2020 Quarterly Report
SEPTEMBER 30, 2020

Dear CoBank Customer-Owner:

We are pleased to report that CoBank recorded another period of exceptional financial performance in the third quarter of 2020. Average loan volume for the quarter rose by 9 percent to $111.6 billion, while net income increased by 24 percent to $308.8 million, compared to the same period of the prior year. Credit quality remained strong across multiple measures, and we ended the quarter with capital and liquidity levels significantly in excess of regulatory minimums. For the nine-month period ended September 30, 2020, average loan volume increased by 7 percent to $111.1 billion, reflecting growth in lending across all three of our operating segments – agribusiness, rural infrastructure and Farm Credit banking. Year-to-date net income was $904.0 million, a 13 percent increase from the first nine months of 2019.

It goes without saying that these results are remarkable given the disruption experienced in the broader U.S. economy since the onset of COVID-19. In a year when many commercial banking institutions are reporting substantial declines in net income due to significant loan loss provisions, CoBank has achieved robust growth in earnings due to strong net interest income and fee income, operating expense discipline and a modest increase in our loan loss provision given our strong loan quality. This is first and foremost a reflection of the food, energy, water and communications industries we finance, which provide essential products and services that people cannot live without and which therefore have been less negatively impacted by the pandemic than many other sectors. We also believe they derive from the strong and enduring relationships we have established with our customers, who trust CoBank to dependably meet their needs for credit and financial services even in periods of extreme marketplace turmoil. Finally, CoBank's performance underscores the hard work and dedication of our employees, who have kept our business running smoothly and seamlessly despite the substantial workplace dislocations of COVID-19.

Our strong results notwithstanding, we remain intently focused on the myriad risks we face in our business going forward. We know that credit quality in our loan portfolio could deteriorate in future quarters as the economic repercussions of the pandemic play out in the rural economy. Extremely low interest rates are likely to continue for the foreseeable future, and while they are favorable for borrowers they create significant earnings challenges for all banks, CoBank included. Yet another challenge is federal policy uncertainty and the potential for significant changes to laws and regulations in the wake of November's Presidential and Congressional elections. Finally, the ongoing marketplace transition from LIBOR also presents risks and challenges that could have an impact on our business and our customers. Under the guidance and leadership of our board, we are determined to effectively manage these and other risks in order to preserve the bank's financial strength and flexibility for the long term.

The table below contains key financial data for the quarter and nine-month periods. Complete financial information is provided in Management's Discussion and Analysis and the financial statements and footnotes that follow this letter.

KEY FINANCIAL DATA

($ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
INCOME STATEMENT	**2020**	**2019**	**2020**	**2019**
Net interest income	$386	$337	$1,144	$1,046
Provision for loan losses	4	5	46	26
Noninterest income	71	49	224	169
Operating expenses	104	100	305	291
Net income	309	249	904	801

BALANCE SHEET (period-end)	**September 30, 2020**	**December 31, 2019**
Total loans	$111,984	$108,854
Less: allowance for loan losses	631	655
Net loans	111,353	108,199
Total assets	148,351	145,004
Total shareholders' equity	11,679	10,567

($ in millions)	Nine Months Ended September 30,	
PROFITABILITY METRICS	**2020**	**2019**
Net interest margin	1.05%	1.02%
Return on average common equity	11.40%	11.56%
Return on average assets	0.80%	0.78%
Operating expense ratio	21.09%	22.28%
Average total loans	$111,147	$104,087
Average earning assets	145,752	136,827
Average total assets	150,204	138,055

On behalf of our board and executive team, thanks to all of our stakeholders for the trust you place in us and for the continued opportunity to fulfill our mission of service to rural America. We greatly appreciate your support.

Kevin G. Riel
Chair of the Board

Thomas E. Halverson
President and Chief Executive Officer

November 9, 2020

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

CoBank, ACB

Business Overview

CoBank, ACB (CoBank or the Bank) is one of the four banks in the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across the rural communities of America. The System is a federally chartered network of borrower-owned cooperative lending institutions and related service organizations. The System was established in 1916 by the U.S. Congress, and is a government-sponsored enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; Agricultural Credit Associations (Associations), which are regulated, farmer-owned financial institutions and members of the System; and other businesses that serve agriculture and rural communities. We provide a broad range of loans and other financial services through three operating segments: Agribusiness, Farm Credit Banking and Rural Infrastructure.

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes, the accompanying regulatory capital disclosures and our 2019 Annual Report to Shareholders.

Consolidated Results of Operations

Average loan volume was $111.1 billion during the first nine months of 2020 compared to $104.1 billion in the same prior-year period. The 7 percent increase in average loan volume reflected growth in lending across all three operating segments. Loan growth occurred predominantly to affiliated Associations in our Farm Credit Banking operating segment as well as rural power, communications and water customers in our Rural Infrastructure operating segment. To a lesser extent, we also experienced loan growth to customers in our Agribusiness operating segment.

Net income increased $103.1 million to $904.0 million for the nine-month period ended September 30, 2020, compared to $800.9 million during the same period in 2019. The 13 percent increase in earnings resulted primarily from increases in net interest income and noninterest income. These items were somewhat offset by higher provisions for loan losses and income taxes as well as an increase in operating expenses in the 2020 period.

Net Interest Margin and Net Interest Income						
Nine Months Ended September 30,		**2020**			**2019**	
($ in Millions)	**Average Balance**	**Average Rate**	**Interest Income/ Expense**	**Average Balance**	**Average Rate**	**Interest Income/ Expense**
Interest-earning Assets[(1)]						
Loans	**$ 111,147**	**2.54 %**	**$ 2,117**	$ 104,087	3.64 %	$ 2,831
Investment Securities, Federal Funds Sold and Other Overnight Funds	**34,605**	**1.74**	**452**	32,740	2.43	594
Total Interest-earning Assets[(1)]	**145,752**	**2.35**	**2,569**	136,827	3.35	3,425
Total Interest-bearing Liabilities	**136,156**	**1.39**	**1,425**	126,127	2.52	2,379
Interest Rate Spread		**0.96**			0.83	
Impact of Equity Financing	**11,353**	**0.09**		10,011	0.19	
Net Interest Margin and Net Interest Income		**1.05 %**	**$ 1,144**		1.02 %	$ 1,046

(1) Interest-earning assets exclude cash and cash equivalents.

Net interest income increased $98.1 million to $1,144.3 million for the nine months ended September 30, 2020, compared to $1,046.2 million for the same prior-year period. The 9 percent increase in net interest income was primarily driven by higher average loan volume and higher earnings on balance sheet positioning.

Net interest margin improved to 1.05 percent for the first nine months of 2020 compared to 1.02 percent for the same period in 2019. The increase in net interest margin was primarily driven by higher earnings on balance sheet positioning, an improvement in lending spreads in most sectors of our agribusiness portfolio and the favorable impact of a nonaccrual loan to an agribusiness customer that was paid off in 2020. These items were partially offset by changes in asset mix, including increased lending to affiliated Associations which has lower spreads commensurate with lower risk.

