Due	$ 2,513	$ -	$ -	$ -	$ 2,513

Impaired Loans

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

September 30, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Strategic Relationships[(1)]	Rural Infrastructure	Total
Nonaccrual Loans[(2)]	$ 53,579	$ -	$ -	$ 98,098	$ 151,677
Accruing Loans 90 Days or More Past Due	419	-	-	-	419
Restructured Loans	-	-	-	-	-
Total Impaired Loans	**$ 53,998**	**$ -**	**$ -**	**$ 98,098**	**$ 152,096**
December 31, 2012					
Nonaccrual Loans[(2)]	$ 70,476	$ -	$ -	$ 99,731	$ 170,207
Accruing Loans 90 Days or More Past Due	2,513	-	-	-	2,513
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 72,989	$ -	$ -	$ 99,731	$ 172,720

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

(2) Included in nonaccrual loans at September 30, 2013 and December 31, 2012 are $63.5 million and $24.7 million, respectively, of loans that qualify as troubled debt restructurings

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

September 30, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 30,836	$ -	$ -	$ 9,992	$ 40,828
Unpaid Principal	58,937	-	-	11,333	70,270
Average Balance	40,730	-	-	14,305	55,035
Interest Income Recognized	872	-	-	1,574	2,446
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	23,162	-	-	88,106	111,268
Unpaid Principal	27,972	-	-	93,345	121,317
Allowance for Loan Losses	9,570	-	-	28,700	38,270
Average Balance	35,056	-	-	116,948	152,004
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	53,998	-	-	98,098	152,096
Unpaid Principal	86,909	-	-	104,678	191,587
Allowance for Loan Losses	9,570	-	-	28,700	38,270
Average Balance	75,786	-	-	131,253	207,039
Interest Income Recognized	872	-	-	1,574	2,446

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

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

Commitments on Impaired Loans

There were $21.5 million in commitments available to be drawn by borrowers whose loans were classified as impaired at September 30, 2013.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of September 30, 2013, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2012 Annual Report. During the nine months ended September 30, 2013 there was one modification that qualified as a TDR. This loan totaled $52.6 million before and after the modification. During the nine months ended September 30, 2012 there were no modifications that qualified as TDRs. Included in nonaccrual loans at September 30, 2013 and December 31, 2012 are $63.5 million and $24.7 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)

September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 10,107	$ 67	$ (37)	$ 10,137
Mortgage-Backed:				
U.S. Agency	11,132	104	(99)	11,137
Farmer Mac	185	-	(4)	181
FHA/VA Non-Wrapped Reperformer	457	11	(5)	463
Non-Agency	213	23	(2)	234
Asset-Backed	132	27	(2)	157
Corporate Bonds	110	-	-	110
Total	$ 22,336	$ 232	$ (149)	$ 22,419

($ in Millions)

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

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2013 is as follows:

($ in Millions)

	Contractual Maturity				
September 30, 2013	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
U.S. Treasury and Agency Debt Securities					
Amortized Cost	$ 2,154	$ 6,833	$ 195	$ 925	$ 10,107
Fair Value	2,155	6,880	193	909	10,137
Weighted Average Yield	0.11 %	0.87 %	1.82 %	1.39 %	0.78 %
U.S. Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 49	$ 158	$ 10,925	$ 11,132
Fair Value	-	50	162	10,925	11,137
Weighted Average Yield	- %	2.48 %	2.32 %	1.73 %	1.74 %
Farmer Mac Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 185	$ 185
Fair Value	-	-	-	181	181
Weighted Average Yield	- %	- %	- %	2.53 %	2.53 %
FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities					
Amortized Cost	$ -	$ -	$ -	$ 457	$ 457
Fair Value	-	-	-	463	463
Weighted Average Yield	- %	- %	- %	5.96 %	5.96 %
Non-Agency Mortgage-Backed Securities					
Amortized Cost	$ -	$ 8	$ -	$ 205	$ 213
Fair Value	-	8	-	226	234
Weighted Average Yield	- %	0.64 %	- %	6.78 %	6.54 %
Asset-Backed Securities					
Amortized Cost	$ -	$ 48	$ -	$ 84	$ 132
Fair Value	-	48	-	109	157
Weighted Average Yield	- %	0.43 %	- %	10.20 %	6.65 %
Corporate Bonds					
Amortized Cost	$ -	$ 110	$ -	$ -	$ 110
Fair Value	-	110	-	-	110
Weighted Average Yield	- %	1.21 %	- %	- %	1.21 %
Total					
Amortized Cost	$ 2,154	$ 7,048	$ 353	$ 12,781	$ 22,336
Fair Value	2,155	7,096	355	12,813	22,419

