

THE POWER OF THE U.S. DOLLAR..... 1-9

U.S. DOLLAR INDEX..... 4

U.S. DOLLAR/CHINESE RENMINBI
(YUAN) EXCHANGE RATE..... 7

EURO ZONE CENTRAL BANK
BALANCE SHEET ASSETS 8

JAPAN CENTRAL BANK
BALANCE SHEET ASSETS 8

**INTEREST RATES AND
ECONOMIC INDICATORS 10**

**COBANK ANNOUNCES
RECORD EARNINGS AND
PATRONAGE FOR 2014 11-13**

ABOUT COBANK 11

The Power of the U.S. Dollar

The U.S. dollar is on a roll. The U.S. Dollar Index – which tracks the strength of the dollar against six other currencies – reached a 12-year high in mid-March. Moreover, the pace of the dollar’s increase over the past year has been its fastest in the last 40 years. Last April, the dollar was valued at \$1.40 against the euro. Today, it stands at roughly \$1.09 and could reach parity by year’s end.

The dollar’s high valuation is in part a reflection of the relative strength of the U.S. economy. Even though U.S. economic growth remains moderate, it’s gangbusters growth compared to the rest of the developed world. And, considerable uncertainty in other major economies is boosting the dollar’s safe haven status leading to more investment in U.S. government bonds by foreign investors and governments.

A strong dollar is a mixed bag: It makes foreign goods cheaper for Americans to buy and helps hold down inflation, but it also harms exports of U.S. agricultural products and other goods purchased overseas. To get a complete picture, *OUTLOOK* interviewed Eswar Prasad, Tolani Senior Professor of Trade Policy at Cornell University and author of “The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance.” The book has won numerous awards and was selected as one of the *Financial Times*’ Best Economics Books of 2014.

OUTLOOK: Help us understand the notion of foreign exchange and how exchange rates are determined.

Eswar Prasad: An exchange rate is essentially a relative price between two national currencies. If one thinks about the U.S. dollar and the Japanese yen, for instance, the exchange rate between those two currencies is the price of dollars in terms of yen, or the price of yen in terms of dollars.

Exchange rates depend on each nation’s growth prospects as well as macro economic policies such as the government’s fiscal and monetary policies. And, as with any goods or services, exchange rates – or the relative price of money – are ultimately determined by demand and supply.

About this article

Eswar Prasad is the Tolani Senior Professor of Trade Policy at Cornell University.

He is also a Senior Fellow at the Brookings Institution, where he holds the New Century Chair in International Economics, and a Research Associate at the National Bureau of Economic Research. He was previously chief of the Financial Studies Division in the International Monetary Fund's Research Department and, before that, was the head of the IMF's China Division.

Eswar Prasad's latest book is "The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance" (Princeton University Press, February 2014; <http://TheDollarTrap.com>). His previous book, "Emerging Markets: Resilience and Growth Amid Global Turmoil", was published in December 2010 (with M. Ayhan Kose; Brookings Institution Press).

Prasad has testified before various U.S. Congressional committees and commissions, and his research on China has been placed in the U.S. Congressional Record. His op-ed articles have appeared in the *Financial Times*, *Harvard Business Review*, *International Herald Tribune*, *New York Times*, *The Wall Street Journal*, and *Washington Post*.

In a country with good productivity and Gross Domestic Product (GDP) growth, the value of its currency tends to rise over time. On the other hand, if a country has a central bank that is printing a lot of money, which is leading to domestic inflation, that tends to reduce the value of that currency because more of it is being produced.

That notion then extends to the investment perspective. If a country has many people who want to invest in it based on its growth prospects, they buy up that country's currency and that drives up its value. If foreign investors are not interested in a particular country – and indeed, if domestic investors in a country like Argentina are concerned about political stability – and want to take their money out, that leads to a falling exchange rate.

OUTLOOK: When it comes to strong versus weak currencies, does strong necessarily equate to good?

EP: A strong currency in principle is a good thing because it implies that a country has good growth prospects and foreign investors want to invest in that country.

From the point of view of the residents of a country, it's also a good thing because if more foreign money is coming into their country, that adds to the financing available for domestic firms and entrepreneurs. Interest rates typically tend to decline too because there is more foreign money coming in so the supply of money is increasing. A strong currency also means that imports are going to be much cheaper.