We recorded a $46.0 million provision for loan losses in the nine-month period ended September 30, 2020. The 2020 provision primarily relates to our Agribusiness operating segment resulting from deterioration in credit quality and increased lending and leasing activity. These increases in the provision for loan losses were somewhat offset by a loan loss reversal in our Rural Infrastructure operating segment due to an improvement in credit quality in most portfolio sectors. The provision for loan losses in the 2020 period also included an additional level of reserves to reflect inherent losses in our loan portfolio resulting from deterioration in the macro environment and business disruptions related to COVID-19. As discussed in Note 2 to the accompanying condensed consolidated financial statements, CoBank is not yet required to implement, and has not implemented, the Current Expected Credit Losses (CECL) accounting standard. We recorded a $26.0 million provision for loan losses in the nine-month period ended September 30, 2019. The 2019 provision largely reflected deterioration in credit quality in our Agribusiness and Rural Infrastructure operating segments. Adversely classified loans and accrued interest improved to 0.90 percent of total loans and accrued interest at September 30, 2020 from 1.30 percent at December 31, 2019 due to payoffs of nonaccrual loans and credit quality upgrades of a limited number of rural power customers in our Rural Infrastructure operating segment. Nonaccrual loans improved $61.3 million to $179.4 million at September 30, 2020 from $240.7 million at December 31, 2019 primarily due to payment activity and charge-offs on several nonaccrual loans in our Agribusiness and Rural Infrastructure operating segments. Loan charge-offs, net of recoveries, totaled $31.2 million for the first nine months of 2020 compared to $1.0 million during the same period in 2019. The 2020 charge-offs primarily related to a limited number of communications and rural power customers in our Rural Infrastructure operating segment who experienced financial distress.

Noninterest income increased $54.7 million to $223.6 million for the first nine months of 2020 from $168.9 million for the same prior-year period. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. Net fee income increased $23.0 million in the 2020 period primarily due to a higher level of transaction-related lending fees in our Rural Infrastructure operating segment. Patronage income increased $14.0 million for the nine months ended September 30, 2020 due to a greater level of loans sold to affiliated Associations and other System institutions as well as a higher level of patronage received from other System institutions. Prepayment income increased $43.9 million in the 2020 period resulting from a higher level of customer refinancing activity and higher prepayment fees from certain of our affiliated Associations. Losses on early extinguishments of debt increased $36.1 million compared to the 2019 period and are generally incurred to offset the current and prospective impact of prepayments in our loan and investment portfolios. The availability in the market of similarly tenored debt, coupled with the timing of prepayments, do not always allow us to fully offset the impact of prepayments in the same period. Gains on derivatives increased $10.7 million compared to the 2019 period due to higher customer derivative transaction activity and related income. Noninterest income also included a return of excess insurance funds from the Farm Credit System Insurance Corporation (Insurance Corporation) related to the Farm Credit System Insurance Fund (Insurance Fund) of $12.6 million in the first nine months of 2020, as compared to $13.8 million in the same period of 2019. As more fully explained in our 2019 Annual Report, when the Insurance Fund exceeds the statutory 2 percent secure base amount (SBA), the Insurance Corporation may reduce premiums and return excess amounts. In both 2020 and 2019, the Insurance Fund began the year above the SBA.

Total operating expenses for the nine-month period ended September 30, 2020 increased $14.1 million to $305.2 million from $291.1 million for the same period in 2019. The higher level of operating expenses was primarily driven by an increase in employee compensation expense of $15.1 million to $164.4 million for the first nine months of 2020. The increase in employee compensation expense was driven by growth in the number of employees to support increased investments in our operating and technology platforms and other business initiatives as well as to maintain high levels of customer service. Employee compensation expense also increased due to annual merit increases. As of September 30, 2020 and 2019, we had 1,138 and 1,105 employees, respectively. Information services expense increased by $4.4 million due to greater expenditures to enhance our service offerings, technology platforms and digital banking capabilities. Purchased services expense increased $4.1 million primarily due to increased consulting fees related to enhancement of our enterprise information management capabilities as well as a higher level of professional fees. Insurance Fund premium expense increased $2.0 million in the first nine months of 2020 compared to the 2019 period due to an increase in debt funding growth in loan volume. Insurance Fund premium rates are set by the Insurance Corporation and were 8 basis points of adjusted insured debt obligations in the first half of 2020 and 11 basis points in the three months ended September 30, 2020 compared to 9 basis points throughout 2019. The premium rate will remain 11 basis points of adjusted insured debt obligations for the remainder of 2020. These increases in operating expenses were partially offset by a decrease in other operating expenses of $8.7 million in the first nine months of 2020 compared to the 2019 period. The decrease in other operating expenses is due to a lower level of expenditures for business travel and meeting related expenses due to COVID-19 restrictions.

Our income tax expense increased by $15.7 million to $112.8 million for the first nine months of 2020, compared to $97.1 million for the same prior-year period. Our effective tax rates were 11.1 percent and 10.8 percent for the nine-month periods ended September 30, 2020 and 2019, respectively. The increases in our income tax expense and the effective tax rate were primarily due to an increase in earnings attributable to taxable business activities. As discussed in our 2019 Annual Report, we recorded a $30.2 million favorable adjustment to the provision for income taxes in the fourth quarter of 2019 reflecting amendments to our 2015 through 2017 federal and state tax returns to realize the benefit of certain equipment leasing transactions. In April 2020, the Internal Revenue Service initiated an examination of these amended federal tax returns.

Our annualized return on average common shareholders' equity decreased to 11.40 percent for the nine months ended September 30, 2020 from 11.56 percent for the same period in 2019. This resulted from higher average capital balances during the 2020 period primarily related to unrealized gains on our investment securities somewhat offset by a higher level of earnings in the first nine months of 2020. Our annualized return on average assets increased to 0.80 percent for the nine-month period ended September 30, 2020 compared to 0.78 percent for the same period in 2019.

For the three months ended September 30, 2020, net income increased $60.3 million to $308.8 million, compared to $248.5 million for the same prior-year period. The increase in net income included an increase in net interest income of $48.9 million to $385.8 million for the third quarter of 2020 compared to the same prior-year period. This increase was primarily due to higher average loan volume and higher earnings from balance sheet positioning. Average loan volume increased to $111.6 billion during the three months ended September 30, 2020 compared to $102.4 billion in the same prior-year period and primarily reflected loan growth to affiliated Associations in our Farm Credit Banking operating segment and customers in our Rural Infrastructure and Agribusiness operating segments. The increase in net income also included a $21.9 million increase in noninterest income in the third quarter of 2020. Higher noninterest income included a $17.9 million increase in prepayment income due to a higher level of customer prepayment fees, an $8.2 million increase in gains on derivatives due to an increase in customer derivative transaction activity and related income, a $6.3 million increase in patronage income and a $5.9 million increase in net fee income primarily in our Rural Infrastructure operating segment. Partially offsetting these favorable noninterest income items was an $18.0 million increase in losses on early extinguishments of debt incurred to offset prepayment income, as previously described. We recorded a $4.0 million provision for loan losses during the third quarter of 2020 largely in our Agribusiness operating segment due to increased lending activity and deterioration in credit quality. During the three months ended September 30, 2019, we recorded a $5.0 million provision for loan losses. Operating expenses increased by $4.2 million in the third quarter of 2020, compared to the same prior-year period, largely due to an increase in employee compensation expense and an increase in Insurance Fund premium expense, partially offset by a decrease in other operating expenses due to a lower level of expenditures for business travel and meeting related expenses resulting from COVID-19 restrictions. Income tax expense increased by $7.4 million which was primarily the result of an increase in earnings attributable to taxable business activities.

Operating Segment Financial Review

We provide financial services to agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions and other businesses that serve agriculture and rural communities. We conduct lending operations through three operating segments: Agribusiness, Farm Credit Banking and Rural Infrastructure.

