

2008 Quarterly Report

JUNE 30, 2008

Dear COBANK Customer-Owner:

We're pleased to report that COBANK recorded another period of exceptional financial performance in the second quarter of 2008, with substantial increases in loan volume, net income and regulatory capital. While exceptional market conditions continue to challenge some customers, our credit quality remains good.

Net earnings in the first six months of the year rose 50 percent to \$307.9 million, compared with \$205.3 million for the same period in 2007. Net interest income rose 39 percent to \$449.4 million, from \$322.4 million the year before. Total loans and leases outstanding increased to \$49.4 billion at June 30, 2008, compared to \$40.5 billion at year-end 2007.

As in recent quarters, higher prices in the grain, oilseed and farm supply markets were again the primary driver of loan and earnings growth for COBANK. Commercial agribusiness lending increased a remarkable 39 percent during the first six months of the year. We also saw significant growth in loans to international and corporate finance customers as well as to affiliated Associations and other strategic partners inside the Farm Credit System.

The bank's rural utilities business – which serves energy, communications and water service providers across rural America – also continued to perform well, with loan growth of almost 13 percent since the beginning of the year. This lending group serves as an important source of diversification in our overall business, and we believe it presents the bank with significant opportunities for growth in the future.

At quarter end, over 98 percent of the bank's loan and lease portfolio fell into the two highest categories used to measure credit quality. The bank did experience an increase in nonaccrual loans, which rose to \$76.0 million at June 30, 2008 compared to \$14.8 million at the end of 2007, primarily due to credit concerns affecting a limited number of agribusiness customers. Current credit quality remains strong; however, credit quality is likely to decline somewhat further due to ongoing volatility in commodity pricing and other exceptional market conditions. We remain comfortable with the overall level of risk in our loan portfolio and the soundness of our enterprise-wide credit and risk management programs, which have served the bank and our customers very well during what has been a period of significant turmoil in the broader financial services industry.

Capital levels at the bank remain well in excess of all regulatory minimums. As previously announced, the bank successfully issued \$500 million of subordinated debt during the quarter and another \$200 million of preferred stock in early July. These issuances augment COBANK's strong capital foundation and enhance our capacity to continue meeting our customers' borrowing needs. COBANK's ability to access non-member capital through the capital markets, even in very difficult market conditions, remains a key competitive advantage and has enabled us to stand by our customers in this highly dynamic market environment.

We continue to believe that COBANK's value proposition – capacity, dependability, responsiveness, focus and ownership – shines more brightly than ever for the customers we serve in rural America. In the current environment facing financial institutions, we believe COBANK remains well positioned to continue to meet the needs of our customers. As always, we are deeply grateful for the business of our customer-owners and the enormous trust they place in COBANK. We thank you for your ongoing support and look forward to reporting to you on our future progress.

Everett Dobrinski
Chairman of the Board

Robert B. Engel
President and Chief Executive Officer

August 1, 2008

Financial Highlights

COBANK, ACB

\$ in thousands

	June 30, 2008 <i>(Unaudited)</i>	December 31, 2007
Total Loans and Leases	\$ 49,442,314	\$ 40,491,486
Less: Allowance for Credit Losses	438,490	447,226
Net Loans and Leases	\$ 49,003,824	\$ 40,044,260
Total Assets	\$ 62,324,407	\$ 52,188,896
Total Shareholders' Equity	3,308,788	3,233,424

For the Six Months Ended June 30, (Unaudited)	2008	2007
Net Interest Income	\$ 449,429	\$ 322,376
Provision for Credit Losses	-	-
Net Fee Income	28,138	20,517
Net Income	307,943	205,331
Net Interest Margin	1.57%	1.52%
Return on Average Assets	1.06	0.97
Return on Average Common Shareholders' Equity	20.87	14.85
Return on Average Total Shareholders' Equity	18.79	13.65
Average Loans and Leases	\$ 46,425,756	\$ 34,377,596
Average Earning Assets	57,612,808	42,663,506
Average Assets	58,537,371	42,837,768

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

COBANK, ACB

Business Overview

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated quarterly financial statements and related notes and with our 2007 Annual Report to Shareholders.

Consolidated Results of Operations

Net income was \$307.9 million for the six months ended June 30, 2008, a 50 percent increase over net income of \$205.3 million during the same period in 2007. Increased earnings were driven by a \$127.1 million increase in net interest income largely resulting from strong loan growth across all of our operating segments. Greater fee income of \$7.6 million also contributed to increased earnings. The increase in net interest income and fees was partially offset by increased income tax expense of \$23.7 million and increased noninterest expenses of \$9.6 million.

Our net interest income increased to \$449.4 million for the six months ended June 30, 2008, compared to \$322.4 million for the same period in 2007. The significant growth in net interest income primarily resulted from a \$12.0 billion increase in average loan and lease volume. The most substantial volume increases were in loans to our agribusiness customers, especially those serving grain, oilseed and farm supply markets where higher commodity prices and increased prices and demand for farm inputs led to greater customer loan demand. Our other lending units also experienced strong loan growth. Association-related loan volume increased due to growth in our participations in the direct loans of other System banks to certain of their affiliated Associations and to growth at our two largest affiliated Associations. Growth in our energy and communications portfolio primarily resulted from increased demand for financing from our rural electric distribution, generation and transmission, and communications customers. In addition, to continue to meet the liquidity requirements associated with loan growth, our average investment securities and highly-liquid holdings increased \$3.0 billion as compared to the prior year period.

Our overall net interest margin for the six months ended June 30, 2008 increased to 1.57 percent from 1.52 percent during the same prior year period, reflecting significant loan growth in our higher-margin loans and the benefit of lower short-term market interest rates on our funding position. These favorable items were partially offset by the effects of higher leverage on our balance sheet, increased lending to Association and rural energy customers, the increase in our investment securities and a lower level of interest recaptured on payoffs of troubled loans. The benefit on our net interest margin of noninterest-bearing financing (principally equity) was less in the first six months of 2008 due to asset growth, which resulted in a decline in equity as a percentage of average earning assets. Investment securities as well as loans to our Association and rural energy customers carry lower margins commensurate with their lower risk profile and generally lower capital requirements.

Our overall credit quality remains strong and, as a result, we did not record a provision for credit losses for the six months ended June 30, 2008. Notwithstanding the overall strong credit quality, nonaccrual loans and leases increased to \$76.0 million at June 30, 2008 from a historically low level of \$14.8 million at December 31, 2007, largely due to credit concerns surrounding a limited number of our agribusiness customers. Our overall level of criticized assets also increased significantly from \$1.2 billion at December 31, 2007 to \$2.0 billion at June 30, 2008. Net charge-offs for the six months ended June 30, 2008 were \$8.7 million compared to net recoveries of \$6.8 million for the same period in 2007. The charge-offs in 2008 were primarily related to a limited number of agribusiness customers.

Noninterest income increased to \$33.6 million for the first six months of 2008, as compared to \$24.7 million for the same period in 2007, and is composed primarily of net fee income, loan prepayment fee income and other gains and losses, reduced by losses on early extinguishments of debt. The increase in noninterest income resulted primarily from a \$7.6 million increase in net fee income. Prepayment fee income, net of losses on early extinguishments of debt, increased \$2.3 million primarily due to the timing of debt extinguished to offset the impact of prepayments. The level of prepayments increased in the first six months of 2008 as compared to the same period of 2007 due to the decline in interest rates over the past year. Other net noninterest income during the first six months of 2008 included a \$6.0 million other-than-temporary impairment loss on one of our investment securities, which is more fully discussed in "Liquidity and Investments" on page 8.