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 September 30, 2013 and December 31, 2012. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013				
U.S. Treasury and Agency Debt	**$ 3,480**	**$ (37)**	**$ -**	**$ -**
Mortgage-Backed:				
U.S. Agency	**4,550**	**(82)**	**451**	**(17)**
Farmer Mac	**55**	**(2)**	**126**	**(2)**
FHA/VA Non-Wrapped Reperformer	**77**	**(3)**	**73**	**(2)**
Non-Agency	**38**	**(1)**	**20**	**(1)**
Asset-Backed	**52**	**(1)**	**5**	**(1)**
Corporate Bonds	**70**	**-**	**-**	**-**
Total	**$ 8,322**	**$ (126)**	**$ 675**	**$ (23)**
December 31, 2012				
U.S. Treasury and Agency Debt	$ 1,191	$ (1)	$ -	$ -
Mortgage-Backed:				
U.S. Agency	764	(6)	67	-
Farmer Mac	143	(2)	-	-
FHA/VA Non-Wrapped Reperformer	283	(5)	15	(1)
Non-Agency	6	-	83	(5)
Asset-Backed	-	-	10	(3)
Corporate Bonds	21	-	-	-
Total	$ 2,408	$ (14)	$ 175	$ (9)

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

Credit Losses on Impaired Investment Securities

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

Credit Losses on Impaired Investments	($ in Millions)
Balance at December 31, 2012	$ 64
Additional Credit Impairments Related to Securities Previously Impaired	-
Initial Credit Impairments Related to Securities Not Previously Impaired	3
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected	(1)
Balance at September 30, 2013	$ 66

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-, six- or nine-month historical voluntary prepayment rate. Prepayment rates used ranged from zero to 25 percent (CPR) for impaired investment securities at September 30, 2013. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 7 percent to 43 percent for impaired investment securities at September 30, 2013. Loss severity assumptions are based on the greater of the three- or six-month historical severities. Loss severity ranged from 16 percent to 100 percent for impaired investment securities at September 30, 2013.

Acquired Credit-Impaired Investment Securities

Certain of the investment securities acquired in connection with the AgBank merger were determined to have deteriorated credit quality and it was evident that we would not be able to collect all of the contractually required payments. The carrying amount of these investment securities was $615.1 million at September 30, 2013 and included FHA/VA non-wrapped reperformer mortgage-backed securities (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS, and ABS. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a non-accretable amount. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

Quarterly, we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized against earnings. During the first nine months of 2013, we recorded impairment losses of $1.5 million related to our acquired credit-impaired investment securities.

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities	**($ in Millions)**
Balance at January 1, 2013	$ (210)
Interest Recognized in Earnings	33
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	2
Balance at September 30, 2013	$ (175)

Note 5 – Changes in Accumulated Other Comprehensive Income

Changes in AOCI for the nine months ended September 30, 2013 are presented in the following table.

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

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at January 1, 2013	$ 188,624	$ 19,215	$ (11,261)	$ (52,148)	$ 144,430
Other comprehensive income before reclassifications	(147,351)	(45)	17,648	-	(129,748)
Amounts reclassified from AOCI	-	-	1,229	2,510	3,739
Net current-period other comprehensive income	(147,351)	(45)	18,877	2,510	(126,009)
Balance at September 30, 2013	$ 41,273	$ 19,170	$ 7,616	$ (49,638)	$ 18,421

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

Note 6 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts of derivatives at September 30, 2013 and related activity for the first nine 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	**2,697**	**69**	**2,447**	**5,213**
Maturities /Amortization	**(3,481)**	**(560)**	**(2,507)**	**(6,548)**
Terminations	**(160)**	**-**	**-**	**(160)**
September 30, 2013	**$ 22,076**	**$ 2,558**	**$ 232**	**$ 24,866**

The notional amounts of derivatives at September 30, 2012 and related activity for the first nine months of 2012 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2011	$ 23,255	$ 1,999	$ 299	$ 25,553
Acquired Related to Merger	1,280	1,465	-	2,745
Additions /Accretion	4,062	20	1,911	5,993
Maturities /Amortization	(4,584)	(1,030)	(1,955)	(7,569)
Terminations	(36)	(105)	-	(141)
September 30, 2012	$ 23,977	$ 2,349	$ 255	$ 26,581

Accounting for Derivative Instruments and Hedging Activities

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

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

Fair Value Hedges

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

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At September 30, 2013, we expect that $1.0 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 nine years.

Derivatives Not Designated as Hedges

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

Counterparty Credit Risk

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

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

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of September 30, 2013, our counterparties had posted a net $430.4 million in cash and $147.7 million in securities as collateral with us. At September 30, 2013, a parallel increase of 2.0 percentage points in the USD LIBOR/swap curve would have required us to return the majority of the collateral currently posted with us by our counterparties. We estimated that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by counterparties to our derivative positions, net of collateral held by us, was $16.6 million at September 30, 2013.

Hedge Terminations

During the nine months ended September 30, 2013, we terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $160.0 million. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheets as of September 30, 2013 and December 31, 2012 is shown below.