A strong U.S. dollar, for instance, would imply that American consumers can get much cheaper imports from abroad. They and the U.S. government can borrow much more cheaply because foreigners are willing to lend to us at low interest rates. It also helps keep inflation down.

The downside of a strong dollar is that it reduces the competitiveness of U.S. exports. If an American exporter sells something in Japan for 10,000 yen and the dollar appreciates, it essentially means that the American exporter is going to get fewer dollars. Her profit margins are going to shrink, or she may have to cut prices in the Japanese market.

A strong domestic currency is generally a mixed blessing. You get cheaper imports, less inflation, lower interest rates. But you do lose export competitiveness and, at the margin, job growth in the exporting sector can be adversely affected.

The U.S. is still seen as the safest place to put money during times of turmoil. That safe haven effect is pulling a lot of money into the U.S.

OUTLOOK: Why would job growth decline as a country's currency strengthens?

EP: As a country's currency appreciates in value, that country's exporters can raise their foreign prices to maintain their profitability, which would cut into their market share. Alternatively, exporters could keep foreign prices constant, which would mean reduced revenues in dollars and, therefore, lower profits. In either case, exporters would hire fewer workers.

OUTLOOK: What is your high level view of the dollar in the global context, and how is it doing compared to the other major global currencies?

EP: The U.S. dollar is in a very strong position. It has appreciated against virtually every other major currency both for cyclical as well as long-term structural reasons.

First, in the short term, the U.S. economy is the one major advanced economy that has strong growth momentum. In contrast, European economies are not doing well and Japan is mired in low growth.

As one looks around the world, the U.S. is the one country where the discussion is about tightening monetary policy by raising interest rates. In virtually every other country, the discussion is about cutting interest rates and loosening monetary policy even further to support growth.

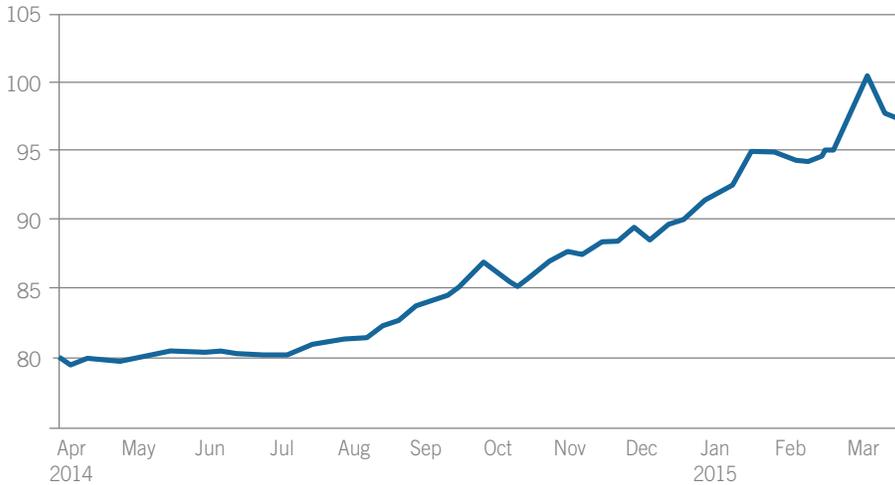
Higher interest rates in the U.S., or even the prospect of higher interest rates, makes putting money in the U.S. more attractive than in other countries that are likely to have low interest rates for some time to come. That is pulling a lot of money into the U.S. right now and keeping the dollar strong.

The second reason why the dollar has been very strong is that there has been a great increase in uncertainty in other financial markets around the world.

When there is uncertainty, both private investors and foreign central banks seek a safe place to put their money. Right now, despite its current monetary and fiscal policies that have raised some concerns, the U.S. is still seen as the safest place to put money during times of turmoil. That safe haven effect is pulling a lot of money into the United States.

Because of strong economic growth and the status of the U.S. as the ultimate financial safe haven, I expect the dollar to remain relatively strong in the coming years.

U.S. DOLLAR INDEX



The US Dollar Index (USDIX) measures the value of the U.S. dollar relative to a group of six foreign currencies – Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona and Swiss franc – on a weighted basis. The USDIX is weighted heavily toward the Euro (57%).

Source: CNBC.COM

OUTLOOK: How is the strong dollar affecting our economy and the average U.S. consumer?