Noninterest expenses increased to \$96.6 million for the six months ended June 30, 2008, as compared to \$87.0 million for the same period in 2007, and included a \$7.1 million increase in statutory insurance fund premiums assessed by the Farm Credit System Insurance Corporation (Insurance Corporation) due to increased loan volume. The basis upon which statutory insurance fund premiums are determined changed effective July 1, 2008 as a result of the enacted legislation described in "Insurance Premiums" on page 10. Our employee compensation costs increased \$2.9 million as a result of increased staffing needs to meet an exceptional level of loan demand from customers.

Our income tax expense increased to \$78.5 million for the six months ended June 30, 2008, as compared to \$54.7 million for the same prior year period. Increased tax expense is a direct result of the improvement in our pre-tax earnings. Our effective tax rate was 20.3 percent and 21.0 percent for the six months ended June 30, 2008 and 2007, respectively.

Our annualized return on average common shareholders' equity, a reflection of our overall earnings, increased significantly to 20.87 percent for the six months ended June 30, 2008, as compared to 14.85 percent for the same period in 2007. As a result of the growth in higher-margin loans noted previously, our annualized return on average assets increased to 1.06 percent for the six months ended June 30, 2008, as compared to 0.97 percent for the same prior year period.

For the three months ended June 30, 2008, our net income increased to \$158.4 million from \$101.8 million for the same prior year period. The increase is primarily due to a \$68.9 million improvement in net interest income due to growth in loan volume as previously discussed, partially offset by an \$11.3 million increase in income tax expense. Noninterest income increased by \$2.9 million due to increases in net fee income and prepayment fees, net of losses on early extinguishments of debt. For the three months ended June 30, 2008, other net noninterest income includes the \$6.0 million other-than-temporary impairment loss more fully discussed on page 8. Noninterest expenses increased by \$3.9 million, due largely to an increase in statutory insurance fund premiums resulting from loan growth.

Operating Segment Financial Review

As an Agricultural Credit Bank, we provide domestic and international financial solutions to farmer-owned cooperatives; farmer-owned financial associations; energy, communications and water customers; and other related businesses. We conduct our lending and leasing operations through four operating segments: Agribusiness Banking Group (ABG), Strategic Relationships Division (SRD), Communications and Energy Banking Group (CEBG) and Global Financial Services Group (GFSG). Loans and leases outstanding, net of

allowance for credit losses, by business segment at June 30, 2008 and 2007, are reported in Note 9 to the accompanying unaudited condensed consolidated financial statements.

Net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds is allocated to all segments, whereas underlying investment assets are not allocated.

Net income by operating segment is summarized in the accompanying table and is more fully described in Note 9 to the accompanying unaudited condensed consolidated financial statements.

Net Income by Operating Segment (\$ in Thousands)

For the Six Months Ended June 30,	2008	2007
Operating Segment:		
Agribusiness	\$ 170,782	\$ 92,068
Strategic Relationships Division	35,408	25,643
Communications and Energy	70,780	63,908
Global Financial Services	34,782	26,779
Total Operating Segments	311,752	208,398
Corporate/Other	(3,809)	(3,067)
Total	\$ 307,943	\$ 205,331

Agribusiness Banking Group (ABG)

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

ABG loans and leases outstanding increased to \$19.2 billion at June 30, 2008, a \$5.4 billion or 39 percent increase from \$13.8 billion at December 31, 2007. Average loan and lease volume during the first six months of 2008 was \$6.8 billion greater than the first six months of 2007. Our agribusiness loan volume increased primarily as a result of higher financing demand from our grain, oilseed and farm supply customers who have seen significant increases and volatility in the prices for their products. Such price increases result from increased domestic and international demand for corn, wheat and soybeans, recent adverse weather and a number of other factors. In addition, the demand for and price of farm inputs (such as seed, fertilizer and fuel) and the resulting impact on inventory financing requirements has similarly increased loan volume for this sector.

Our ABG loan volume typically decreases in the second and third quarters each year; however, commodity price volatility led to further increases in ABG loan demand during the second quarter of 2008. Significant increases and volatility in prices for grain and oilseeds resulted in customers requiring a greater level of financing for margin calls on hedged grain and oilseeds portfolios. Notwithstanding the increase in ABG loan volume in the second quarter of 2008, we still anticipate a seasonal decline in ABG loan volume in the third quarter of 2008.

Nonaccrual loans in our ABG portfolio increased to \$37.6 million at June 30, 2008 from a historically low level of \$14.8 million at December 31, 2007. Credit challenges affecting a limited number of agribusiness customers resulted in their loans being transferred to nonaccrual status in early 2008. ABG's criticized assets increased significantly from \$0.9 billion at December 31, 2007 to \$1.6 billion at June 30, 2008. The increase in ABG's criticized assets primarily results from the impact of higher leverage and decreased liquidity on certain of our farm supply and grain marketing customers and the impact of higher feed costs on certain livestock customers.

ABG net income increased 85 percent in the first six months of 2008 to \$170.8 million from \$92.1 million for the same period in 2007. The increase resulted from a \$93.4 million increase in net interest income due to the significant increase in agribusiness loan volume, as described above. In addition, ABG did not record a provision for credit losses for the first six months of 2008, a result of continued strong credit quality and a low

level of charge-offs. ABG's results for the first six months of 2007 included a \$15.0 million provision for credit losses. Noninterest expenses increased \$7.5 million largely as a result of increased insurance fund premiums related to significant loan growth. ABG's income tax expense increased \$21.5 million due to the growth in its pre-tax earnings.

Strategic Relationships Division (SRD)

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

SRD loans outstanding increased to \$13.7 billion at June 30, 2008 from \$12.2 billion as of December 31, 2007. Average SRD loans grew to \$12.8 billion for the first six months of 2008 compared to \$10.0 billion in the comparable period of 2007. The increase in loan volume reflects increased participations in loans made by other System banks to certain of their affiliated Associations as well as strong loan growth at our two largest affiliated Associations. The credit quality of the SRD loan portfolio is exceptionally high due to the financial and operating strength of the Associations and the quality and diversification of their loan portfolios. Lower margins in SRD are commensurate with this low-risk profile and lower capital requirements.

SRD net income increased 38 percent to \$35.4 million for the first six months of 2008 from \$25.6 million for the same prior year period. Improved SRD earnings are primarily the result of stronger net interest income, which grew \$7.8 million due to the \$2.8 billion increase in average loan volume described above. Noninterest income improved by \$2.3 million due to a greater level of patronage income from other System entities.

Communications and Energy Banking Group (CEBG)

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

CEBG loans outstanding increased to \$9.8 billion at June 30, 2008 from \$8.7 billion at December 31, 2007. Average CEBG loans increased to \$9.3 billion for the first six months of 2008 from \$7.8 billion for the same period in 2007. Growth in CEBG's loan volume resulted from increased lending activity in the rural electric distribution, generation and transmission, and communication sectors, driven by increased customer capital expenditures and loans to new customers.

CEBG's credit quality remains strong as a result of our focus on lending to our core rural utility sectors. There were no CEBG nonaccrual loans at either June 30, 2008 or December 31, 2007.

CEBG net income increased 11 percent to \$70.8 million for the first six months of 2008 from \$63.9 million for the same period in 2007. The increase in earnings primarily resulted from stronger net interest income, which increased \$19.4 million due to the \$1.5 billion increase in average loan volume described above. The increase in net interest income was somewhat offset by a \$15.0 million reversal of the allowance for credit losses for the six months ended June 30, 2007, as compared to no provision for credit losses in the 2008 period. Noninterest income improved \$3.4 million primarily as a result of growth in fee income.