Fair Value of Derivative Financial Instruments

As of September 30, 2013		Fair Value of Derivative Assets[1]		Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments				
Interest Rate Contracts	$	579,639	$	7,984
Foreign Exchange Contracts		-		2,466
Total Derivatives Designated as Hedging Instruments	$	579,639	$	10,450
Derivatives Not Designated as Hedging Instruments				
Interest Rate Contracts	$	143,740	$	106,993
Foreign Exchange Contracts		1,538		1,364
Total Derivatives Not Designated as Hedging Instruments	$	145,278	$	108,357
Total Derivatives	$	724,917	$	118,807

[1] These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at September 30, 2013

[2] These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at September 30, 2013

Fair Value of Derivative Financial Instruments

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

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

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

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2013 and 2012 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivatives and Hedged Items [1]			
Nine Months Ended September 30,		**2013**		**2012**
Interest Rate Contracts	$	3,454	$	2,937
Total	$	3,454	$	2,937

[1] Located in Interest Expense in the condensed consolidated statements of income for the nine months ended September 30, 2013 and 2012

Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2013		Amount of Gain or (Loss) Recognized in OCI on Derivatives(1)		Amount of Gain or (Loss) Reclassified from OCI to Income on Derivatives(1)		Amount of Gain or (Loss) Recognized in Income on Derivatives(2)
Interest Rate Contracts	$	18,920	$	(1,033) (3)	$	-
Foreign Exchange Contracts		(678)		(679) (4) (5)		(212) (4)
Total	$	18,242	$	(1,712)	$	(212)

(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 nine months ended September 30, 2013

(4) Located in Interest Income – Loans in the condensed consolidated statement of income for the nine months ended September 30, 2013

(5) Fully offset by a $679 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2013

Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2012		Amount of Gain or (Loss) Recognized in OCI on Derivatives(1)		Amount of Gain or (Loss) Reclassified from OCI to Income on Derivatives(1)		Amount of Gain or (Loss) Recognized in Income on Derivatives(2)
Interest Rate Contracts	$	(5,100)	$	(1,091) (3)	$	-
Foreign Exchange Contracts		(6,577)		(6,631) (4) (5)		(188) (4)
Total	$	(11,677)	$	(7,722)	$	(188)

(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 nine months ended September 30, 2012

(4) Located in Interest Income – Loans in the condensed consolidated statement of income for the nine months ended September 30, 2012

(5) Fully offset by a $6,631 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2012

Derivative Financial Instruments Not Designated as Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income On Derivatives(1)			
Nine Months Ended September 30,		**2013**		**2012**
Interest Rate Contracts	$	(1,856)	$	4,615
Foreign Exchange Contracts		48		(120)
Total	$	(1,808)	$	4,495

(1) Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the nine months ended September 30, 2013 and 2012

Asset/Liability Offsetting

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

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

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset In the Condensed Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged[1]	Investment Securities Received/Pledged as Collateral[1]	
As of September 30, 2013				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**$ 617,205**	**$ 441,870**	**$ 147,747**	**$ 27,588**
Customer	**107,712**	**-**	**-**	**107,712**
Accrued Interest Receivable on Derivative Contracts	**80,681**	**-**	**-**	**80,681**
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**95,977**	**11,510**	**-**	**84,467**
Customer	**22,830**	**-**	**-**	**22,830**
Accrued Interest Payable on Derivative Contracts	**3,003**	**-**	**-**	**3,003**
As of December 31, 2012				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 818,749	$ 555,920	$ 195,300	$ 67,529
Customer	186,366	-	-	186,366
Accrued Interest Receivable on Derivative Contracts	86,653	-	-	86,653
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	152,896	17,000	-	135,896
Customer	4,984	-	-	4,984
Accrued Interest Payable on Derivative Contracts	1,947	-	-	1,947

[1] Cash collateral received is recognized in the condensed consolidated balance sheets whereas investment securities received are not recognized in the condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, respectively

Note 7 – Fair Value Measurements

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

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at September 30, 2013 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at September 30, 2013 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, the substantial majority of agency MBS, corporate bonds and a limited number of ABS.

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

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

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

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

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at September 30, 2013 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, the majority of ABS and a small portion of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for all Farmer Mac MBS and FHA/VA non-wrapped reperformer MBS is calculated internally using third-party models. Market value for Level 3 ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs.

Level 3 assets at September 30, 2013 also include $34.8 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the 'Assets and Liabilities Measured at Fair Value on a Recurring Basis' tables on page 39 and 40 because they are not measured on a recurring basis.

Our Level 3 liabilities at September 30, 2013 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

The following table presents quantitative information about Level 3 fair value measurements as of September 30, 2013.

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

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Assets				
Investment Securities:				
U.S. Agency Mortgage-Backed	$ 66	Third-Party Pricing Service	Prepayment Rate	*
Farmer Mac Mortgage-Backed	181	Discounted Cash Flow	Prepayment Rate	8-12 percent
			Mark-to-Market Spread	1 percent
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	463	Discounted Cash Flow	Prepayment Rate	6-10 percent
			Lifetime Default Rate	1-21 percent
			Loss Severity	11-13 percent
Asset-Backed	109	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Impaired Loans	35	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 for Level 3 U.S. Agency MBS and all ABS which are determined by a third-party pricing service

** Range of inputs are unique to each collateral property

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

September 30, 2013

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury and Agency Debt	$ -	$ 10,137	$ -	$ 10,137
Mortgage-Backed:				
U.S. Agency	-	11,071	66	11,137
Farmer Mac	-	-	181	181
FHA/VA Non-Wrapped Reperformer	-	-	463	463
Non-Agency	-	234	-	234
Asset-Backed	-	48	109	157
Corporate Bonds	-	110	-	110
Interest Rate Swaps and Other Financial Instruments	-	725	-	725
Assets Held in Trust (included in Other Assets)	55	-	-	55
Collateral Assets (included in Other Assets)	-	12	-	12
Total Assets	$ 55	$ 22,337	$ 819	$ 23,211
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 119	$ -	$ 119
Collateral Liabilities (included in Bonds and Notes)	-	442	-	442
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 561	$ 10	$ 571