EP: The U.S. is special in some ways. A similar rise in the value of any another country’s currency against all other major currencies would have affected its economy quite adversely. However, it hasn’t affected U.S. growth momentum much, at least so far.

One reason is that the U.S. doesn’t depend as much on international trade as many other economies do. Exports account for barely 15 percent of U.S. GDP. Certainly, U.S. exports are being affected by the appreciation of the dollar, but traditionally the U.S. has grown more rapidly as a result of domestic demand and consumption rather than export growth.

So far, the strong dollar hasn’t had a perceptible negative effect on GDP or job growth. It certainly hasn’t helped exporting industries, which are losing competitiveness quite significantly. On the other hand, imported goods have remained cheap, which has allowed the U.S. to maintain high levels of consumption.

Also, many foreign investors are buying U.S. government bonds, which has kept long-term interest rates very low. That translates into cheaper mortgages and cheaper auto loans, all of which benefit American consumers.

If the dollar continues to remain strong – and if other economies continue to depend on the American consumer to pull the world economy out of its recession – that could become a drag on the American economy. But so far, the U.S. economy seems to have done quite well despite the dollar’s strength, and the benefits seem to have outweighed the disadvantages.

OUTLOOK: What does the strong dollar mean in terms of the price Americans pay for oil? How does that impact our economy?

EP: One of the reasons the dollar’s appreciation has not hurt U.S. economic growth is that falling oil prices have provided a boost to consumer demand in other parts of the U.S. economy. Since oil contracts are denominated and settled in dollars, the strength of the dollar has, in fact, helped keep the price of oil down. Other oil-importing countries have reduced their imports because of oil’s higher price in their own currencies, in addition to their weak growth and resulting lower demand. Of course, part of the reason for the fall in oil prices may also be that the shale gas revolution has reduced U.S. dependence on oil imports.

The strength of the dollar is not good news for U.S. agricultural exporters, especially because it comes in tandem with growth slowdowns in most of the major markets for these products, including China.

OUTLOOK: Which U.S. exporting industries have been most affected by the strong dollar?

EP: The U.S. exports agricultural and high technology products, and a fair amount of military hardware. Tourism also counts as a services export. All of these industries are certainly not being helped by the strong dollar.

It's a bit of a double whammy for them because not only is the dollar strong, but foreign demand is very weak because the rest of the world economy is not doing well. It's been a difficult time for the U.S. manufacturing sector, as well as tourism and other parts of the services sector.

OUTLOOK: Will U.S. agricultural exporters be hurt by the dollar's strength? How does the near-term future look?

EP: The strength of the dollar is not good news for U.S. agricultural exporters, especially because it comes in tandem with growth slowdowns in most of the major markets for these products, including China.

Persistent strength in the dollar could have a potentially large impact on foreign market shares for U.S. agricultural products. One way to counter this would be to use bilateral and multilateral trade deals to obtain greater access to markets in foreign countries that put restrictions on imports of agricultural commodities. Given the absence of progress in global trade negotiations through the World Trade Organization and slow progress on other types of trade deals, U.S. agricultural producers may have to face the reality that the challenging circumstances posed by dollar strength are likely to continue over the next couple of years and prepare accordingly.

OUTLOOK: What about foreign economies that export to the U.S.?

EP: From an international perspective, a strong dollar is a boon for other countries because it means that their exports to the U.S. are now more competitive. They are going to be able to give their economies a boost by exporting more.

It also means that their U.S. investments are going to be worth more in terms of their own currencies. Japanese investors, for example, will now get more yen for each dollar invested here.

Conversely, when other countries' currencies depreciate, they are going to find imports more expensive and they will likely import less. Still, higher prices of imported goods mean that domestic inflation is going to be somewhat higher.

So even for the foreign countries, it is a mixed blessing. But given how bleak the growth prospects of many of the countries are, they are all counting on getting a bit of a bang from their export sectors.

OUTLOOK: What happens when multiple countries around the world are trying to devalue currencies at the same time?

EP: If a country wants to have a cheap currency and more competitive exports, its currency will have to depreciate against another country's currency. For example, Japan would like the yen to depreciate against the currency of all of its major trading partners. However, Europe doesn't want the euro to depreciate against the Japanese yen. They all want to depreciate against somebody else but it's only the U.S. that is willing and able to be on the other side of the depreciation of other currencies.