Global Financial Services Group (GFSG)

GFSG includes our Corporate Finance Division portfolio, consisting of loans to large food and agribusiness customers, and our International Division's lending portfolio. GFSG's International Division provides tailored short-term and medium-term trade financing services to support the export of U.S. agricultural products. The U.S. government-sponsored export guarantee General Sales Manager (GSM) program provides guarantees for a

significant portion of the International Division's portfolio, resulting in a lower overall margin that is reflective of this low-risk portfolio. GFSG also provides capital markets and cash management products and services.

GFSG loans outstanding increased to \$6.8 billion at June 30, 2008, compared to \$5.8 billion at December 31, 2007. Our Corporate Finance Division portfolio balances increased to \$4.2 billion at June 30, 2008 from \$3.7 billion at December 31, 2007, primarily due to increased commodity prices and the volatility of such prices. International Division loans outstanding increased to \$2.6 billion at June 30, 2008 from \$2.1 billion at December 31, 2007 as the tightening of global credit markets led to customers increasing their loan commitments with COBANK. The percentage of International Division loans outstanding granted under U.S. government-guaranteed export-lending programs was 64 percent as of June 30, 2008 and 61 percent as of December 31, 2007.

Nonaccrual loans, of which there were none at December 31, 2007, increased to \$38.4 million at June 30, 2008. This increase relates to one customer experiencing credit difficulty.

GFSG net income increased 30 percent to \$34.8 million for the first six months of 2008, compared to \$26.8 million for the same period in 2007. The increase is primarily due to a \$6.6 million increase in net interest income resulting from the growth in average Corporate Finance Division loan volume which increased to \$4.4 billion for the six months ended June 30, 2008 from \$3.7 billion in the prior year period. A \$3.5 million increase in noninterest income, primarily due to greater fee income, also contributed to the growth in earnings.

Credit Quality, Liquidity, Capital Resources and Other

Credit Quality

While overall credit quality measurements as of June 30, 2008 remain strong, nonaccrual loans and leases and criticized assets have increased since year end 2007. Nonaccrual loans and leases increased to \$76.0 million at June 30, 2008 from \$14.8 million at December 31, 2007, primarily due to the aforementioned credit concerns affecting a limited number of our agribusiness customers. Our criticized assets increased significantly from \$1.2 billion at December 31, 2007 to \$2.0 billion at June 30, 2008, primarily due to the increase in ABG's criticized assets as discussed on page 5. Criticized assets as a percent of our total loan and lease portfolio increased to 4.0 percent as of June 30, 2008 from 3.0 percent at December 31, 2007, but remains within the typical range for the past five years. We continue to closely monitor the impact of greater financing requirements and increased input costs on the financial condition of our customers.

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

Asset Quality Ratios		
	June 30, 2008	December 31, 2007
Acceptable	95.99%	97.00%
Other Assets Especially Mentioned	2.47	1.61
Substandard	1.53	1.38
Doubtful	0.01	0.01
Loss	-	-
Total	100.00%	100.00%

As a result of our strong overall credit quality, we did not record a provision for credit losses for the six months ended June 30, 2008. Net charge-offs for the first six months of 2008 totaled \$8.7 million and were primarily associated with agribusiness customers. While the Bank and the System currently enjoy strong credit quality, agriculture remains a cyclical business and is subject to a variety of economic factors, including volatile commodity prices. Agricultural economic conditions may not be as favorable in the future.

During the first quarter of 2008, we initiated a project to evaluate our methodology for determining the allowance for credit losses and to consider refinements to the process. Our evaluation focuses on more closely aligning the allowance process with our economic capital process while ensuring there remains a high level of correlation between the allowance and the risk profile of the Bank's loan and finance lease portfolio. We expect to complete our evaluation later this year with any appropriate changes to the allowance implemented and recorded at that time. However, we do not currently anticipate any material adjustment to our overall allowance as a result of this evaluation.

Liquidity and Investments

Our liquidity management objectives are designed to meet maturing debt obligations, provide a reliable source of funding to borrowers and fund our operations on a cost-effective basis. We believe that sufficient resources are available to meet liquidity management objectives through the Bank's debt maturity structure, holdings of liquid assets and access to the agency market via the Federal Farm Credit Banks Funding Corporation. At June 30, 2008, our liquidity was 142 days, compared to 164 days at December 31, 2007. During the first six months of 2008, we averaged 160 days liquidity, compared to our target of 180 days.

Investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds are primarily held for the purposes of maintaining a liquidity reserve and managing short-term surplus funds. Investment securities increased to \$11.3 billion at June 30, 2008 compared to \$10.4 billion at December 31, 2007, in response to the liquidity requirements related to higher loan balances. Investment securities are reported at estimated fair value and include unrealized losses, net of deferred taxes, of \$84.1 million at June 30, 2008, compared to \$21.7 million at December 31, 2007. While unrealized losses generally result from changes in market interest rates, such losses have increased in recent months due to continued illiquidity in the broader financial markets. We have the ability and intent to hold our investment securities until maturity or such time as the value recovers, and thus, with the exception of one security discussed below, we do not consider these investments to be other-than-temporarily impaired at June 30, 2008 or December 31, 2007. Except for the other-than-temporary impairment recorded for one security, changes in the fair value of these investments are accounted for as a component of accumulated other comprehensive income (loss). We recorded unrealized losses, net of deferred taxes, of \$62.5 million and \$10.4 million for the six months ended June 30, 2008 and 2007, respectively.

At June 30, 2008, the market value of our investment portfolio was \$11.3 billion, of which 88 percent, or \$10.0 billion, consisted of investments in mortgage-backed or debt securities issued by government sponsored enterprises or guaranteed by the Government National Mortgage Association (Agency Securities). Unrealized losses on such investments were \$54.7 million at June 30, 2008. Approximately \$1.0 billion, or nine percent, of our investment portfolio represents investments in non-agency mortgage-backed securities (Non-Agency Securities) with unrealized losses of \$45.2 million at June 30, 2008. The remaining \$331.8 million, or three percent, of our investment portfolio represents asset-backed securities (ABS), the substantial majority of which are composed of home equity asset-backed securities. These home equity asset-backed securities are supported by first- or second-lien mortgages with \$259.5 million of them insured by bond insurance companies.

Farm Credit Administration (FCA) regulations require that mortgage- and asset-backed securities be AAA rated in order to be included as part of our liquidity reserve. As of June 30, 2008, all of our Agency and Non-Agency Securities were AAA rated with the exception of one \$2.9 million Non-Agency Security discussed below. Of the \$331.8 million in ABS securities, \$185.7 million were AAA rated as of June 30, 2008. As a result of credit deterioration in financial markets in recent months, including the downgrade of bond insurance companies, seven of our investment securities which carry third-party insurance have been downgraded to ratings below AAA and are no longer included in our liquidity reserve. Such securities consist of the following:

- One ABS security with a \$10.6 million face value (\$4.6 million market value) that was downgraded to B2 by Moody's Investors Service (Moody's) and BBB- by Standard and Poor's Rating Services (S&P) as a result of the downgrade of bond insurer XL Capital Assurance Inc. We have determined that this security is other-than-temporarily impaired and we recorded an impairment loss of \$6.0 million during the three month period ended June 30, 2008. We have received permission from the FCA to continue to hold this security, subject to certain conditions.

- Three ABS securities with a \$124.5 million face value (\$103.9 million market value) were downgraded to Aa3 by Moody's as a result of the downgrade of insurer Ambac Assurance Corporation and two ABS securities with a face value of \$46.4 million (\$37.6 million market value) were downgraded to A2 by Moody's as a result of the downgrade of insurer MBIA Insurance Corporation. These five securities were downgraded to AA by S&P. Based on the current performance of the underlying collateral, our stress-testing of performance, the credit enhancements embedded in these five securities and the insurance support, we continue to expect to recover all of the book value of such securities. As a result of these downgrades, we have submitted a plan to the FCA requesting that we be permitted to continue to hold these securities in order to minimize or avoid a financial loss.
- One Non-Agency Security with a face value of \$3.0 million (\$2.9 million market value) was downgraded to Aa3 by Moody's and AA by S&P, also as a result of the downgrade of Ambac Assurance Corporation. Similar to the five ABS securities discussed directly above, we expect to recover all of the book value of this security and have submitted a plan to the FCA requesting permission to continue to hold this security.