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

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

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis					
($ in Millions)	**Agency Mortgage-Backed Securities**	**Farmer Mac Mortgage-Backed Securities**	**FHA/VA Non-Wrapped Reperformer Mortgage-Backed Securities**	**Asset-Backed Securities**	**Standby Letters of Credit**
Balance at December 31, 2012	**$ 78**	**$ 215**	**$ 506**	**$ 121**	**$ 10**
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	**-**	**-**	**-**	**-**	**-**
Included in Other Comprehensive Income	**(2)**	**(2)**	**8**	**1**	**-**
Purchases	**-**	**-**	**-**	**-**	**-**
Sales	**-**	**-**	**-**	**-**	**-**
Issuances	**-**	**-**	**-**	**-**	**5**
Settlements	**(12)**	**(31)**	**(66)**	**(17)**	**(5)**
Accretion	**2**	**(1)**	**15**	**4**	**-**
Balance at September 30, 2013	**$ 66**	**$ 181**	**$ 463**	**$ 109**	**$ 10**
Balance at December 31, 2011	$ -	$ -	$ -	$ 54	$ 10
Level 3 Assets Acquired in Merger	89	253	554	59	-
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	-	-
Included in Other Comprehensive Income	(2)	(1)	8	10	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Issuances	-	-	-	-	6
Settlements	(8)	(28)	(59)	(4)	(6)
Accretion	1	(1)	23	2	-
Balance at September 30, 2012	$ 80	$ 223	$ 526	$ 121	$ 10

Estimated Fair Value of Other Financial Instruments

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of September 30, 2013 and December 31, 2012.

($ in Millions)

	September 30, 2013			December 31, 2012		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	**$ 69,928**	**$ 70,852**	**Level 3**	$ 71,543	$ 73,800	Level 3
Financial Liabilities:						
Bonds and Notes	**$ 85,240**	**$ 85,434**	**Level 3**	$ 83,607	$ 85,183	Level 3
Subordinated Debt	**905**	**920**	**Level 3**	905	990	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (114)**	**Level 3**	$ -	$ (100)	Level 3

Net Loans

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

Bonds and Notes

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

Subordinated Debt

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

Commitments to Extend Credit

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

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

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

Note 8 – Employee Benefit Plans

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

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

We contributed $2.8 million to our funded qualified defined benefit pension plans during the nine months ended September 30, 2013, and anticipate that we will contribute approximately $1.1 million more to such plans during the remainder of 2013. We expect to contribute a total of $0.5 million, net of collected retiree premiums, to our other postretirement benefit plans in 2013. We contributed $1.6 million to our trust funds related to our nonqualified retirement plans during the nine months ended September 30, 2013, and anticipate that we will contribute approximately $0.6 million more to such plans during the remainder of 2013. Our actual contributions could differ from the estimates noted above.

Note 9 – Preferred Stock

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

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. We used cash on hand to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

Note 10 – Commitments and Contingent Liabilities

Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices and farmer delivery patterns, we provide a significant amount of revolving loan commitments. At September 30, 2013, commitments to extend credit and commercial letters of credit were $33.9 billion and $246.5 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 $200.9 billion at September 30, 2013.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, the Farm Credit Insurance Fund (Insurance Fund) is a statutorily created insurance fund which assists in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the Insurance Fund. At September 30, 2013, the aggregated assets of the Insurance Fund totaled $3.4 billion. Finally, System banks must maintain certain financial criteria in order to participate in System debt issuances. If these criteria are not met, a troubled System bank's access to and participation in System debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of September 30, 2013 and the liabilities arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

Note 11 – Segment Financial Information

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

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

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

For the three and nine-month periods ended September 30, 2013 and 2012, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended September 30, 2013

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 120,414	$ 72,929	$ 85,068	$ 278,411	$ (2,035)	$ 276,376
Provision for Loan Losses	-	-	-	-	-	-
Noninterest Income	27,482	288	13,033	40,803	(239)	40,564
Operating Expenses	38,953	8,726	20,931	68,610	823	69,433
Provision for Income Taxes	22,845	-	16,924	39,769	(328)	39,441
Net Income	$ 86,098	$ 64,491	$ 60,246	$ 210,835	$ (2,769)	$ 208,066

For the Three Months Ended September 30, 2012

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 150,569	$ 74,259	$ 85,713	$ 310,541	$ (5,459)	$ 305,082
(Reversal) Provision for Loan Losses	(14,000)	-	24,000	10,000	-	10,000
Noninterest Income	14,354	268	10,459	25,081	(482)	24,599
Operating Expenses	37,310	7,984	20,235	65,529	573	66,102
Provision for Income Taxes	26,893	-	9,122	36,015	(90)	35,925
Net Income	$ 114,720	$ 66,543	$ 42,815	$ 224,078	$ (6,424)	$ 217,654