At some level, the U.S. is graciously doing a service to the world. Otherwise, currencies wouldn't be able to depreciate because there is no other currency for them to depreciate against.

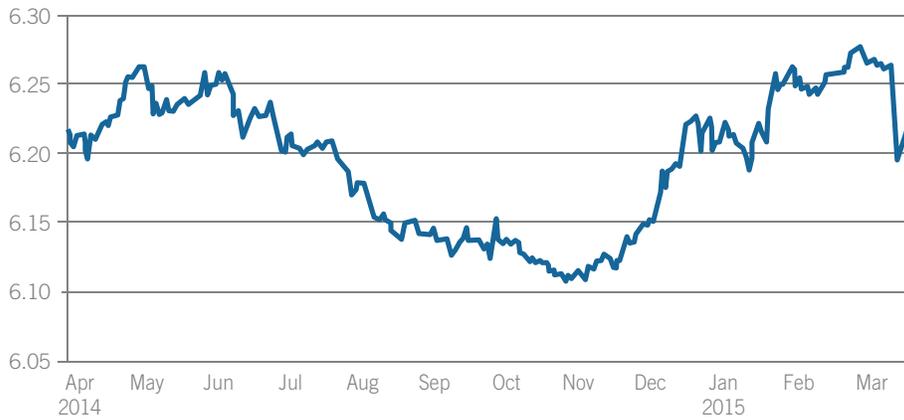
OUTLOOK: What is the correlation between a country's economic strength and its currency?

EP: Typically, they tend to move together. Economists tend to focus more on the real exchange rate – the exchange rate between two countries adjusted for relative levels of inflation. After all, what really matters is the relative purchasing power of different currencies, which means that one needs to take into account the nominal exchange rate (e.g., yen per dollar) but also the purchasing power of each of those currencies as captured by relative inflation.

Research shows that, over the long term – roughly five to 10 years – the real exchange rate tends to be driven by productivity growth. In the short term, however, things get a little more complex because economic strength as indicated by higher output growth definitely has an effect.

The stance of monetary policy and how it shows up in interest rates definitely helps too. If one country has a much higher interest rate than another, there is an incentive for capital to move to the country offering the higher interest rate. And of course speculative factors can also drive currency movements in the short run.

U.S. DOLLAR/CHINESE RENMINBI (YUAN) EXCHANGE RATE



Source: Bloomberg

OUTLOOK: *What do you expect to happen to the U.S. trade deficit over the next few years?*

EP: To put things in context, the U.S. trade deficit has actually declined quite significantly since its peak just before the global financial crisis. But my suspicion is that a strengthening dollar will cause some increase in the trade deficit from its current level.

The fact that the U.S. economy is becoming stronger usually implies more demand for imported goods. At the same time, exports

will decrease because they are effectively more expensive for purchasers. The bottom line, however, is that some widening of the trade deficit is likely in the coming years, but not to the levels that we saw before the global financial crisis.

OUTLOOK: *China is one major economy whose currency has not declined in value much relative to the dollar. Why is that?*

EP: China has a policy of maintaining the value of its currency, the renminbi (also known as the yuan), at a fairly stable level relative to the dollar. The government does not want its exporters and importers to face too much currency volatility. Moreover, until recently, there were strong pressures for the renminbi to appreciate because China was posting large trade surpluses (exporting more than it was importing) and also receiving large capital inflows from foreign investors. To resist these pressures for currency appreciation, which would have hurt the competitiveness of its exporters, China's central bank was intervening in currency markets—essentially buying up dollars and selling renminbi—in order to keep the value of the renminbi down relative to the dollar. Those appreciation pressures have abated recently, but China still prefers not to have much exchange rate volatility.

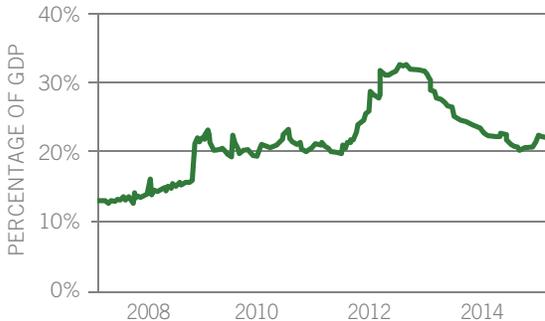
OUTLOOK: *What about the developing economies? For example, how is the strong dollar affecting the African continent?*

EP: Africa still exports a lot of commodities. If the rest of the world's economies, especially China, are not doing well, that reduces commodity demand and hurts African economies that rely on commodity exports for export and government revenues.