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

Capital Resources

We are primarily capitalized by holders of our common stock and participation certifications, which include our Association customers, by our preferred stockholders, and unallocated retained earnings. As described in our 2007 Annual Report to Shareholders, the exceptional levels of loan growth the Bank has experienced have reduced our regulatory capital ratios. While such ratios remain well in excess of applicable regulatory minimums, the Board of Directors and the Bank's shareholders have taken a number of steps to increase the overall capital levels for the Bank, as discussed below.

In March 2008, our shareholders approved a bylaw amendment increasing the authorized amount of preferred stock the Bank may have outstanding from \$500 million to \$1.0 billion. Our shareholders also approved the issuance of up to \$250 million of preferred stock prior to the end of 2009. On July 7, 2008, we issued \$200 million of Series C non-cumulative subordinated perpetual preferred stock, representing four million shares at \$50 dollars per share par value. Dividends on the preferred stock, if declared by the Board of Directors at its sole discretion, are non-cumulative and are payable quarterly in arrears on the first day of January, April, July and October each year, commencing October 1, 2008, and will accrue at an annual rate equal to 11 percent of the par value of \$50 dollars per share from the date of issuance up to, but excluding, July 1, 2013. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 6.79 percent. The Series C preferred stock is not mandatorily redeemable at any time. However, the Series C preferred stock will be redeemable at par value, in whole or in part, at our option, on July 1, 2013 and each July 1st thereafter. The net proceeds from the sale of the preferred stock will be used to increase the Bank's capital and for general corporate purposes. This issuance, together with the \$500 million of senior preferred stock Series A and B already outstanding, increases our total preferred stock outstanding to \$700 million as of the end of July 2008. The Series C preferred stock ranks, both as to dividends and upon liquidation, junior to our Series A and B preferred stock, and senior to all of our outstanding common stock and participation certificates. For regulatory capital purposes, our Series C preferred stock will be included in permanent capital, core surplus and total surplus.

In addition, in April 2008 we issued \$500 million of 7.875 percent fixed rate unsecured subordinated notes due in 2018 to increase the Bank's regulatory permanent capital and total surplus levels and for general corporate purposes. This issuance, together with the \$500 million of floating rate subordinated debt issued in 2007, increased our total subordinated debt outstanding to \$1.0 billion as of June 30, 2008. This debt is subordinate to all other categories of creditors, including general creditors, and is senior to all classes of shareholders. For regulatory capital purposes, subject to certain limitations, subordinated debt is included in permanent capital and total surplus and excluded from liabilities in the net collateral ratio.

Our permanent capital ratio (generally average shareholders' equity and subordinated debt subject to certain limitations as a percentage of average risk-adjusted assets for the most recent three months) was 10.90 percent at June 30, 2008, compared to 12.14 percent at December 31, 2007, both of which exceeded the 7.0 percent minimum regulatory requirement. We expect that the July 2008 preferred stock issuance will add approximately 80 basis points to our permanent capital ratio.

Our core surplus ratio (average unallocated retained earnings and other components of equity as allowed by the FCA as a percentage of average risk-adjusted assets for the most recent three months) was 5.81 percent at June 30, 2008, compared to 4.94 percent at December 31, 2007, both of which exceeded the 3.5 percent minimum regulatory requirement. Effective January 1, 2008, the FCA determined that we may include a significant portion of our common stock and participation certificates as core surplus, subject to certain conditions, on a temporary basis that would likely continue until the earlier of December 31, 2012 or in the event the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. As a result of this action, our core surplus ratio increased by approximately 165 basis points. As part of its determination, the FCA requires that we continue to calculate our core surplus ratio excluding common stock and participation certificates and has established a 3.0 percent minimum for such ratio. As of June 30, 2008, our core surplus ratio excluding common stock and participation certificates was 4.19 percent. We expect that the July 2008 preferred stock issuance will add approximately 50 basis points to both core surplus ratios.

Our net collateral ratio (eligible assets divided by total liabilities excluding subordinated debt and other items, subject to certain limitations) at June 30, 2008 was 106.4 percent, compared to 107.1 percent at December 31, 2007, both of which exceeded the regulatory minimum of 103.0 percent and the higher minimum of 104.0 percent required by our regulator during the period in which we have Series A preferred stock or subordinated debt outstanding.

We complied with all regulatory capital adequacy standards at June 30, 2008.

Interest Rate Risk Management

Interest rate risk is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). Derivatives are recorded at fair value as assets or liabilities on the condensed consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Changes in the fair value of derivatives recorded in the condensed consolidated statements of income totaled gains of \$3.9 million and \$0.1 million in the first six months of 2008 and 2007, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss), net of deferred taxes, were losses of \$0.2 million for the first six months of 2008 compared to gains of \$0.7 million for the same period of 2007.

Insurance Premiums

The Food, Conservation and Energy Act of 2008 was enacted in May 2008 and includes changes that authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Under the new assessment formula, premiums of up to 20 basis points can be charged against Systemwide debt securities reduced by loans and investment securities guaranteed by the U.S. government. Premiums of up to an additional 10 basis points can be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Through June 30, 2008, premiums were only assessed on loan volume (up to 15 basis points on accruing loans and up to 25 basis points on nonaccrual loans). We have been informed by the Insurance Corporation that our premium structure will be modified to the new Systemwide debt securities base effective July 1, 2008 and that the premium rates will be 15 basis points for the third quarter of 2008 and 18 basis points for the fourth quarter of 2008, with a premium surcharge of 10 basis points for nonaccrual loan volume and other-than-temporarily impaired investment securities. If the new premium assessment formula had been in place January 1, 2008 at the maximum level of 20 basis points, our insurance premium expenses would have been approximately \$12 million higher in the first half of 2008.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161). FAS 161 is intended to enhance the current disclosure framework of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). It requires disclosure about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under FAS 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of FAS 161 is not expected to have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income (loss), a component of shareholders' equity. We adopted these recognition requirements as of December 31, 2007 and the effects were reflected in our audited financial statements as of that date. FAS 158 also requires the measurement date for plan assets and liabilities to coincide with the employer's fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008. See Note 5 to the accompanying unaudited condensed consolidated financial statements for a description of the effect of the adoption of the change in measurement date requirement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, the Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Up-front costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. FAS 159 did not have any effect on our financial position, results of operations or cash flows as we did not elect the fair value option for any of our assets or liabilities during the period ended June 30, 2008; however, we may elect to do so in the future.

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. See Notes 2 and 4 to the accompanying unaudited condensed consolidated financial statements for a description of FAS 157 and the effect of its adoption.

Business Outlook

Our Board of Directors and management are committed to continuing our strong financial and operating performance, fulfilling our mission as Rural America's Cooperative Bank serving America's lifeline businesses and being the preferred provider of financial solutions to our customers to enhance their business success.

Our future growth and diversification will be achieved by delivering on our value proposition, creating opportunities to partner with other System institutions, increasing market share, improving competitiveness, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

We will enhance our solid financial condition through the continuation of strong earnings, expense discipline, effective risk management, and increased shareholders' equity through the retention of a portion of our earnings and issuance of third-party capital as needed. We will continue to assess our overall capital position in light of projected loan growth and will take the steps necessary to ensure that our capital levels remain adequate. Although we believe our overall portfolio credit quality will continue to be strong compared to our historical levels, we expect it will likely decline toward less favorable levels as a result of current exceptional conditions affecting certain customer segments. We will continue to closely monitor asset quality and emphasize effective management of credit risk, interest rate risk, liquidity risk and operational risk.