Loans outstanding and the allowance for loan losses by operating segment at September 30, 2020 and 2019 are reported in Notes 3 and 11 to the accompanying condensed consolidated financial statements. All customer activity, including loans and leases and related income, is specifically assigned to the business units that comprise the operating segments. Investment securities and federal funds sold and other overnight funds, which are primarily held as a liquidity reserve to support our banking operations, are not specifically assigned to operating segments; however, the income from investment securities and federal funds sold and other overnight funds is attributed to the operating segments. Net income by operating segment is summarized in the following table and is more fully detailed in Note 11 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment ($ in Thousands)

For the Nine Months Ended September 30,	**2020**	**2019[(1)]**
Operating Segment:		
Agribusiness	**$ 421,520**	$ 410,380
Farm Credit Banking	**191,358**	165,319
Rural Infrastructure	**291,107**	225,206
Total	**$ 903,985**	$ 800,905

[(1)] As discussed in Note 1, the 2019 period included reclassifications between the Agribusiness and Rural Infrastructure operating segments which had no impact on CoBank's consolidated net income.

Agribusiness

The Agribusiness operating segment includes loans and other financial services provided to a diverse market of cooperatives and other businesses in various agricultural sectors including grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Agribusiness loans outstanding totaled $30.7 billion at September 30, 2020, compared to $33.2 billion at December 31, 2019. The decrease in outstanding loan volume primarily resulted from lower seasonal financing requirements at grain and farm supply cooperative customers. The Agribusiness segment includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters of agricultural products. The Agricultural Export Finance Division had $5.8 billion and $5.9 billion in loans outstanding as of September 30, 2020 and December 31, 2019, respectively. At September 30, 2020 and December 31, 2019, 22 and 20 percent, respectively, of the loans in the Agricultural Export Finance Division were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of September 30, 2020 and December 31, 2019, FCL had $4.0 billion and $3.6 billion in leases outstanding, respectively.

Agribusiness average loan volume increased 2 percent to $32.9 billion for the first nine months of 2020 from $32.4 billion for the same period in 2019. Growth in Agribusiness average loan volume reflects increases in leasing activity and lending to agricultural export finance and food and agribusiness customers partially offset by a decrease in grain and farm supply lending.

Agribusiness net income increased $11.1 million in the first nine months of 2020 to $421.5 million from $410.4 million for the same period in 2019 due to increases in net interest income and noninterest income somewhat offset by a higher provision for loan losses and an increase in operating expenses.

Net interest income increased by $38.1 million to $584.0 million for the nine-month period ended September 30, 2020, from $545.9 million for the 2019 period. This increase was primarily due to an improvement in lending spreads in most portfolio sectors, interest income recognized on a nonaccrual loan to an agribusiness customer that was paid off in 2020 and higher average loan volume.

Agribusiness recorded a $51.0 million provision for loan losses during the first nine months of 2020 compared to $23.0 million in the same prior-year period. The 2020 provision primarily reflects deterioration in credit quality, increased lending activity, an additional level of reserves to reflect inherent losses in our loan portfolio resulting from deterioration in the macro environment and business disruptions related to COVID-19 and higher reserves related to two lease portfolio purchases. The 2019 provision reflected deterioration in overall credit quality. Nonaccrual loans in Agribusiness decreased $49.0 million to $171.4 million at September 30, 2020, as compared to $220.4 million at December 31, 2019 primarily due to nonaccrual loans to agribusiness customers that were paid off in 2020. Loan recoveries, net of charge-offs, totaled $0.7 million for the first nine months of 2020 compared to loan charge-offs, net of recoveries, of $1.6 million during the same period in 2019.

Noninterest income increased $11.9 million to $126.6 million in the first nine months of 2020 from $114.7 million for the 2019 period largely due to increased patronage income resulting from a greater level of loans sold to affiliated Associations and other System institutions as well as higher level of patronage income received from other System institutions. Higher customer derivative transaction activity and related income also contributed to increased noninterest income in the 2020 period. Noninterest income also included a return of excess insurance funds from the Insurance Corporation as described on page 5 totaling $7.7 million in the 2020 period compared to $8.5 million in the 2019 period.

Agribusiness operating expenses increased by $10.9 million to $183.2 million for the first nine months of 2020 from $172.3 million in the same prior-year period primarily due to the increases in employee compensation, information services, purchased services and Insurance Fund premium expense offset by the decrease in other operating expenses described on page 5.

Farm Credit Banking

The Farm Credit Banking operating segment includes wholesale loans from the direct funding relationships we have with our 21 affiliated Association customer-owners and our wholesale funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of September 30, 2020, the Farm Credit Banking loan portfolio totaled $57.6 billion, compared to $54.5 billion at December 31, 2019. At September 30, 2020 and December 31, 2019, loans outstanding included $52.6 billion and $49.6 billion, respectively, in wholesale loans to our affiliated Associations and $5.0 billion and $4.9 billion, respectively, of participations in wholesale loans made by other System banks to certain of their affiliated Associations. These participations included $3.9 billion as of September 30, 2020 and December 31, 2019 in wholesale loans made by the Farm Credit Bank of Texas (FCBT). The balance of participations of $1.1 billion and $1.0 billion as of September 30, 2020 and December 31, 2019, respectively, represent wholesale loans made by AgFirst Farm Credit Bank.

Farm Credit Banking average loan volume increased 10 percent to $55.6 billion for the nine-month period ended September 30, 2020, compared to $50.7 billion for the same prior-year period. The increase resulted from greater overall lending to agricultural producers and processors by our affiliated Associations, larger affiliated Associations funding syndicated loans and purchased participations as well as funding liquidity investment purchases for two affiliated Associations.

Farm Credit Banking net income increased $26.1 million to $191.4 million for the first nine months of 2020, as compared to $165.3 million for the same prior-year period. The increase resulted primarily from higher net interest income and noninterest income, partially offset by a slight increase in operating expenses.

Net interest income increased to $215.3 million in the first nine months of 2020 compared to $193.5 million for the same period in 2019, primarily due to growth in average loan volume.

As a wholesale lender to Associations, we benefit from the diversification provided by the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their respective loan portfolios. Lower spreads in the Farm Credit Banking operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. Notwithstanding the Special Mention credit quality classifications of two affiliated Association wholesale loans as discussed beginning on page 10, loan quality in Farm Credit Banking remains strong. No provision for loan losses or allowance for credit losses have been recorded related to any of our wholesale loans to Associations.

Farm Credit Banking noninterest income increased by $6.4 million to $10.0 million in the first nine months of 2020 from $3.6 million in the 2019 period. The increase primarily resulted from a higher level of prepayment fees from certain of our affiliated Associations, which was not offset by losses on extinguishments of debt in the current period. The availability in the market of similarly tenored debt, coupled with the timing of prepayments, do not always allow us to fully offset the impact of prepayments in the same period. Higher loan prepayment activity at our affiliated Associations is the result of the lower interest rate environment in 2020. The operating results of Farm Credit Banking in the nine months ended September 30, 2020 and 2019 did not benefit from the previously mentioned returns of excess insurance funds from the Insurance Corporation because these amounts were passed on directly to our Association customers since premium assessments are also directly passed on to them.

Operating expenses increased by $2.1 million to $33.9 million for the first nine months of 2020 from $31.8 million for the same prior-year period primarily due to the increases in employee compensation, information services, purchased services and Insurance Fund premium expense offset by the decrease in other operating expenses described on page 5. Farm Credit Banking has no income tax expense as the earnings on its business activities are statutorily tax-exempt.

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to cooperatives and other companies in the power and energy, communications, water and waste water industries as well as to community facilities in rural America. Power and energy industry customers include rural electric generation and transmission cooperatives, midstream energy and gas pipeline providers, electric distribution cooperatives, renewable energy providers, independent power producers, regulated utilities and investor-owned utilities. Communications industry customers include companies providing local wireline broadband services, long-haul and middle-mile fiber transport, and data center and cloud-based products to rural communities. Our customers also include regional and national communications providers with networks that are globally interconnected, who are essential to bringing services to rural America through their partnerships and contractual relationships with our rural customers. In addition, the Bank has customers in the water industry, including rural water and waste water companies, as well as rural health care and other community facilities. We also make investments in certain Rural Business Investment Companies (RBICs). Our investments in RBICs focus on small and middle market companies that create jobs and promote commerce in rural America. Rural Infrastructure loans outstanding increased to $23.6 billion at September 30, 2020, compared to $21.2 billion at December 31, 2019.