Segment Financial Information

For the Nine Months Ended September 30, 2013

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 413,165	$ 212,724	$ 255,530	$ 881,419	$ (5,966)	$ 875,453
Provision for Loan Losses	5,000	-	15,000	20,000	-	20,000
Noninterest Income	67,403	861	29,058	97,322	(351)	96,971
Operating Expenses	118,181	25,371	61,689	205,241	261	205,502
Provision for Income Taxes	76,587	-	42,771	119,358	(1,339)	118,019
Net Income	$ 280,800	$ 188,214	$ 165,128	$ 634,142	$ (5,239)	$ 628,903
Selected Financial Information at September 30, 2013 ($ in Millions):						
Loans	$ 18,893	$ 37,315	$ 14,170	$ 70,378	$ -	$ 70,378
Less: Allowance for Loan Losses	(275)	-	(175)	(450)	-	(450)
Net Loans	$ 18,618	$ 37,315	$ 13,995	$ 69,928	$ -	$ 69,928
Total Assets	$ 18,978	$ 37,451	$ 14,056	$ 70,485	$ 23,642 *	$ 94,127
*Other assets are comprised of:						
Investment Securities						$ 22,419
Other Assets						1,223

For the Nine Months Ended September 30, 2012

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 463,989	$ 220,019	$ 246,738	$ 930,746	$ (5,508)	$ 925,238
(Reversal) Provision for Loan Losses	(19,450)	-	39,450	20,000	-	20,000
Noninterest Income	78,630	686	53,412	132,728	(1,230)	131,498
Operating Expenses	110,002	23,118	55,652	188,772	1,298	190,070
Provision for Income Taxes	104,151	-	42,987	147,138	(1,013)	146,125
Net Income	$ 347,916	$ 197,587	$ 162,061	$ 707,564	$ (7,023)	$ 700,541
Selected Financial Information at September 30, 2012 ($ in Millions):						
Loans	$ 20,773	$ 35,857	$ 13,316	$ 69,946	$ -	$ 69,946
Less: Allowance for Loan Losses	(236)	-	(140)	(376)	-	(376)
Net Loans	$ 20,537	$ 35,857	$ 13,176	$ 69,570	$ -	$ 69,570
Total Assets	$ 20,905	$ 35,989	$ 13,250	$ 70,144	$ 20,112 *	$ 90,256
*Other assets are comprised of:						
Investment Securities						$ 17,815
Other Assets						2,297

Supplemental District Information

CoBank, ACB and Affiliated Associations

District Overview

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

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

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

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

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets on pages 56 and 57 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)

	September 30, 2013	December 31, 2012
Total Loans	**$ 78,085,714**	$ 79,076,558
Less: Allowance for Loan Losses	**736,014**	759,626
Net Loans	**77,349,700**	78,316,932
Total Assets	**102,636,233**	100,374,523
Total Shareholders' Equity	**13,783,726**	12,942,545

For the Nine Months Ended September 30,	2013	2012
Net Interest Income	**$ 1,753,372**	$ 1,755,996
Provision for Loan Losses	**4,873**	69,964
Net Fee Income	**107,321**	107,071
Net Income	**1,188,290**	1,215,234
Net Interest Margin	**2.35 %**	2.47 %
Return on Average Assets	**1.56**	1.66
Return on Average Total Shareholders' Equity	**11.82**	13.02
Average Loans	**$ 79,332,535**	$ 76,586,658
Average Earning Assets	**99,374,377**	94,748,959
Average Assets	**101,433,081**	97,647,965

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 nine months ended September 30, 2013. Comparisons with prior-year periods are included. Affiliated Agricultural Credit Associations and Federal Land Credit Associations are together referred to as "affiliated Associations."

Combined Results of Operations

District net income decreased by $26.9 million for the nine months ended September 30, 2013 as compared to the same period of 2012. The 2012 period included $86.2 million in refunds from the Insurance Corporation. The decrease also reflects an increase in operating expenses, partially offset by a lower provision for loan losses.

Net interest income remained relatively unchanged at $1.8 billion for the nine months ended September 30, 2013 and 2012. Average loan volume in the District grew 4 percent to $79.3 billion in the first nine months of 2013 compared to $76.6 billion for the same period of 2012. The increase in average loan volume primarily reflected growth in real estate mortgage loans and rural energy lending, partly offset by a decline in agribusiness loan volume. The impact of growth in average loan volume on net interest income was mostly offset by the continued low interest rate environment, which resulted in lower returns on invested capital throughout the District and on CoBank's balance sheet positioning and portfolio of liquidity investments. To a lesser extent, lower net interest income also resulted from lower spreads on the District's lending portfolios due to increased competition for the business of our customers and a shift in the mix of loans within the loan portfolio. These factors led to a decrease in the District's overall net interest margin to 2.35 percent for the first nine months of 2013 as compared to 2.47 percent for the same period in 2012.

The District's combined provision for loan losses was $4.9 million for the nine months ended September 30, 2013, compared to $70.0 million for the same period of 2012. CoBank recorded a $20.0 million provision for loan losses, which is discussed further on page 5. The Associations recorded a net combined loan loss reversal of $15.1 million for the first nine months of 2013, compared to a provision for loan losses of $50.0 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 nonaccrual loans and related specific reserves.