Forward-Looking Statements

Certain of the statements contained in this unaudited quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to: fluctuations in the agricultural, communications, energy and water, international, financing and leasing sectors; weak U.S. and global economic conditions; sovereign or regulatory actions; macro-economic factors and political policies and developments in the U.S. and other countries in which we make loans; the level of interest rates; changes in assumptions underlying the valuations of financial instruments; changes in the bases for our estimates underlying the allowance for credit losses; economic conditions and credit performance of the loan and lease portfolios, portfolio growth and seasonal factors; failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments, including the credit quality of insurers of such investments; the effect of banking and financial services reforms; possible amendments to, and interpretations of, risk-based capital guidelines and reporting instructions; the ability of states to adopt more extensive consumer protections through legislation or regulation; the resolution of legal proceedings and related matters; changes in the U.S. government's support of the agriculture industry; weather-related conditions that impact agricultural productivity and income; environmental-related conditions or laws impacting our lending activities; actions taken by the U.S. Congress relative to Government Sponsored Enterprises; actions taken by the Federal Reserve in managing the monetary policy of the U.S.; nonperformance by counterparties to our derivative positions; and our ability to successfully integrate and profitably operate any future business combinations or strategic alliances. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Condensed Consolidated Statements of Income

COBANK, ACB

\$ in thousands

<i>(Unaudited)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans and Leases	\$ 540,082	\$ 561,410	\$ 1,155,926	\$ 1,131,891
Investment Securities	107,146	101,132	222,865	195,798
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	2,704	6,797	7,076	12,846
Total Interest Income	649,932	669,339	1,385,867	1,340,535
Interest Expense	418,196	506,475	936,438	1,018,159
Net Interest Income	231,736	162,864	449,429	322,376
Provision for Credit Losses	-	-	-	-
Net Interest Income After Provision for Credit Losses	231,736	162,864	449,429	322,376
Noninterest Income / Expense				
Net Fee Income	14,036	9,475	28,138	20,517
Prepayment Income	7,565	228	13,352	493
Losses on Early Extinguishments of Debt	(4,129)	(249)	(10,772)	(249)
Other, Net	(2,547)	2,557	2,874	3,955
Total Noninterest Income	14,925	12,011	33,592	24,716
Noninterest Expenses				
Employee Compensation	24,007	22,855	46,923	44,017
Insurance Fund Premium	12,170	8,308	24,034	16,958
Information Services	4,412	4,446	8,528	8,432
Occupancy and Equipment	1,635	1,317	3,351	2,753
Farm Credit System Related	1,436	1,339	2,871	2,680
Other	5,928	7,399	10,920	12,208
Total Noninterest Expenses	49,588	45,664	96,627	87,048
Income Before Income Taxes	197,073	129,211	386,394	260,044
Provision for Income Taxes	38,690	27,374	78,451	54,713
Net Income	\$ 158,383	\$ 101,837	\$ 307,943	\$ 205,331

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

Condensed Consolidated Balance Sheets

COBANK, ACB

\$ in thousands

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Total Loans and Leases	\$ 49,442,314	\$ 40,491,486
Less: Allowance for Credit Losses	438,490	447,226
Net Loans and Leases	49,003,824	40,044,260
Cash	28,058	40,415
Investment Securities	11,313,344	10,434,371
Federal Funds Sold, Securities Purchased		
Under Resale Agreements and Other	867,000	647,400
Interest Rate Swaps and		
Other Financial Instruments	487,712	455,612
Accrued Interest Receivable and Other Assets	624,469	566,838
Total Assets	\$ 62,324,407	\$ 52,188,896
Liabilities		
Bonds and Notes	\$ 57,154,144	\$ 47,563,742
Subordinated Debt (Note 6)	1,000,000	500,000
Interest Rate Swaps and		
Other Financial Instruments	129,107	56,823
Accrued Interest Payable and Other Liabilities	732,368	834,907
Total Liabilities	59,015,619	48,955,472
Commitments and Contingencies (Note 8)		
Shareholders' Equity		
Preferred Stock (Note 7)	500,000	500,000
Common Stock and Participation Certificates	1,311,475	1,291,421
Unallocated Retained Earnings	1,588,179	1,470,191
Accumulated Other Comprehensive Loss	(90,866)	(28,188)
Total Shareholders' Equity	3,308,788	3,233,424
Total Liabilities and Shareholders' Equity	\$ 62,324,407	\$ 52,188,896

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

Condensed Consolidated Statements of Cash Flows

COBANK, ACB

\$ in thousands

For the Six Months Ended June 30, (Unaudited)	2008	2007
Cash Flows Provided by Operating Activities		
Net Income	\$ 307,943	\$ 205,331
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Deferred Income Taxes	50,186	(4,410)
Depreciation, Amortization and Accretion, Net	10,977	12,171
Increase in Accrued Interest Receivable and Other Assets	(64,367)	(121,316)
Increase (Decrease) in Accrued Interest Payable and Other Liabilities	(57,892)	13,444
Net Gains on Interest Rate Swaps and Other Financial Instruments	(6,695)	(3,288)
Other Gains/Losses, Net	5,437	-
Net Cash Provided by Operating Activities	245,589	101,932
Cash Flows Used in Investing Activities		
Net Increase in Loans and Leases	(8,955,269)	(783,176)
Net Increase in Investment Securities	(985,316)	(1,017,484)
Net (Increase) Decrease in Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	(219,600)	28,100
Net Cash Used in Investing Activities	(10,160,185)	(1,772,560)
Cash Flows Provided by Financing Activities		
Net Issuance of Bonds and Notes	9,619,936	1,375,028
Net Issuance of Subordinated Debt	496,750	496,750
Net Retirements of Common Stock and Participation Certificates	(40,713)	(50,454)
Cash Patronage Distribution and Other	(155,013)	(124,160)
Preferred Stock Dividends	(18,721)	(18,721)
Net Cash Provided by Financing Activities	9,902,239	1,678,443
Net Increase (Decrease) in Cash	(12,357)	7,815
Cash at Beginning of Period	40,415	6,420
Cash at End of Period	\$ 28,058	\$ 14,235
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities:		
Net Change in Accrued Purchases of Securities	\$ -	\$ (235,548)
Net Change in Unrealized Losses on Investment Securities, Before Taxes	(100,771)	(16,403)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments, Before Taxes	(319)	1,036
Patronage in Common Stock and Participation Certificates	60,768	42,243

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

COBANK, ACB

\$ in thousands

For the Six Months Ended June 30, (Unaudited)	2008	2007
Balance at Beginning of Period	\$ 3,233,424	\$ 3,040,058
Adjustments for the Adoption of New Accounting Pronouncements (Note 2)	(609)	(250)
Balance at Beginning of Period, as Adjusted	3,232,815	3,039,808
Comprehensive Income:		
Net Income	307,943	205,331
Other Comprehensive Income, Net of Taxes:		
Net Change in Unrealized Losses on Investment Securities	(62,478)	(10,416)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	(198)	658
Net Pension-related Adjustment	(2)	-
Comprehensive Income	245,265	195,573
Preferred Stock Dividends	(18,721)	(18,721)
Common Stock / Participation Certificates Issued	45	54
Common Stock / Participation Certificates Retired	(40,758)	(50,508)
Cash Patronage Distribution Payable and Other	(109,858)	(74,000)
Balance at End of Period	\$ 3,308,788	\$ 3,092,206

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

Notes to Condensed Consolidated Financial Statements

COBANK, ACB

(Unaudited) (\$ in Thousands, Except as Noted)

Note 1 – Organization, Lending Authority and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of COBANK, ACB and its wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as COBANK or the Bank. All material inter-company accounts and transactions have been eliminated. In our opinion, all adjustments considered necessary for a fair presentation of the interim financial condition, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Our results of operations for the six months ended June 30, 2008 are not necessarily indicative of results to be expected for the entire fiscal year.