Also, the safe haven effect that is driving investors into U.S. government bonds means that less money is left over for investing in developing economies. Africa is getting reduced capital flows because of the

EURO ZONE CENTRAL BANK

BALANCE SHEET ASSETS 2007–2014



European Central Bank (ECB) balance sheet assets generally decreased as a percentage of GDP in 2013–14. In 2015, the ECB announced that it would purchase €60 billion in bonds per month issued by euro area central governments, agencies and European institutions. The asset purchase program will last through at least September 2016 in order to stimulate the European economy.

JAPAN CENTRAL BANK

BALANCE SHEET ASSETS 2007–2014



The Bank of Japan has been aggressively purchasing bonds and adding to its balance sheet since 2013. In February 2015, the bank said that it has no limit to how much it would expand its balance sheet relative to the size of its GDP.

Source: *The Wall Street Journal*

environment of economic uncertainty. In times of uncertainty, investors want to look for safer investments rather than those that could yield a higher return but are riskier.

Also, the fall in the price of oil has been a blow to many African countries that rely on oil exports for revenues. There are some net importers of oil in Africa, but I don't think they've been able to see many of the benefits from a lower oil price.

Overall, the reasons why the dollar is so strong – which is economic weakness and uncertainty in the rest of the world – certainly are not in Africa's favor.

OUTLOOK: What is the administration's view on the U.S. dollar – are they generally supporting a strong dollar policy?

EP: The U.S. government has consistently maintained a “strong dollar” policy. Every Treasury Secretary since Robert Rubin has faithfully upheld the mantra that they are for a strong dollar because it is seen as reflecting a strong economy.

Now, many of the policies of the U.S. government are not necessarily consistent with a strong dollar policy. In fact, four years ago, when President Obama said that he would double U.S. exports over the next five years, he didn't mention the dollar. Many economists thought it seemed odd that he would talk about doubling U.S. exports and not say how it could be accomplished without any change in the dollar's value. It's difficult to make exports more competitive without great productivity increases – it isn't realistic.

The strong dollar policy usually doesn't translate into any significant policy actions, but the notion of maintaining a strong dollar because it is seen as representing a country's economic strength is something that many administrations have held very tightly to. The other irony is that the U.S. Treasury is purportedly responsible for upholding the strength of the dollar while it is the Federal Reserve that has the largest effect on the dollar's value through its monetary policy decisions.

OUTLOOK: Is the Republican view fairly similar?

EP: It is. The notion of maintaining the dollar's value certainly has some appeal in both parties. The dollar's strength is seen as a sign of America's economic strength and, more broadly, America's position in the world.

The Federal Reserve had many critics who maintained that quantitative easing would lead to the dollar's demise. In fact, exactly the opposite happened – the more dollars that were printed, the more dollars were in demand. It turned out that, during and after the financial crisis, the global financial system was desperate for dollar funding and investors around

the world sought safety in dollar assets, especially U.S. Treasury bonds. Consider that since 2007, publicly traded debt issued by the U.S. federal government (excluding the amounts purchased by other parts of the U.S. government and the Federal Reserve) has increased by about \$6 trillion. Of this, about \$3.6 trillion – roughly 60 percent – has been purchased by foreign investors, including foreign central banks.

Despite the disagreement in policy, the notion of preserving the dollar's value because it signals America's dominance in the world economy, is something that both parties subscribe to.

OUTLOOK: How do you expect the dollar to perform over the next five years?

EP: The current conditions definitely favor persistent strength in the dollar, at least for the next couple of years. Given the absence of other viable safe haven currencies – and given that I anticipate significant economic turmoil in the rest of the world over the next three to five years – I suspect that the dollar will remain strong.

Unless there is a major drag on the U.S. economy – which I don't think will happen – I believe the Federal Reserve will start tightening monetary policy well before other central banks. Both in terms of short-term cyclical factors and long-term structural factors, we will see the dollar continuing to remain strong.