Rural Infrastructure average loan volume increased 8 percent to $22.6 billion for the first nine months of 2020, compared to $20.9 billion for the same prior-year period. The increase in loan volume primarily related to communications, rural power and water borrowers.

Rural Infrastructure net income increased by $65.9 million to $291.1 million for the first nine months of 2020, compared to $225.2 million for the same prior-year period. The increase was primarily driven by increases in net interest income and noninterest income and a lower provision for loan losses. These items were partially offset by a higher provision for income taxes and a slight increase in operating expenses.

Net interest income increased by $38.2 million to $345.0 million for the nine-month period ended September 30, 2020, compared to $306.8 million in the 2019 period. This increase was primarily due to growth in average loan volume somewhat offset by spread compression in certain portfolio sectors resulting from continued competition for our customers' business from other financial services institutions.

Rural Infrastructure recorded a loan loss reversal of $5.0 million during the first nine months of 2020 compared to a provision for loan losses of $3.0 million for the same period in 2019. The 2020 reversal primarily reflects improvements in credit quality in our electric distribution, rural power and water portfolios partially offset by deterioration in credit quality in our communications portfolio. The 2019 provision primarily reflected deterioration in credit quality driven by downgrades of a limited number of power and energy customers partially offset by credit quality improvements in our communications portfolio. Nonaccrual loans in Rural Infrastructure improved $12.4 million to $7.9 million at September 30, 2020, compared to $20.3 million at December 31, 2019 primarily due to payment activity and charge-offs of nonaccrual loans to Rural Infrastructure customers during 2020. Loan charge-offs, net of recoveries, totaled $31.9 million for the first nine months of 2020, compared to loan recoveries, net of charge-offs, of $0.6 million for the first nine months of 2019. The 2020 charge-offs primarily related to a limited number of communications and rural power customers who experienced financial distress.

Noninterest income increased by $36.5 million to $87.0 million for the nine-month period ended September 30, 2020, compared to $50.5 million for the same period in 2019 largely due to an increase in fee income resulting from a higher level of transaction-related lending fees. Higher customer derivative income also contributed to increased noninterest income in the 2020 period. Noninterest income also included a return of excess insurance funds from the Insurance Corporation as described on page 5 totaling $5.0 million in the 2020 period compared to $5.3 million in the 2019 period.

Rural Infrastructure operating expenses increased by $1.1 million to $88.0 million for the first nine months of 2020 compared to $86.9 million for the same prior-year period primarily due to the increases in employee compensation, information services, purchased services and Insurance Fund premium expense offset by the decrease in other operating expenses described on page 5.

Credit Quality, Liquidity, Capital Resources and Other

Loan Quality

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

Loan Quality Ratios

	September 30, 2020			December 31, 2019		
	Wholesale Loans (1)	Commercial Loans (2)	Total Bank	Wholesale Loans (1)	Commercial Loans (2)	Total Bank
Acceptable	**97.15 %**	**95.67 %**	**96.43 %**	94.50 %	94.73 %	94.61 %
Special Mention	**2.85**	**2.49**	**2.67**	5.50	2.67	4.09
Substandard	**-**	**1.82**	**0.89**	-	2.56	1.28
Doubtful	**-**	**0.02**	**0.01**	-	0.04	0.02
Loss	**-**	**-**	**-**	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

(1) Represents loans in our Farm Credit Banking operating segment
(2) Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures remain strong at September 30, 2020 and improved in total across all credit quality classification categories compared to December 31, 2019. Special Mention loans and accrued interest in total improved primarily due to upgrades from Special Mention to Acceptable of a wholesale loan to one of our affiliated Associations and a participation in a wholesale loan made by FCBT to one of its affiliated Associations. Special Mention loans and accrued interest, excluding wholesale loans to Associations, improved to 2.49 percent of total loans and accrued interest at September 30, 2020 compared to 2.67 percent at December 31, 2019. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") and related accrued interest as a percent of total loans and accrued interest improved to 0.90 percent at September 30, 2020, compared to 1.30 percent at December 31, 2019.

At September 30, 2020, Special Mention loans included $1.6 billion in wholesale loans to two of our affiliated Associations. Pursuant to our regulatory requirements, we classify our wholesale loans using the same Uniform Loan Classification System used for our commercial loans. Our loans to Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. While the Special Mention classification primarily reflects internal control and other operational weaknesses at these Associations, some of which were material weaknesses, as a result of the collateralization and other mitigants described above, we do not anticipate any losses related to these wholesale loans. As of September 30, 2020, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans to Associations.

We recorded a $46.0 million provision for loan losses in the first nine months of 2020 compared to $26.0 million in the 2019 period. The 2020 provision primarily relates to our Agribusiness operating segment resulting from deterioration in credit quality and increased lending and leasing activity. These increases in the provision for loan losses were somewhat offset by a loan loss reversal in our Rural Infrastructure operating segment due to an improvement in credit quality in most portfolio sectors. The provision for loan losses in the 2020 period also included an additional level of reserves to reflect inherent losses in our loan portfolio resulting from deterioration in the macro environment and business disruptions related to COVID-19. As discussed in Note 2 to the accompanying condensed consolidated financial statements, CoBank is not yet required to implement and has not implemented, the CECL accounting standard. The 2019 provision primarily reflected deterioration in credit quality in our Agribusiness and Rural Infrastructure operating segments. Loan charge-offs, net of recoveries, totaled $31.2 million for the first nine months of 2020 compared to $1.0 million during the same period in 2019. The 2020 charge-offs primarily related to a limited number of communications and rural power customers who experienced financial distress. Nonaccrual loans improved $61.3 million to $179.4 million at September 30, 2020, from $240.7 million at December 31, 2019 primarily due to payment activity and charge-offs on several nonaccrual loans in our Agribusiness and Rural Infrastructure operating segments. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $761.9 million at September 30, 2020, compared to $747.1 million at December 31, 2019. Our ACL, as a percent of total loans, was 0.68 percent and 0.69 percent at September 30, 2020 and December 31, 2019, respectively. As a percent of non-guaranteed loans outstanding and excluding loans to Associations, our ACL was 1.44 percent and 1.40 percent at September 30, 2020 and December 31, 2019, respectively.

Although the overall credit quality of our loan portfolio remained strong during the first nine months of 2020, economic conditions in the broader economy deteriorated rapidly beginning in March 2020. The introduction and spread of COVID-19 around the world has caused significant volatility and unfavorable conditions in the U.S. and international markets. There is significant uncertainty around the magnitude and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As such, it is uncertain the level of impact COVID-19 business disruptions will have on the Bank's credit quality. Since the onset of COVID-19, we elected to modify a number of our loans and leases to provide short-term relief to borrowers in need of temporary assistance. As of September 30, 2020, loan and lease modifications involving short-term principal and/or interest deferrals related to COVID-19 business disruptions were approximately one percent of our total loans excluding wholesale loans to Associations. At this time, we believe the credit quality impacts within our loan portfolio resulting from the COVID-19 business disruptions will be mixed with certain industries negatively impacted. We have identified certain industries including biofuels, dairy, protein, forest products, and fruits/nuts and vegetables as the most likely to be negatively impacted due to lower demand and supply chain disruptions in the current environment. However, there is uncertainty as to the magnitude and severity of the credit quality impacts to our loans in these sectors based on the information available in the marketplace at this time. Unfavorable changes to other industries from COVID-19 business disruptions may also negatively impact our credit quality in future periods. Management also performs ongoing stress testing and other forward-looking assessments of credit quality and the related impact on our earnings and capital under a variety of macroeconomic environments and COVID-19 economic recovery scenarios. These assessments are inherently subject to uncertainty, change and refinement considering the limited information currently available about the long-term impacts from the global and U.S. response to control the spread of COVID-19. Under these stress scenarios, the Bank continues to remain profitable, albeit at lower levels, and maintains capital above regulatory minimums.