The accompanying unaudited condensed consolidated financial statements exclude financial information of Northwest Farm Credit Services, ACA (Northwest) as well as the System Associations in the Northeastern region of the United States (Northeast Associations), which are collectively referred to as our affiliated Associations. COBANK and our affiliated Associations are collectively referred to as the “District.” The supplemental information on pages 26 and 27 includes certain unaudited combined financial information of our affiliated Associations and the District.

Copies of COBANK’s financial reports are available on request by calling or visiting one of our banking center locations and through our website at www.cobank.com. Copies of financial reports of our affiliated Associations and the System are available on their respective websites, which can also be accessed through links on our COBANK website under “Farm Credit Partners.”

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2007 Annual Report. A description of our organization and lending authority is contained in our 2007 Annual Report. Also included in the 2007 Annual Report is a summary of significant accounting policies as well as the financial condition and consolidated results of operations as of and for the year ended December 31, 2007. These unaudited quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies.

Note 2 – Adoption of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted FAS 157 effective January 1, 2008. The adoption of FAS 157 did not have a material effect on our financial position, results of operations or cash flows; however, we have expanded our fair value disclosures in accordance with FAS 157 as disclosed in Note 4.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Benefits (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income (loss), a component of shareholders’ equity. We adopted these recognition requirements as of December 31, 2007 and the effects were reflected in our audited financial statements as of that date. FAS 158 also requires the measurement date for plan assets and liabilities to coincide with the employer’s fiscal year-end. This requirement is effective for fiscal years ending after

December 15, 2008. See Note 5 for a description of the effect of the adoption of the change in measurement date requirement.

As previously disclosed in our 2007 Annual Report, effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48). As a result of the adoption of FIN 48, effective January 1, 2007, we recognized a \$250 thousand increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to retained earnings.

Note 3 – Allowance for Credit Losses

The following tables present a summary of changes in the allowance for credit losses as well as information concerning impaired loans and leases.

Allowance for Credit Losses

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	Balance at Beginning of Period	\$ 446,376	\$ 441,139	\$ 447,226
Provision for Credit Losses	-	-	-	-
Charge-offs	(9,973)	(95)	(12,981)	(161)
Recoveries	2,087	3,988	4,245	6,962
Balance at End of Period	\$ 438,490	\$ 445,032	\$ 438,490	\$ 445,032

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

Impaired Loan and Lease Information

	June 30, 2008	December 31, 2007
Nonaccrual Loans and Leases	\$ 76,006	\$ 14,808
Accruing Loans and Leases 90 Days or More Past Due	2,698	1,563
Restructured Loans	248	336
Total Impaired Loans and Leases	\$ 78,952	\$ 16,707
Impaired Loans and Leases with Related Specific Allowance	\$ 52,560	\$ 3,850
Impaired Loans and Leases without Related Specific Allowance	26,392	12,857
Total Impaired Loans and Leases	\$ 78,952	\$ 16,707
Specific Allowance on Impaired Loans and Leases	\$ 5,134	\$ 1,026
Other Property Owned	3	3

For the Six Months Ended June 30,

	2008	2007
Average Impaired Loans and Leases	\$ 60,540	\$ 96,561
Interest Income Recognized on Impaired Loans and Leases	4,552	12,325

Allowance for Credit Losses as a Percentage of:	June 30, 2008	December 31, 2007
Total Loans and Leases	0.89%	1.10%
Impaired Loans and Leases	555	2,677
Nonaccrual Loans and Leases	577	3,020

Note 4 – Fair Value Measurement

As described in Note 2, we adopted FAS 157 effective January 1, 2008. FAS 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets. Our Level 1 assets at June 30, 2008 consist of assets held in a trust fund related to deferred compensation, our supplemental executive retirement plan and our executive retirement plan. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

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

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

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

Our Level 2 assets and liabilities at June 30, 2008 include our derivative contracts and investment securities in U.S. government and agency mortgage-backed securities, non-agency mortgage-backed securities and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. Our Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash and short-term in nature. Additionally, our Level 2 assets and liabilities include collateral balances, which are required under collateral support and master agreements associated with our derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Level 3

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

Our Level 3 assets at June 30, 2008 include our asset-backed investment securities of which substantially all have unadjusted values from third-party pricing models. Based on the continued marketplace illiquidity for home-equity-related asset-backed investments and the lack of marketplace information available as inputs and assumptions to the valuation process, we classified our asset-backed investment portfolio as Level 3 assets. One of our Level 3 asset-backed securities with a fair value of \$4.6 million was determined to be other-than-temporarily impaired resulting in a \$6.0 million loss being recognized in the six months ended June 30, 2008. Our Level 3 liabilities at June 30, 2008 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2008 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
As of June 30, 2008				
	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities	\$ -	\$ 10,981,542	\$ 331,802	\$ 11,313,344
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	-	867,000	-	867,000
Interest Rate Swaps and Other Financial Instruments	-	487,712	-	487,712
Assets Held in Trust (included in Other Assets)	32,959	-	-	32,959
Total Assets	\$ 32,959	\$ 12,336,254	\$ 331,802	\$ 12,701,015
Liabilities				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 122,099	\$ 7,008	\$ 129,107
Collateral Liabilities (included in Bonds and Notes)	-	137,670	-	137,670
Total Liabilities	\$ -	\$ 259,769	\$ 7,008	\$ 266,777

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

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis			
		Asset-Backed Investment Securities	Standby Letters of Credit
Balance at January 1, 2008	\$	379,555	\$ 5,077
Total Gains or Losses (Realized/Unrealized):			
Included in Other Noninterest Expense		(6,000)	-
Included in Other Comprehensive Loss		(14,220)	-
Purchases, Sales, Issuances and Settlements, Net		(27,533)	1,931
Balance at June 30, 2008	\$	331,802	\$ 7,008

Note 5 – Employee Benefit Plans

We have employer-funded qualified defined benefit pension plans which are noncontributory and cover employees hired prior to January 1, 2007. We have an employee savings plan pursuant to which we match a certain percentage of employees' elective contributions. Under this plan, employees hired on or after January 1, 2007 receive a fixed percentage of their eligible wages in their retirement account and a higher level of matching contributions than employees hired prior to that date. We also have a noncontributory, unfunded non-qualified supplemental executive retirement plan (SERP) that covers a limited number of our executives and senior managers, as well as an unfunded non-qualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to certain of our most senior executives. In addition, we have other postretirement benefit plans that cover substantially all of our employees. These other postretirement benefit plans are unfunded contributory plans with participant contributions adjusted annually. Substantially all participants pay the full premiums associated with these plans.

We contributed \$2.8 million to our funded qualified defined benefit pension plans during the six months ended June 30, 2008 and anticipate that we will contribute an additional \$20.0 million to such plans during the remainder of 2008. We expect to contribute a total of \$0.3 million, net of collected retiree premiums, to our other postretirement benefit plans during 2008. We also expect to transfer approximately \$2.7 million into our trust funds related to our SERP and ERP during the remainder of 2008.