Having said that, in the last three or four months, the dollar has strengthened very sharply because other major central banks have been aggressively easing monetary policy. I expect that there would be some rollback of the dollar's strength once those central banks start normalizing monetary policy and if we start seeing a little better growth in Europe, Japan and the emerging markets. But, fundamentally, I don't think the dollar is going to lose much value over the next three to five years.

Over the longer term, currencies like China's renminbi are going to start playing a more important role in international finance. The renminbi will become a global reserve currency if they continue their economic and financial market reforms. All of the other currencies might chip away at the dollar's dominance to some extent, but I don't see any viable contender that could dethrone the dollar as the dominant global reserve currency in the world. ■

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 2/28/15. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	8	7	6	5
90	19	18	16	11
180	36	34	29	20
365	78	71	57	39

Costs are stated in basis points per year.

ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

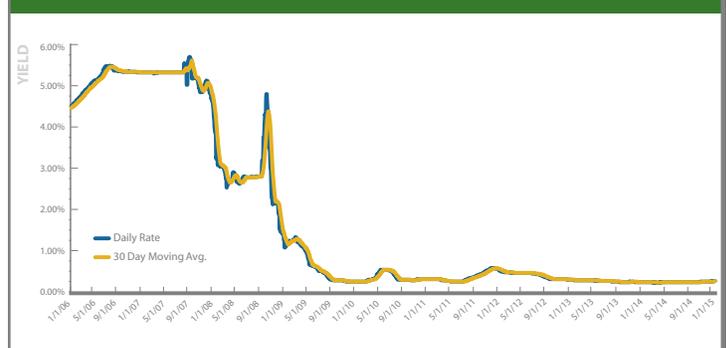
US Treasury Securities

2015	GDP	CPI	Funds	2-year	10-year
Q1	2.70%	-2.00%	0.12%	0.62%	2.00%
Q2	2.90%	1.90%	0.16%	0.88%	2.17%
Q3	3.00%	2.30%	0.32%	1.16%	2.39%
Q4	2.90%	2.10%	0.52%	1.44%	2.60%
2016	GDP	CPI	Funds	2-year	10-year
Q1	2.80%	2.20%	0.75%	1.69%	2.81%

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

3-MONTH LIBOR



PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

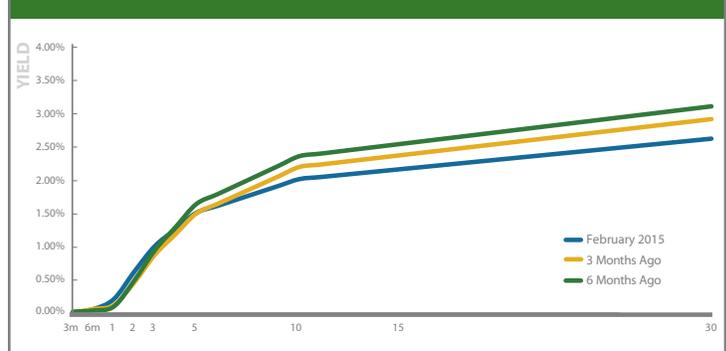
IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.27%	0.50%	1.29%	1.75%	2.01%	2.24%
0.25	0.37%	0.69%	1.46%	1.86%	2.10%	2.31%
0.50	0.56%	0.92%	1.63%	1.98%	2.18%	2.38%
0.75	0.79%	1.15%	1.78%	2.10%	2.28%	2.45%
1.00	1.04%	1.36%	1.93%	2.20%	2.35%	2.47%
1.50	1.47%	1.76%	2.15%	2.36%	2.48%	2.60%
2.00	1.87%	2.02%	2.31%	2.48%	2.57%	2.67%
2.50	2.05%	2.19%	2.42%	2.56%	2.63%	2.71%
3.00	2.23%	2.36%	2.53%	2.63%	2.70%	2.76%
4.00	2.45%	2.55%	2.64%	2.73%	2.78%	2.82%
5.00	2.59%	2.68%	2.72%	2.79%	2.83%	2.83%

RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





CoBank Announces Record Earnings and Patronage for 2014

About CoBank

CoBank is a \$107 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

CoBank recently announced full-year financial results for 2014, including record levels of profitability and patronage on behalf of its customer-owners.

Full-year net income was \$904.3 million, up 6 percent from \$856.5 million in 2013. The increase was driven primarily by higher net interest income, which increased 6 percent to \$1.2 billion, driven by higher average loan volume as well as increased earnings from the bank's balance sheet positioning. Average loan volume rose 7 percent to \$76.6 billion.