Noninterest income decreased to $182.3 million for the nine months ended September 30, 2013 from $258.9 million for the same period in 2012. The 2012 period included refunds of $86.2 million from the Insurance Corporation related to the Insurance Fund. CoBank's refund in the 2012 period totaled $44.6 million of this amount. Losses on early extinguishments of debt, net of prepayment income, decreased to $12.5 million for the first nine months of 2013 compared to $14.7 million in the 2012 period. Additionally, net fee income increased slightly to $107.3 million for the first nine months of 2013 from $107.1 million in the same prior-year period.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Total District operating expenses increased 7 percent to $614.5 million for the first nine months of 2013 from $572.8 million for the same period of 2012. The change included an increase in Insurance Fund premium expense of $25.6 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 10 basis points of adjusted insured debt obligations during the first nine months of 2013 compared to five basis points throughout 2012. Employee compensation expense increased to $368.0 million for the first nine months of 2013 from $358.7 million for the same period of 2012. The prior-year period included a $14.1 million one-time expense associated with the transfer of defined benefit pension plan assets and obligations related to the Bank's merger with AgBank. Excluding this item, employee compensation increased by $23.4 million which was primarily due to the Associations' increased staffing, as well as annual salary adjustments and increased medical benefit costs at the Bank and the Associations. Information services expense increased 14 percent to $39.7 million for the first nine months of 2013 from $34.8 million for the same period of 2012, primarily as a result of several information system initiatives, including integration efforts related to CoBank's merger with AgBank.

Income tax expense decreased to $128.0 million for the nine months ended September 30, 2013 from $156.9 million for the same period of 2012. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The change in income tax expense at CoBank is explained on page 5.

Loan Portfolio

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

($ in Thousands)

District Loans by Loan Type

	September 30, 2013	December 31, 2012
Real Estate Mortgage	**$ 24,382,914**	$ 23,403,897
Non-affiliated Associations	**3,833,789**	3,590,169
Production and Intermediate-term	**12,775,766**	12,976,059
Agribusiness:		
Loans to Cooperatives	**8,254,178**	11,197,967
Processing and Marketing Operations	**4,149,162**	3,786,031
Farm Related Businesses	**1,428,497**	1,489,009
Communications	**2,611,257**	2,854,413
Energy	**11,381,741**	10,740,816
Water/Wastewater	**1,108,123**	1,119,923
Agricultural Export Finance	**4,772,782**	4,660,523
Rural Residential Real Estate	**877,662**	870,060
Lease Receivables	**2,428,590**	2,308,251
Other	**81,253**	79,440
Total	**$ 78,085,714**	$ 79,076,558

District loan volume at September 30, 2013 was $78.1 billion compared to $79.1 billion at December 31, 2012. The decrease was driven largely by lower agribusiness loans to cooperatives included within CoBank's retail portfolio due to lower levels of seasonal lending. This was partially offset by an increase in real estate mortgages at Associations and in loans to CoBank's rural energy customers.

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

	September 30, 2013	December 31, 2012
Acceptable	**95.59 %**	94.86 %
Special Mention	**2.13**	2.29
Substandard	**2.21**	2.71
Doubtful	**0.07**	0.14
Loss	**-**	-
Total	**100.00 %**	100.00 %

Loan quality within the District is very favorable, with over 95 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 $703.7 million as of September 30, 2013 compared to $857.8 million at December 31, 2012. Nonperforming assets represented 0.90 percent of total District loan volume and other property owned at September 30, 2013 compared to 1.08 percent at December 31, 2012. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.76 percent of total loans at September 30, 2013 compared to 0.92 percent at December 31, 2012. The decrease in the level of nonaccrual loans was primarily due to reductions at Associations related to repayments on dairy loans, charge-offs on nursery and dairy loans, and transfers to other property owned. Other property owned decreased to $45.3 million at September 30, 2013 from $47.8 million at December 31, 2012. The decrease in other property owned of $2.5 million was due primarily to the sale of a livestock property, partially offset by several acquisitions of property related to nursery, timber, cattle, wine, and food processing operations.

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

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

($ in Thousands)

Nonperforming Assets	September 30, 2013	December 31, 2012
Nonaccrual Loans:		
Real Estate Mortgage	$ 267,925	$ 350,187
Production and Intermediate-term	169,635	224,217
Agribusiness	33,475	36,119
Communications	80,040	79,493
Energy	22,455	22,141
Water/Wastewater	-	200
Rural Residential Real Estate	11,644	12,360
Lease Receivables	6,877	5,116
Total Nonaccrual Loans	592,051	729,833
Accruing Restructured Loans:		
Real Estate Mortgage	24,784	35,098
Production and Intermediate-term	26,016	26,091
Agribusiness	3,597	3,709
Energy	3,000	3,145
Rural Residential Real Estate	1,031	316
Total Accruing Restructured Loans	58,428	68,359
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	2,940	4,474
Production and Intermediate-term	3,405	6,750
Agribusiness	1,281	-
Rural Residential Real Estate	63	77
Lease Receivables	139	479
Total Accruing Loans 90 Days or More Past Due	7,828	11,780
Total Nonperforming Loans	658,307	809,972
Other Property Owned	45,346	47,826
Total Nonperforming Assets	$ 703,653	$ 857,798
Nonaccrual Loans as a Percentage of Total Loans	0.76 %	0.92 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	0.90	1.08
Nonperforming Assets as a Percentage of Capital	5.10	6.63