As described in Note 2, we adopted the recognition provisions of FAS 158 in 2007. FAS 158 also requires the measurement date for plan assets and liabilities to coincide with the employer's fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008. We have historically used September 30 as the measurement date for our pension and other postretirement benefit plans. FAS 158 provides two approaches for an employer to transition to a fiscal year-end measurement date. We have applied the second approach, which allows for the use of measurements determined for the year-end reporting as of the fiscal year immediately preceding the year during which the measurement date provisions are applied. Under this alternative, pension and postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) of \$1.0 million was recorded in retained earnings at January 1, 2008. As a result, we decreased retained earnings by \$0.6 million, net of taxes, decreased other assets by \$0.1 million and increased other liabilities by \$0.5 million.

Note 6 – Subordinated Debt

In April 2008, we issued \$500 million of 7.875 percent unsecured subordinated notes due in 2018, generating proceeds of \$496.8 million. The proceeds were used to increase our regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. This debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on April 15 and October 15. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, we may not declare or pay any dividends or patronage refunds, among certain other restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered Systemwide debt and is not guaranteed by the Farm Credit System or any banks in the System, other than COBANK. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund, a statutorily created insurance fund more fully described in Note 8.

Note 7 – Preferred Stock

At June 30, 2008, we had \$500 million of preferred stock outstanding resulting from our \$300 million Series A issuance in 2001 and our \$200 million Series B issuance in 2003. In March 2008, our shareholders approved a bylaw amendment, increasing the authorized amount of preferred stock the Bank may have outstanding from \$500 million to \$1.0 billion. Our shareholders also approved the issuance of up to \$250 million of preferred stock prior to the end of 2009. On July 7, 2008, we issued \$200 million of Series C non-cumulative subordinated perpetual preferred stock, representing four million shares at \$50 per share par value. The net proceeds from the sale of the preferred stock will be used to increase the Bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the Board of Directors at its sole discretion, are non-cumulative and are payable quarterly in arrears on the first day of January, April, July and October each year, commencing October 1, 2008, and will accrue at an annual rate equal to 11 percent of the par value of \$50 dollars per share from the date of issuance up to, but excluding, July 1, 2013. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 6.79 percent. The Series C preferred stock is not mandatorily redeemable at any time. However, the Series C preferred stock will be redeemable at par value, in whole or in part, at our option, on July 1, 2013 and each July 1st thereafter. The Series C preferred stock ranks, both as to dividends and upon liquidation, junior to our Series A and B preferred stock, and senior to all of our outstanding common stock and participation certificates.

Note 8 – Commitments and Contingencies

Under the Farm Credit Act of 1971, as amended, COBANK is primarily liable for its portion of Systemwide debt securities. Additionally, we are contingently liable for the Systemwide debt securities of the other System banks. Total Systemwide debt securities of the System were \$175.4 billion at June 30, 2008.

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

- The statutory requirement for System banks to maintain eligible assets at a level at least equal in value to the total amount of debt for which each System bank is primarily liable;
- Maintenance of certain financial criteria by contract which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances; and
- The Farm Credit Insurance Fund, a statutorily created insurance fund to assist in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the insurance fund. At June 30, 2008, the assets of the insurance fund aggregated \$2.7 billion.

At June 30, 2008, various lawsuits were pending or threatened against the Bank in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on our consolidated results of operations or financial position.

Note 9 – Segment Financial Information

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

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

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

For the six months ended June 30, 2008 and 2007, interest earned from an affiliated Association, Northwest, represented nine percent and ten percent, respectively, of our gross interest income and three percent and four percent, respectively, of our net interest income. No other customer made up ten percent or more of our gross or net interest income for the periods presented.

Condensed Segment Financial Information

CoBANK, ACB

For the Three Months Ended June 30, 2008

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBANK
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 132,218	\$ 19,032	\$ 54,403	\$ 26,408	\$ 232,061	\$ (325)	\$ 231,736
Provision for Credit Losses	-	-	-	-	-	-	-
Noninterest Income	3,731	2,645	3,830	5,564	15,770	(845)	14,925
Noninterest Expense	23,408	2,667	12,719	8,678	47,472	2,116	49,588
Provision for Income Taxes	24,569	-	9,283	5,471	39,323	(633)	38,690
Net Income	\$ 87,972	\$ 19,010	\$ 36,231	\$ 17,823	\$ 161,036	\$ (2,653)	\$ 158,383

For the Three Months Ended June 30, 2007

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBANK
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 85,508	\$ 13,184	\$ 41,878	\$ 22,389	\$ 162,959	\$ (95)	\$ 162,864
Provision for Credit Losses	-	-	-	-	-	-	-
Noninterest Income	3,780	1,458	3,172	3,924	12,334	(323)	12,011
Noninterest Expense	19,559	2,313	11,495	8,681	42,048	3,616	45,664
Provision for Income Taxes	18,939	287	5,671	3,966	28,863	(1,489)	27,374
Net Income	\$ 50,790	\$ 12,042	\$ 27,884	\$ 13,666	\$ 104,382	\$ (2,545)	\$ 101,837

Condensed Segment Financial Information

COBANK, ACB

For the Six Months Ended June 30, 2008

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBANK
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 262,893	\$ 35,820	\$ 101,766	\$ 49,571	\$ 450,050	\$ (621)	\$ 449,429
Provision for Credit Losses	-	-	-	-	-	-	-
Noninterest Income	7,595	4,853	9,354	11,736	33,538	54	33,592
Noninterest Expense	46,179	5,265	24,253	16,757	92,454	4,173	96,627
Provision for Income Taxes	53,527	-	16,087	9,768	79,382	(931)	78,451
Net Income	\$ 170,782	\$ 35,408	\$ 70,780	\$ 34,782	\$ 311,752	\$ (3,809)	\$ 307,943

Selected Financial Information (\$ in Millions):

Loans and Leases, Net of Allowance							
for Credit Losses at June 30, 2008	\$ 18,949	\$ 13,670	\$ 9,700	\$ 6,685	\$ 49,004	\$ -	\$ 49,004
Assets at June 30, 2008	\$ 19,096	\$ 13,746	\$ 9,763	\$ 6,727	\$ 49,332	\$ 12,992*	\$ 62,324

*Other assets are composed of:

Investment Securities						\$ 11,313	
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other							867
Other Assets							812

For the Six Months Ended June 30, 2007

	ABG	SRD	CEBG	GFSG	Subtotal	Other	Total CoBANK
Results of Operations (\$ in Thousands):							
Net Interest Income	\$ 169,477	\$ 27,987	\$ 82,344	\$ 42,924	\$ 322,732	\$ (356)	\$ 322,376
Provision (Reversal) for Credit Losses	15,000	-	(15,000)	-	-	-	-
Noninterest Income	8,338	2,547	5,925	8,201	25,011	(295)	24,716
Noninterest Expense	38,725	4,350	23,030	16,720	82,825	4,223	87,048
Provision for Income Taxes	32,022	541	16,331	7,626	56,520	(1,807)	54,713
Net Income	\$ 92,068	\$ 25,643	\$ 63,908	\$ 26,779	\$ 208,398	\$ (3,067)	\$ 205,331

Selected Financial Information (\$ in Millions):

Loans and Leases, Net of Allowance							
for Credit Losses at June 30, 2007	\$ 9,487	\$ 10,470	\$ 7,718	\$ 5,746	\$ 33,421	\$ -	\$ 33,421
Assets at June 30, 2007	\$ 9,615	\$ 10,560	\$ 7,785	\$ 5,798	\$ 33,758	\$ 9,726*	\$ 43,484

*Other assets are composed of:

Investment Securities						\$ 8,699	
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other							640
Other Assets							387

Supplemental District Financial Information

COBANK, ACB AND AFFILIATED ASSOCIATIONS

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

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

Combining Balance Sheets (Condensed)