Further credit quality deterioration could also result from other market factors impacting our customers, including ongoing trade disputes among the United States and its trading partners, declining farm income and weather related events. In addition, concentrations within our loan portfolio can cause the level of our loan quality, nonaccrual loans, charge-offs and provisions for loan losses or loan loss reversals to vary significantly from period to period.

Liquidity and Investments

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, provide additional liquidity if market conditions deteriorate and fund operations on a cost effective basis.

While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets, the volatility of our loan volume and customer cash flow requirements causes our liquidity needs to vary significantly from day to day.

One of the ways we measure and monitor our liquidity position is by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. At September 30, 2020, our liquidity was 179 days, compared to 176 days at December 31, 2019.

We hold cash, investment securities, federal funds sold and other overnight funds primarily to maintain a liquidity reserve and manage short-term surplus funds. Cash, federal funds sold and other overnight funds totaled $1.1 billion and $2.8 billion as of September 30, 2020 and December 31, 2019, respectively. Our investment securities were $33.4 billion at September 30, 2020, compared to $32.4 billion at December 31, 2019.

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

Investment Securities ($ in Millions)

	September 30, 2020			December 31, 2019		
	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)
Certificates of Deposit	$ -	$ -	$ -	$ 400	$ 400	$ -
U.S. Treasury Debt	16,546	17,112	566	15,908	16,062	154
U.S. Agency Debt	2,652	2,816	164	2,804	2,854	50
Residential Mortgage-Backed:						
Ginnie Mae	1,257	1,300	43	2,310	2,337	27
U.S. Agency	2,960	3,009	49	4,355	4,385	30
Commercial Mortgage-Backed:						
U.S. Agency	8,036	8,192	156	4,951	4,946	(5)
Corporate Bonds	364	377	13	363	373	10
Asset-Backed and Other	611	613	2	1,068	1,069	1
Total	$ 32,426	$ 33,419	$ 993	$ 32,159	$ 32,426	$ 267

Credit risk in our investment portfolio primarily exists in investment securities that are not guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency), which currently include asset-backed securities (ABS) backed by pools of prime auto loans and corporate bonds of midstream energy companies. The midstream energy corporate bonds are purchased under our lending authorities and not held for liquidity purposes. Our ABS and midstream energy corporate bonds collectively total $990.3 million or 3 percent of our total investment portfolio as of September 30, 2020. Credit risk in our investment portfolio also arises from counterparties to short-term investments, which include overnight bank deposits and federal funds sold. We recorded no other-than-temporary impairment losses on investment securities during the first nine months of 2020 or 2019.

Pursuant to FCA regulations, certain securities must be excluded from our liquidity reserve, which would include certificates of deposit that no longer carry one of the two highest short-term credit ratings and ABS that are no longer rated triple-A by at least one major rating agency; corporate bonds that do not carry one of the two highest ratings by at least one major rating agency; or any investment whose market value is less than 80 percent of book value. As of September 30, 2020, $463.7 million of such securities were excluded from our liquidity reserve, the most significant of which were our corporate bonds of midstream energy companies that are not held for liquidity purposes.

In the first nine months of 2020, we sold four U.S. Treasury debt securities for total proceeds of $1.5 billion which approximated their combined book value. In the first nine months of 2019, we sold seven U.S. Treasury debt securities and our remaining non-agency mortgage-backed securities (MBS) and home equity ABS portfolios for total proceeds of $1.8 billion which approximated their combined book value. These securities were primarily sold to manage liquidity and credit exposure, and to take advantage of favorable market conditions. The resulting gains (losses) from these investment sales are recorded in other noninterest income in the accompanying condensed consolidated statements of income for the nine months ended September 30, 2020 and 2019.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded net unrealized gains of $726.6 million for the first nine months of 2020, compared to net unrealized gains of $679.3 million for the same prior-year period. The unrealized gains recorded in both periods primarily reflect the impact of market interest rate changes on the fair value of fixed rate securities.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled $900.3 million and $770.8 million for the first nine months of 2020 and 2019, respectively.

Notwithstanding the various sources of liquidity discussed above, if no other sources existed to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), the assets of the Insurance Fund would be used to repay such debt.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances that threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2021 unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

As described in our 2019 Annual Report, included in our bonds and notes at December 31, 2019 was $250.0 million of Series A funding pursuant to a bond guarantee program offered by the Rural Utilities Service (RUS) agency of the United States Department of Agriculture. In May 2020, we closed on an additional $250.0 million of Series D funding. Both the Series A and Series D funding is provided by the Federal Financing Bank and guaranteed by RUS. As part of the bond guarantee agreement with RUS, we are required to pledge collateral in an amount equal to at least 110% of the principal balance of all bonds outstanding. While the Series A facility has been fully drawn, the Series D facility allows us to access funding for certain rural infrastructure loans through September 2024. As of September 30, 2020 we had $250.0 million and $100.0 million outstanding on the Series A funding and Series D funding, respectively.

Derivatives

We use derivatives as an integral part of our market risk management activities. Derivatives (primarily interest rate swaps) are used to manage liquidity and the market risk arising from maturity and repricing mismatches between assets and liabilities. We also hedge cap and floor risk embedded within our floating-rate investments and loans by entering into derivative transactions. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk.

Derivatives are recorded at fair value as assets or liabilities in the accompanying condensed consolidated balance sheets. Derivative assets totaled $1,046.9 million at September 30, 2020 compared to $380.7 million at December 31, 2019. Derivative liabilities totaled $719.8 million at September 30, 2020 compared to $263.1 million at December 31, 2019. The increases in derivative assets and derivative liabilities at September 30, 2020 are primarily the result of a higher level of customer derivative and liquidity management hedging activity, as well as lower interest rates compared to December 31, 2019.

Changes in the fair value of our derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items designated as hedging instruments are recorded in interest income and interest expense in the accompanying condensed consolidated statements of income and totaled net losses of $11.4 million and $6.9 million for the first nine months of 2020 and 2019. Net changes in the fair value of derivatives not designated as hedging instruments are recorded in noninterest income in the accompanying condensed consolidated statements of income and totaled net gains of $14.9 million and $4.2 million for the first nine months of 2020 and 2019, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled net gains of $20.6 million for the first nine months of 2020 compared to net losses of $37.8 million for the same period of the prior year.

Capital Resources

We believe that a sound capital position is critical to our long-term financial success and future growth. Our shareholders' equity is composed of preferred and common stock, retained earnings and other comprehensive income (loss), and totaled $11.7 billion and $10.6 billion at September 30, 2020 and December 31, 2019, respectively. During the first nine months of 2020, growth in shareholders' equity resulted from an increase in comprehensive income primarily resulting from our current period earnings as well as increases in net unrealized gains on investment securities driven by market interest rate changes. These factors were offset by patronage accruals, preferred stock dividends and common stock retirements.

At September 30, 2020 and December 31, 2019, our capital and leverage ratios exceeded regulatory minimums, as shown in the following table.