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

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

($ in Thousands)

Aging of Past Due Loans

	September 30, 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	$ 62,295	$ 66,408	$ 128,703	$ 24,591,291	$ 24,719,994	$ 2,940
Production and Intermediate-term	41,169	85,976	127,145	12,748,521	12,875,666	3,406
Agribusiness	24,367	13,773	38,140	13,849,917	13,888,057	1,281
Communications	-	55,621	55,621	2,562,088	2,617,709	-
Energy	-	51	51	11,429,423	11,429,474	-
Water/Wastewater	-	-	-	1,115,268	1,115,268	-
Agricultural Export Finance	-	-	-	4,784,251	4,784,251	-
Rural Residential Real Estate	7,836	2,884	10,720	871,197	881,917	63
Lease Receivables	7,554	1,070	8,624	2,420,434	2,429,058	139
Non-affiliated Associations	-	-	-	3,836,068	3,836,068	-
Other	-	-	-	81,422	81,422	-
Total	$ 143,221	$ 225,783	$ 369,004	$ 78,289,880	$ 78,658,884	$ 7,829

($ in Thousands)

Aging of Past Due Loans

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

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $191.3 million at September 30, 2013.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at September 30, 2013 totaled $736.0 million compared to $759.6 million at December 31, 2012.

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

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at September 30, 2013
Real Estate Mortgage	$ 89,743	$ (5,389)	$ 472	$ 34,831	$ (3,843)	$ 115,814
Production and Intermediate-term	201,398	(21,909)	9,432	(18,809)	(3,232)	166,880
Agribusiness	255,027	(1,899)	9,215	(29,776)	(12,904)	219,663
Communications	66,265	(26)	1,002	10,079	(1,129)	76,191
Energy	93,403	(537)	14	5,769	871	99,520
Water/Wastewater	9,853	-	-	(324)	87	9,616
Agricultural Export Finance	6,238	-	689	(13)	110	7,024
Rural Residential Real Estate	5,519	(473)	16	1,936	-	6,998
Lease Receivables	32,158	(360)	1,308	1,198	-	34,304
Other	22	-	-	(18)	-	4
Total	$ 759,626	$ (30,593)	$ 22,148	$ 4,873	$ (20,040)	$ 736,014

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Merger Impact	Balance at September 30, 2012
Real Estate Mortgage	$ 52,628	$ (6,658)	$ 411	$ (1,907)	$ (232)	$ 38,720	$ 82,962
Production and Intermediate-term	143,613	(45,232)	4,492	47,884	(466)	47,644	197,935
Agribusiness	232,396	(4,113)	851	(16,440)	(2,841)	14,976	224,829
Communications	46,498	(1,555)	784	22,835	577	465	69,604
Energy	68,204	-	142	18,102	(16,512)	2,239	72,175
Water/Wastewater	7,518	-	45	2,069	(1,828)	4	7,808
Agricultural Export Finance	12,073	-	362	(7,975)	1,584	16	6,060
Rural Residential Real Estate	4,123	(376)	-	1,544	-	55	5,346
Lease Receivables	21,761	(2,675)	555	3,906	-	902	24,449
Other	65	(1)	-	(54)	-	-	10
Total	$ 588,879	$ (60,610)	$ 7,642	$ 69,964	$ (19,718)	$ 105,021	$ 691,178

District Capital Resources

Combined District shareholders' equity at September 30, 2013 totaled $13.8 billion, a net increase of $841.2 million as compared to $12.9 billion at December 31, 2012. The increase primarily resulted from District net income of $1.2 billion, somewhat offset by accrued patronage of $265.3 million, additional other comprehensive loss of $114.8 million, and preferred stock dividends of $52.7 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)

	September 30, 2013	December 31, 2012
Unrealized Gains on Investment Securities	**$ 66,101**	$ 213,983
Net Pension Adjustment	**(289,388)**	(303,628)
Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	**7,616**	(11,261)
Accumulated Other Comprehensive Income (Loss)	**$ (215,671)**	$ (100,906)

The increase in the District's total accumulated other comprehensive loss during the first nine months of 2013 primarily relates to unrealized 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	September 30, 2013			December 31, 2012		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	**17.32%**	**16.30%**	**11.02%**	16.14%	15.22%	10.06%
Associations	**13.23 - 36.11%**	**13.04 - 35.67%**	**13.04 - 30.33%**	13.43% - 35.45%	13.27% - 35.02%	13.07% - 29.78%
Regulatory Minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%

As depicted in the table above, at September 30, 2013, CoBank and all affiliated Associations significantly exceed the FCA's regulatory minimum capital ratios.