Robert B. Engel

"We're delighted with CoBank's business and financial performance in 2014," said Robert B. Engel, CoBank's chief executive officer. "The bank recorded its 15th consecutive year of growth in profitability on behalf of our customer-owners, an accomplishment matched by few if any other financial institutions in the world. Our credit quality remains strong, and our capital and liquidity levels remain solid. Most importantly, we continue to fulfill our mission of service to rural America."

During the year, the bank saw higher loan volume from a range of rural industries, including agricultural cooperatives, food and agribusiness companies, electric distribution cooperatives, power supply customers, and communications service providers. The bank's wholesale loans to its affiliated Farm Credit associations also increased due to heavier borrowing from their agricultural producer customers. "We are pleased that loan volume grew last year in the face of uncertain market conditions," Engel said. "We continue to benefit from the diversification of our customer base, and the bank's reputation for providing value and an exceptional customer experience."

The bank has distributed \$467.5 million in total patronage, including \$378.8 million in cash and \$88.7 million in common stock. For most customers, that will represent 100 basis points of average qualifying loan volume during the past year, effectively lowering their overall net cost of debt capital from CoBank. "Strong, dependable patronage is an essential part of the value proposition we offer to our customers," Engel said. "We're delighted with the level of patronage our board has approved this year, and we trust that our customers also value this important benefit of doing business with a bank that they own."

The bank recorded its 15th consecutive year of growth in profitability on behalf of our customer-owners, an accomplishment matched by few if any other financial institutions in the world.

Strong credit quality led to a \$15 million net reversal of a portion of the bank's allowance for loan losses during the year, compared to no provision or reversal in 2013, which contributed to CoBank's earnings performance. The bank's allowance for credit losses totaled \$596.8 million at year-end, or 1.54 percent of non-guaranteed loans when loans to Farm Credit associations are excluded. As of December 31, 2014, nonaccrual loans were \$130.3 million, or 0.16 percent of total loans, compared to \$147.8 million and 0.20 percent of total loans at year-end 2013. Adverse assets were 1.84 percent of total loans at year-end, compared to 0.71 percent at December 31, 2013. The increase in adverse assets was due to the downgrade of a wholesale loan to one of the bank's affiliated associations, which resulted from a sudden significant increase in delinquencies in a discrete portion of that association's retail loan portfolio. Nonetheless, CoBank does not currently anticipate any losses related to that association's loans and has not made any provision for loan loss or recorded any allowance for credit loss related to any of its wholesale loans as a result of strong collateralization and other mitigating factors.

For the fourth quarter of 2014, average loan volume increased 8 percent, to \$78.1 billion as compared to the fourth quarter of 2013. Net interest income also increased 8 percent, to \$312.2 million. Net income for the quarter was \$215.4 million, a decline of 5 percent from \$227.6 million in the same period of 2013. CoBank recorded a \$10.0 million provision for loan losses during the fourth quarter of 2014, compared to a \$20.0 million reversal in the prior-year period. "Although profitability was impacted by loan loss estimates, the bank's performance was solid during the quarter and reflected strong growth in loan demand from our customers," said David P. Burlage, CoBank's chief financial officer.

Capital and liquidity levels at the bank remain well in excess of regulatory minimums. As of December 31, 2014, shareholders' equity totaled \$7.4 billion, and the bank's permanent capital ratio was 15.7 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the bank's independent regulator. At year end, the bank held approximately \$26.2 billion in cash and investments. The bank had 172 days of liquidity at the end of 2014, compared with the 90-day FCA minimum.

“Strong, dependable patronage is an essential part of the value proposition we offer to our customers.”

Engel noted that despite CoBank’s strong performance in 2014, the bank continues to face a number of challenges, including intense competition from other banks and lenders for the business of its customers, the need for significant investment in people, processes and technologies to serve the needs of customers, and continued low interest rates that negatively impact returns on invested capital.

“Our board and executive management team believe strongly that the best strategy for CoBank is to remain focused on providing value to our customers – as both customers and owners – and on building the bank’s financial strength and stability for the long term,” Engel said. “We remain mindful of the enormous trust our customers place in CoBank and are deeply grateful that they choose us to serve as their financial partner.” ■