Regulatory Capital Requirements and Ratios

		September 30, 2020		December 31, 2019		
	Regulatory Minimums	Actual	Actual Buffer	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 Capital Ratio	4.5 %	**12.73 %**	**8.23 %**	12.70 %	8.20 %	2.5 %
Tier 1 Capital Ratio	6.0	**14.75**	**8.75**	14.83	8.83	2.5
Total Capital Ratio	8.0	**15.80**	**7.80**	15.86	7.86	2.5
Tier 1 Leverage Ratio	4.0	**7.35**	**3.35**	7.51	3.51	1.0
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5	**3.23**	**n/a**	3.24	n/a	n/a
Permanent Capital Ratio	7.0	**14.88**	**n/a**	14.95	n/a	n/a

See pages 58 through 67 for more information on required regulatory capital disclosures, including the components of the ratios displayed above.

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

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Inter-Bank Offered Rate (LIBOR), announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The FCA announced that it intends to make a formal announcement about the timing and the manner of LIBOR cessation prior to the end of 2021, and potentially as early as November 2020. The FCA has the authority and may announce that LIBOR, as of a future date, will no longer be representative of the underlying funding markets. This announcement by the FCA could be a triggering event for the purposes of LIBOR cessation under certain of our contracts and may require that the parties, as of such future date, cease use of LIBOR as their reference rate and apply a fallback rate as determined under such contracts.

CoBank recognizes the discontinuance of LIBOR presents significant risks and challenges that could have an impact on our business and our customers. Accordingly, CoBank has established a LIBOR governance and implementation program that includes senior management.

We have exposure to various LIBOR-indexed financial instruments that mature after 2021. This exposure includes loans that we make to our customers, investment securities that we purchase, Systemwide Debt Securities that are issued by the Federal Farm Credit Banks Funding Corporation (Funding Corporation) on the Bank's behalf, preferred stock that we issue and our derivative transactions. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the terms of the financial instruments, which could adversely affect the value of, and return on, instruments held by us. The transition from LIBOR could result in us paying higher interest rates on our current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, the instruments we hold that reference LIBOR, and increase the costs of, or affect our ability to effectively use, derivative instruments to manage interest rate risk. In addition, to the extent that we cannot successfully transition our LIBOR-indexed financial instruments to an alternative rate-based index that is endorsed or supported by regulators and generally accepted by the market, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments. Disputes and litigation with counterparties and borrowers relating to the transition are also possible. Due to the uncertainty regarding the transition from LIBOR-indexed financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning our LIBOR-indexed instruments to instruments with an alternative rate, we cannot yet reasonably estimate the expected financial impact of the LIBOR transition.

The following table represents our LIBOR-indexed financial instruments by contractual maturity.

LIBOR-Indexed Financial Instruments at September 30, 2020 ($ in Millions)

	Due in 2020	Due in 2021	Due in 2022 and After	Total
Commercial Loans [(1)]	$ 1,931	$ 5,718	$ 19,469	$ 27,118
Wholesale Loans [(2)]	-	10,115	-	10,115
Investment Securities	-	36	4,486	4,522
Debt	6,565	24,195	1,846	32,606
Derivatives (Notional Amounts)	2,774	7,466	33,262	43,502
Preferred Stock [(3)]	-	-	1,300	1,300

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

(2) Represents loans in our Farm Credit Banking operating segment.

(3) Represents our non-cumulative perpetual preferred stock with a fixed-to floating rate dividend feature indexed to 3-month USD LIBOR, which does not have a contractual maturity date. Includes $225 million that pays a dividend currently indexed to 3-month USD LIBOR plus a spread as of September 30, 2020. Dividends on an additional $400 million, $300 million, and $375 million of preferred stock convert from a fixed rate to 3-month USD LIBOR plus a spread in 2022, 2025, and 2026, respectively.

In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018.

On September 11, 2018 the FCA issued guidance for System institutions to follow as they prepare for the expected phase-out of LIBOR. Pursuant to the guidance, we have developed a LIBOR transition plan. The FCA identified the following as important considerations in the development of transition plans:

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- assessment of operational processes that need to be changed,
- communication strategies with customers and stakeholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the System, and
- a timeframe and action steps for completing key objectives.

As more fully described as 'Subsequent Events' in the notes to our condensed consolidated financial statements on page 57, in October 2020, we completed both the mandatory transition of our LIBOR-indexed cleared derivative transactions with our clearinghouse (CCP) to SOFR discounting as well as a debt exchange of a significant portion of our LIBOR-indexed floating rate debt maturing beyond December 31, 2021 to insert ARRC reference rate contractual fallback language in the event LIBOR is discontinued or no longer remains a representative rate index.

We continue to analyze potential risks associated with the LIBOR transition, including financial, market, accounting, operational, legal, tax, reputational and compliance risks. At this time, we are unable to precisely predict whether or when LIBOR will cease to be available or become unrepresentative, or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR. Because we routinely engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on us, our borrowers, investors, customers and counterparties.

Other Regulatory Matters

On September 10, 2020, the FCA issued a final rule on criteria to reinstate nonaccrual loans that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revised the criteria by which loans are reinstated to accrual status, and it revised the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The application of this rule did not impact the classification of any of our recorded nonaccrual balances at September 30, 2020.

On September 10, 2020, the FCA issued a proposed rule that would amend certain sections of FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in FCA's Tier 1/Tier 2 capital framework for the Farm Credit System. The proposed rule incorporates guidance previously provided by the FCA related to its Tier 1/Tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The public comment period ends on November 9, 2020.

On April 1, 2020, the FCA issued an informational memorandum for reporting troubled debt restructurings (TDRs) for customers affected by the COVID-19 outbreak. Pursuant to this guidance, borrowers experiencing short-term economic difficulties arising from the COVID-19 outbreak and who receive loan modifications including payment deferrals, fee waivers or other extensions of repayment terms are not required to be accounted for and reported as TDRs. This guidance covers the period beginning March 1, 2020, and ending on December 31, 2020, or 60 days after termination of the COVID-19 national emergency, whichever is earlier. As discussed on page 11, loan and lease modifications involving short-term principal and/or interest deferrals related to COVID-19 business disruptions were approximately one percent of our total loans excluding wholesale loans to Associations. None of these COVID-19 payment deferrals were treated as TDRs.

On September 23, 2019, the FCA issued a proposed rule to address changes to its capital regulation and certain other regulations in response to the CECL accounting standard. The proposed rule identifies which credit loss allowances under CECL are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25% of the System institution’s total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ended on November 22, 2019.

Senior Officer Changes

As announced on July 30, 2020, Deboleena Bose became the Bank’s Chief Human Resources Officer (“CHRO”) effective August 17, 2020. Ms. Bose succeeded Robert L. O’Toole who previously served in the CHRO role and will retire at the end of 2020.

Robert F. West, who served as the Bank’s head of the Rural Infrastructure Banking Group, retired effective June 30, 2020.

Business Outlook

Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, continually changing and difficult to predict, the effects of the COVID-19 pandemic on CoBank's business, results of operations and financial condition, as well as its impact on our ability to execute our business strategies and initiatives remain uncertain.

The COVID-19 pandemic rapidly evolved from a global public health crisis into a global economic crisis. Actions by government authorities to stem the spread of the disease shut down entire sectors of the global economy, significantly increased unemployment levels, and precipitated a contraction in economic output. In the United States, the Federal Reserve has deployed a full range of emergency monetary stimulus tools to ensure the financial system continues to function. The administration and Congress have also passed aggressive fiscal stimulus measures. However, it remains to be seen if such stimulus measures continue and how effective these policy responses will be given the unique attributes of the pandemic.