\$ in Millions (Unaudited)

As of June 30, 2008	COBANK	Combined Affiliated Associations	Eliminations	Combined CoBANK District
Investments, Federal Funds Sold and Other Highly-Liquid Assets	\$ 12,180	\$ -	\$ -	\$ 12,180
Loans and Leases	49,442	11,386	(9,920)	50,908
Less: Allowance for Credit Losses	(438)	(63)	-	(501)
Net Loans and Leases	49,004	11,323	(9,920)	50,407
Other Assets	1,140	673	(486)	1,327
Total Assets	\$ 62,324	\$ 11,996	\$ (10,406)	\$ 63,914
Bonds and Notes	\$ 58,154	\$ 10,039	\$ (9,987)	\$ 58,206
Other Liabilities	861	72	(37)	896
Total Liabilities	59,015	10,111	(10,024)	59,102
Total Shareholders' Equity	3,309	1,885	(382)	4,812
Total Liabilities and Shareholders' Equity	\$ 62,324	\$ 11,996	\$ (10,406)	\$ 63,914

As of December 31, 2007

Investments, Federal Funds Sold and Other Highly-Liquid Assets	\$ 11,081	\$ -	\$ -	\$ 11,081
Loans and Leases	40,491	10,541	(9,179)	41,853
Less: Allowance for Credit Losses	(447)	(63)	-	(510)
Net Loans and Leases	40,044	10,478	(9,179)	41,343
Other Assets	1,064	744	(531)	1,277
Total Assets	\$ 52,189	\$ 11,222	\$ (9,710)	\$ 53,701
Bonds and Notes	\$ 48,064	\$ 9,302	\$ (9,260)	\$ 48,106
Other Liabilities	892	111	(65)	938
Total Liabilities	48,956	9,413	(9,325)	49,044
Total Shareholders' Equity	3,233	1,809	(385)	4,657
Total Liabilities and Shareholders' Equity	\$ 52,189	\$ 11,222	\$ (9,710)	\$ 53,701

Supplemental District Financial Information
COBANK, ACB AND AFFILIATED ASSOCIATIONS

Combining Statements of Income (Condensed)

\$ in Millions (Unaudited)

For the Six Months Ended June 30,	COBANK	Combined Affiliated Associations	Eliminations	Combined COBANK District
2008				
Net Interest Income	\$ 449	\$ 147	\$ -	\$ 596
Provision for Credit Losses	-	3	-	3
Noninterest Income	33	47	(26)	54
Noninterest Expense	96	79	-	175
Provision for Income Taxes	78	4	-	82
Net Income	\$ 308	\$ 108	\$ (26)	\$ 390
2007				
Net Interest Income	\$ 322	\$ 137	\$ -	\$ 459
Provision for Credit Losses	-	2	-	2
Noninterest Income	24	41	(22)	43
Noninterest Expense	87	74	-	161
Provision for Income Taxes	54	4	-	58
Net Income	\$ 205	\$ 98	\$ (22)	\$ 281

Key Financial Ratios – Combined COBANK District

(Unaudited)

For the Six Months Ended June 30,	2008	2007
Return on Average Assets	1.30%	1.27%
Return on Average Capital	16.33	12.71
Net Interest Margin	2.02	2.09
Operating Expense as a Percent of Net Interest Income and Noninterest Income	26.82	32.02
Net Charge-offs (Recoveries) as a Percent of Average Loans and Leases	0.05	(0.04)
	June 30, 2008	December 31, 2007
Capital as a Percent of Total Assets	7.53%	8.67%
Risk Funds as a Percent of Loans and Leases	10.44	12.34
Allowance for Credit Losses as a Percent of Loans and Leases	0.99	1.22
Debt to Capital (:1)	12.28	10.54

Asset Quality Ratios – Combined COBANK District

(Unaudited)

	June 30, 2008	December 31, 2007
Acceptable	95.05 %	96.01%
Other Assets Especially Mentioned	3.07	2.18
Substandard	1.87	1.80
Doubtful	0.01	0.01
Loss	-	-
Total	100.00 %	100.00%

Controls and Procedures

COBANK, ACB

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

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

CERTIFICATION

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

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

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: August 8, 2008

CERTIFICATION

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

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

/s/ BRIAN P. JACKSON

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

Dated: August 8, 2008

Leadership

COBANK, ACB

Executive Office

Robert B. Engel, President and Chief Executive Officer

Robert L. O'Toole, Human Resources Division

Corporate Services Group

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

James R. Bernstein, Chief Information Officer

David P. Burlage, Finance Division

George P. Delaune, Administrative Services Division

Arthur C. Hodges, Jr., Corporate Communications Division

Allan S. Kantrowitz, Legal Division

Stephen F. Staley, Senior Vice President

John Svisco, Operations Division

*Agribusiness Banking Group**

Philip S. DiPofi, Executive Vice President

Robert E. Egerton, Agribusiness Division – East

Dean W. Moreau, Agribusiness Division – West

Russell D. Nelson, Farm Credit Leasing Services Corporation

Communications and Energy Banking Group

Mary E. McBride, Executive Vice President

Jennifer G. Goss, Electric Distribution Division

Candace A. Roper, Government Relations

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

Robert F. West, Communications Division

Global Financial Services Group

John C. Holsey, Executive Vice President

Antony M. Bahr, Capital Markets Division

Manuel Fernandez-Quevedo, International Division

Richard A. Scholz, Non-Credit Services Division

Scott S. Trauth, Corporate Finance Division

Credit and Risk Management Group

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

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

Gary M. Fitzgerald, Internal Audit Division

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

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

Office Locations

CoBANK, ACB

CoBANK National Office and Denver Banking Center **

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

Farm Credit Leasing Services Corporation

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

Washington, DC Office

50 F Street, N.W., Suite 900
Washington, DC 20001
(202) 879-0838

U.S. Regional Offices

Ames Banking Center

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

Arizona Farm Credit Leasing Office*

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

Atlanta Banking Center **

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

California Farm Credit Leasing Office *

3984 Cherokee Road
Stockton, CA 95215
(209) 931-3770

Fargo Banking Center

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

Florida Farm Credit Leasing Office *

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

Louisville Banking Center **

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

Lubbock Banking Center

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

Maryland Farm Credit Leasing Office *

1 North Park Drive, Suite 205
Hunt Valley, MD 21030
(410) 771-9077
(800) 225-8325

Minneapolis Banking Center **

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

Omaha Banking Center **

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

Sacramento Banking Center **

8950 Cal Center Drive, Suite 108
Sacramento, CA 95826
(916) 431-3000
(800) 457-0942
FCL: (800) 289-7080

Spokane Banking Center

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

Springfield Banking Center **

67 Hunt Street, Suite 3
Agawam, MA 01001
P.O. Box 9061
Springfield, MA 01102-9061
(413) 821-0200
(800) 876-3227
FCL: (413) 821-0214

St. Louis Banking Center **

1630 Des Peres Road, Suite 210
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

Texas Farm Credit Leasing Offices *

5701 I40 West
Amarillo, TX 79106
(806) 352-6310
403 N. Sunset Strip, Highway 181
Kenedy, TX 78119
(830) 583-0000

Wichita Banking Center **

245 North Waco, Suite 230
Wichita, KS 67202
P.O. Box 2940
Wichita, KS 67201-2940
(316) 290-2000
(800) 322-3654
FCL: (800) 322-6558

International Office

Singapore Representative Office

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

* *Farm Credit Leasing office only*

** *Farm Credit Leasing office within this CoBANK location*

CoBANK's 2008 *Quarterly and Annual Reports to Shareholders* are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 9, 2008, August 8, 2008, November 7, 2008, and March 2, 2009 (Annual Report).