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

Proposed Mergers Between Associations

The FCA has granted preliminary approval for the proposed merger of the Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, two Associations within the District, with a proposed effective date of January 1, 2014. Stockholders of these two Associations have approved the merger. Final FCA approval will be required for the merger to take effect. Additionally, the FCA has granted preliminary approval for the proposed merger of Farm Credit of Maine, ACA and Farm Credit East, ACA, two Associations within the District, with a proposed effective date of January 1, 2014. Stockholder approval and final FCA approval will be required for this merger to take effect.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

($ in Thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Interest Income				
Loans	**$ 706,589**	$ 702,689	**$ 2,106,049**	$ 2,098,669
Investment Securities	**78,289**	83,318	**237,122**	255,809
Total Interest Income	**784,878**	786,007	**2,343,171**	2,354,478
Interest Expense	**203,315**	197,181	**589,799**	598,482
Net Interest Income	**581,563**	588,826	**1,753,372**	1,755,996
Provision for Loan Losses	**(22,276)**	30,317	**4,873**	69,964
Net Interest Income After Provision for Loan Losses	**603,839**	558,509	**1,748,499**	1,686,032
Noninterest Income/ Expense				
Net Fee Income	**40,764**	35,634	**107,321**	107,071
Prepayment Income	**17,794**	13,106	**49,519**	36,551
Losses on Early Extinguishments of Debt	**(18,710)**	(21,578)	**(61,976)**	(51,232)
Total Other-Than-Temporary Impairment Losses	**(120)**	(529)	**(1,852)**	(972)
Portion Recognized in Other Comprehensive Loss	**(380)**	(1,471)	**(648)**	(4,028)
Net Other-Than-Temporary Impairment Losses Included in Earnings	**(500)**	(2,000)	**(2,500)**	(5,000)
Other, Net	**33,905**	26,010	**89,905**	171,496
Total Noninterest Income	**73,253**	51,172	**182,269**	258,886
Operating Expenses	**-**			
Employee Compensation	**124,412**	116,176	**368,026**	358,708
Insurance Fund Premium	**16,351**	8,392	**50,366**	24,722
Information Services	**13,473**	11,897	**39,713**	34,819
General and Administrative	**15,899**	18,178	**45,175**	47,775
Occupancy and Equipment	**10,000**	10,127	**30,114**	29,244
Farm Credit System Related	**5,791**	5,908	**18,518**	18,042
Purchased Services	**9,930**	9,464	**28,328**	26,517
Other	**10,827**	10,897	**34,237**	32,964
Total Operating Expenses	**206,683**	191,039	**614,477**	572,791
Income Before Income Taxes	**470,409**	418,642	**1,316,291**	1,372,127
Provision for Income Taxes	**44,753**	39,146	**128,001**	156,893
Net Income	**$ 425,656**	$ 379,496	**$ 1,188,290**	$ 1,215,234

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets

($ in Thousands)

	September 30, 2013	December 31, 2012
Assets		
Total Loans	**$ 78,085,714**	$ 79,076,558
Less: Allowance for Loan Losses	**736,014**	759,626
Net Loans	**77,349,700**	78,316,932
Cash	**431,791**	1,538,820
Investment Securities	**22,673,899**	18,287,845
Interest Rate Swaps and Other Financial Instruments	**724,909**	1,005,044
Accrued Interest Receivable and Other Assets	**1,455,934**	1,225,882
Total Assets	**$ 102,636,233**	$ 100,374,523
Liabilities		
Bonds and Notes	**$ 86,228,345**	$ 84,490,027
Subordinated Debt	**904,685**	904,685
Interest Rate Swaps and Other Financial Instruments	**117,796**	157,008
Reserve for Unfunded Commitments	**191,260**	171,246
Accrued Interest Payable and Other Liabilities	**1,410,421**	1,709,012
Total Liabilities	**88,852,507**	87,431,978
Shareholders' Equity		
Preferred Stock Issued by Bank	**961,750**	961,750
Preferred Stock Issued by Associations	**408,842**	338,371
Common Stock	**1,260,865**	1,240,695
Paid In Capital	**654,933**	654,933
Unallocated Retained Earnings	**10,713,007**	9,847,702
Accumulated Other Comprehensive Loss	**(215,671)**	(100,906)
Total Shareholders' Equity	**13,783,726**	12,942,545
Total Liabilities and Shareholders' Equity	**$ 102,636,233**	$ 100,374,523

Controls and Procedures

CoBank, ACB

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

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

Certification Required by Farm Credit Administration Regulations

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

Signed this 8th day of November, 2013.

/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: November 8, 2013

CERTIFICATION

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

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

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

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

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

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

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

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

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: November 8, 2013

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
  - **Russell D. Nelson,** 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*
- **Gregory J. Buehne,** General Counsel

- *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
- **Rodney A. Brown,** 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 & Accountability Officer
- **Richard A. Scholz,** 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

CoBank, ACB

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

Farm Credit Leasing Services Corporation
600 Highway 169 South, Suite 300
Minneapolis, MN 55426
(952) 417-7800
(800) 444-2929

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

U.S. Regional Offices

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

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

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

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

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

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

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

Lubbock Banking Center **
5715 West 50th
Lubbock, TX 79414
P.O. Box 6770
Lubbock, TX 79493
(806) 788-3700
FCL: (806) 788-3705

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

Ohio Farm Credit Leasing Office *
1220 Irmscher Boulevard
Celina, OH 45822
(855) 838-9961 Ext. 23969

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

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

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

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

St. Louis Banking Center **
1650 Des Peres Road, Suite 120
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

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

International

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

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

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