The crisis has forced the agriculture/food, power, water and communications industries to adapt quickly to maintain continuity in their operations. Consumer consumption patterns have changed dramatically as a result of COVID-19. Food supply chains have had to rapidly shift away from foodservice consumption to a higher share of grocery store food purchases. The power sector is grappling with weakening electricity consumption by the commercial and industrial sectors. Demand for water has also shifted from commercial to residential use, altering needs for many water authorities. Broadband providers are keeping up with a significant increase in internet usage. Additionally, the U.S. agricultural industry is dealing with volatile commodity prices for most major commodities, while exports could be challenged by logistics and the volatility of the U.S. dollar. Protein processing plant capacity utilization has rebounded, but could still be susceptible to further disruptions due to COVID-19. Milk prices initially decreased precipitously due to COVID-19 with forced school closures impacting fluid milk consumption. Milk prices have improved more recently although risks to dairy producers remain. The U.S. ethanol complex is navigating through a difficult environment exacerbated by volatile crude oil and gasoline prices and, while demand has improved recently, it is lower than comparable historical periods. The financial distress that is being experienced by our customers due to the impacts of COVID-19 could have an adverse impact on CoBank in the event that our customers are unable to fulfill their obligations to us.

If the impacts of COVID-19 continue for a protracted period or result in sustained economic distress, many of the risks described in our 2019 Annual Report under "Management's Discussion and Analysis – Enterprise Risk Profile" could be exacerbated. As discussed in this Quarterly Report, including under "Management's Discussion and Analysis of Financial Condition and Results of Operation – Credit Quality, Liquidity, Capital Resources and Other," the COVID-19 pandemic has heightened certain of these risks, including:

- Credit Risk: COVID-19 is creating significant stress for many industries within our loan portfolio because of lower demand and disruptions to employees, markets, transportation, supply chains and other factors important to their operations. The credit quality within our loan portfolio may be adversely affected – and, in some cases, severely adversely affected – by the impact of COVID-19;
- Liquidity Risk: The types of debt products and maturity structures that CoBank has historically issued could become more limited if economic, market and social developments create a high level of investor uncertainty;
- Market Risk: If the impact of COVID-19 and its economic consequences result in more volatile and unstable market conditions, CoBank's funding costs and market risk mitigation strategies could be negatively impacted; and
- Operational Risk: The continuation of CoBank's business continuity plan, including the remote-work policy, could cause CoBank's networks, information systems, applications and other tools available to employees to become strained and less reliable than CoBank's in-office technology. In addition, the remote-work arrangements present additional cybersecurity, vendor and third-party risks.

CoBank's efforts to manage and mitigate these risks and the other risks described in our 2019 Annual Report may be unsuccessful. Furthermore, the effectiveness of our mitigation efforts and the extent to which COVID-19 affects CoBank's business, results of operations and financial condition may depend on factors beyond our control.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). Congress has increased the funds available to small businesses under the PPP several times since the initial program was launched. CoBank obtained approval from the SBA in early April 2020 to participate as a lender in the PPP and successfully processed approximately $349 million in PPP loans for our agribusiness, energy, communications and water customers. New originations under the PPP ended in early August 2020. Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers as a result of the COVID-19 pandemic as well as making purchases of agriculture products. The impact of these and other U.S. government support programs and stimulus on the broader agricultural economy and our customers in particular is uncertain at this time.

Like every other business enterprise, CoBank has been focused on responding to this crisis and protecting the health and safety of our employees while continuing to serve our customers and fulfill our mission in rural America. We have been actively contacting customers across all the industries we finance to understand what their needs for credit and services will be as the crisis continues, and to make sure they know CoBank will be there to support them. While our board and executive team are hopeful that the pandemic will subside in coming months and that the economy will rebound, we are also realistic and prepared for a potentially drawn-out recovery.

Our Board of Directors and executive team remain focused, now as much as ever, on upholding the long-term financial strength and capacity of the Bank to continue fulfilling the needs of our customer-owners with excellence, and fulfilling our mission to serve rural America.

CoBank cannot predict the severity and duration of the impact of the COVID-19 pandemic. Accordingly, CoBank is currently unable to accurately assess the full extent of the effects of COVID-19 on its business, operations or the global economy as a whole, but it could materially and adversely affect CoBank's business, results of operations and financial condition.

Forward-Looking Statements

Certain of the statements contained in this quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially and adversely from our expectations expressed in any forward-looking statements. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "target," "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:

- Adverse effects of the COVID-19 pandemic and related business disruptions;
- Government trade policies in the United States and other countries, including tariffs and other restrictions that impact markets for agricultural and other products;
- Changes in economic, marketplace or regulatory environments that negatively impact the agricultural, power, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices and actions taken by the Federal Reserve to manage the monetary policy of the United States;
- Replacement of LIBOR and the implementation of SOFR or another benchmark rate index;
- Currency fluctuations that impact the value of the U.S. dollar in global markets;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Adverse effect of wildfires, floods and other natural disasters which may have a direct or indirect impact on certain of our borrowers;
- Changes in levels of global crop production, exports, usage and inventories;
- Credit performance of the loan portfolio;
- Performance of underlying collateral, including farmland values and specialized property that secures rural infrastructure credits;
- Loan portfolio growth and seasonal factors;
- Weakening domestic and global economic conditions;
- Volatility in energy commodity prices including oil and other fuel prices;
- Government policies and political developments in the United States and other countries in which we do business;
- Changes to laws and regulations resulting from the Presidential and Congressional elections;
- Disruptions caused by societal unrest in the United States;
- Geopolitical uncertainties throughout the world that may impact the industries we lend to, or, economic, fiscal or monetary conditions;
- Changes in the U.S. government's support of the System, the agricultural industry, agricultural exports, rural infrastructure and rural economies;
- Legislative or regulatory actions that affect current and ongoing operations of the System or the banking, financial services, agricultural, power, communications, water and leasing industries;
- Legislative or regulatory actions that affect our relationships with our employees;
- Actions taken by the U.S. Congress relative to other government-sponsored enterprises, including Fannie Mae, Freddie Mac, the FHLB and Farmer Mac;
- Actions taken by the U.S. government to manage U.S. immigration or fiscal policies;
- Changes to tax laws;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide Debt Securities;
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, that could adversely affect our business, financial performance and reputation;

- Disruptive technologies impacting the banking and financial services industries or implemented by our competitors which negatively impact our ability to compete in the marketplace;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in estimates underlying the allowance for credit losses, including the implementation of the CECL accounting standard;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative and vendor contracts;
- Success of business model solutions focused on strengthening our ability to fulfill the System's collective mission, including through the more efficient use of capital; and
- Our ability to continue to partner with various System and other entities in light of ongoing consolidation within the System and the industries we serve.

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 Balance Sheets
CoBank, ACB

($ in Thousands)

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Total Loans	**$ 111,984,241**	$ 108,854,253
Less: Allowance for Loan Losses	**631,370**	654,764
Net Loans	**111,352,871**	108,199,489
Cash and Cash Equivalents	**188,850**	948,669
Federal Funds Sold and Other Overnight Funds	**878,000**	1,810,000
Investment Securities	**33,419,084**	32,425,944
Interest Rate Swaps and Other Financial Instruments	**1,046,888**	380,715
Accrued Interest Receivable and Other Assets	**1,465,692**	1,239,246
Total Assets	**$ 148,351,385**	$ 145,004,063
Liabilities		
Bonds and Notes	**$ 134,142,571**	$ 132,230,166
Interest Rate Swaps and Other Financial Instruments	**719,794**	263,134
Reserve for Unfunded Commitments	**130,537**	92,302
Accrued Interest Payable and Other Liabilities	**1,679,114**	1,851,568
Total Liabilities	**$ 136,672,016**	$ 134,437,170
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity		
Preferred Stock	**$ 1,500,000**	$ 1,500,000
Common Stock	**3,684,183**	3,621,577
Unallocated Retained Earnings	**5,733,264**	5,350,891
Accumulated Other Comprehensive Income	**761,922**	94,425
Total Shareholders' Equity	**$ 11,679,369**	$ 10,566,893
Total Liabilities and Shareholders' Equity	**$ 148,351,385**	$ 145,004,063

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

Condensed Consolidated Statements of Income

CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Interest Income				
Loans	**$ 600,896**	$ 903,175	**$ 2,117,204**	$ 2,831,048
Investment Securities, Federal Funds Sold and Other Overnight Funds	**132,671**	199,811	**452,048**	594,104
Total Interest Income	**733,567**	1,102,986	**2,569,252**	3,425,152
Interest Expense	**347,814**	766,159	**1,424,925**	2,378,914
Net Interest Income	**385,753**	336,827	**1,144,327**	1,046,238
Provision for Loan Losses	**4,000**	5,000	**46,000**	26,000
Net Interest Income After Provision for Loan Losses	**381,753**	331,827	**1,098,327**	1,020,238
Noninterest Income (Expense)				
Net Fee Income	**34,436**	28,509	**104,383**	81,407
Patronage Income	**27,163**	20,878	**79,293**	65,322
Prepayment Income	**24,017**	6,103	**53,477**	9,604
Losses on Early Extinguishments of Debt	**(24,562)**	(6,558)	**(45,110)**	(9,003)
Gains (Losses) on Derivatives	**7,796**	(361)	**14,924**	4,200
Return of Excess Insurance Funds	**-**	-	**12,617**	13,789
Other, Net	**2,391**	763	**4,020**	3,533
Total Noninterest Income	**71,241**	49,334	**223,604**	168,852
Operating Expenses				
Employee Compensation	**57,185**	52,438	**164,399**	149,335
Insurance Fund Premium	**16,616**	12,718	**41,755**	39,785
Information Services	**13,268**	11,380	**36,934**	32,514
General and Administrative	**5,617**	6,870	**18,680**	20,202
Occupancy and Equipment	**4,001**	4,108	**11,911**	12,579
Farm Credit System Related	**3,240**	3,811	**11,976**	12,496
Purchased Services	**3,963**	3,774	**13,249**	9,194
Other	**615**	5,219	**6,247**	14,954
Total Operating Expenses	**104,505**	100,318	**305,151**	291,059
Income Before Income Taxes	**348,489**	280,843	**1,016,780**	898,031
Provision for Income Taxes	**39,708**	32,307	**112,795**	97,126
Net Income	**$ 308,781**	$ 248,536	**$ 903,985**	$ 800,905

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

Condensed Consolidated Statements of Comprehensive Income
CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net Income	**$ 308,781**	$ 248,536	**$ 903,985**	$ 800,905
Other Comprehensive (Loss) Income, Net of Tax:				
Net Change in Unrealized (Losses) Gains on Investment Securities Not Other-Than-Temporarily Impaired	**(65,105)**	95,076	**641,688**	601,625
Net Change in Unrealized Losses on Other-Than-Temporarily Impaired Investment Securities	**-**	-	**-**	(102)
Net Change in Unrealized (Losses) Gains on Interest Rate Swaps and Other Financial Instruments	**(7,512)**	(8,539)	**20,571**	(37,789)
Net Pension Adjustment	**1,746**	971	**5,238**	2,913
Other Comprehensive (Loss) Income	**(70,871)**	87,508	**667,497**	566,647
Comprehensive Income	**$ 237,910**	$ 336,044	**$ 1,571,482**	$ 1,367,552

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

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

($ in Thousands) (Unaudited)

For the Nine Months Ended September 30,		2020		2019
Balance at Beginning of Period	**$**	**10,566,893**	$	9,534,933
Cumulative effect adjustment from change in accounting principle[1]		**-**		8,596
Balance at Beginning of Period, as adjusted		**10,566,893**		9,543,529
Comprehensive Income		**1,571,482**		1,367,552
Preferred Stock:				
Dividends		**(63,530)**		(65,862)
Common Stock:				
Issuances		**52**		59
Retirements		**(34,792)**		(44,026)
Cash Patronage Accrued		**(360,736)**		(353,944)
Balance at End of Period	**$**	**11,679,369**	$	10,447,308

[1] Effective January 1, 2019, we adopted changes in lease accounting pursuant to ASU "Leases (Topic 842)".

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

Condensed Consolidated Statements of Cash Flows
CoBank, ACB

($ in Thousands) (Unaudited)

For the Nine Months Ended September 30,	2020	2019
Cash Flows Provided by Operating Activities		
Net Income	$ **903,985**	$ 800,905
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	**46,000**	26,000
Deferred Income Taxes	**17,444**	5,421
Depreciation and Amortization/Accretion, Net	**41,064**	12,499
Losses on Early Extinguishments of Debt	**45,110**	9,003
Increase in Accrued Interest Receivable and Other Assets	**(32,373)**	(29,063)
Decrease in Accrued Interest Payable and Other Liabilities	**(119,773)**	(13,634)
Net Losses on Interest Rate Swaps and Other Financial Instruments	**6,989**	14,841
Purchase of Interest Rate Caps	**-**	(47,017)
Payments on Operating Lease Liabilities	**(7,501)**	(7,290)
Other	**(667)**	(862)
Net Cash Provided by Operating Activities	**900,278**	770,803
Cash Flows (Used in) Provided by Investing Activities		
Net (Increase) Decrease in Loans	**(3,172,168)**	2,580,214
Net (Increase) Decrease in Investment Securities	**(253,497)**	631,026
Net Decrease (Increase) in Federal Funds Sold and Other Overnight Funds	**932,000**	(263,000)
Net Cash (Used in) Provided by Investing Activities	**(2,493,665)**	2,948,240
Cash Flows Provided by (Used in) Financing Activities		
Net Issuances (Repayments) of Bonds and Notes	**1,655,981**	(4,130,046)
Payments on Early Extinguishments of Debt	**(45,110)**	(9,003)
Net Retirements of Common Stock	**(34,740)**	(43,967)
Cash Patronage Distribution Paid	**(475,638)**	(475,073)
Special Cash Patronage Distribution Paid	**(39,839)**	-
Preferred Stock Dividends Paid	**(58,571)**	(60,042)
Cash Collateral Paid to Derivative Counterparties, Net	**(198,990)**	(270,960)
Variation Margin Received on Cleared Derivatives, Net	**30,475**	209,959
Net Cash Provided by (Used in) Financing Activities	**833,568**	(4,779,132)
Net Decrease in Cash	**(759,819)**	(1,060,089)
Cash at Beginning of Period	**948,669**	1,368,075
Cash at End of Period	$ **188,850**	$ 307,986
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ **-**	$ (147,443)
Net Change in Receivables from Investment Securities	**(4,918)**	62,798
Net Change in Unrealized Gains on Investment Securities, Before Taxes	**726,614**	679,314
Net Change in Unrealized Gains (Losses) on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	**20,630**	(37,660)
Patronage in Common Stock	**97,346**	96,181
Cash Patronage Payable	**360,736**	353,943
Supplemental Noncash Information Related to Leases		
Addition of Right-of-Use Assets and Operating Lease Liabilities to Balance Sheet	**-**	82,290
Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities	**6,109**	6,055
Reclassification of Deferred Gains Associated with Sale-Leaseback Transaction	**-**	8,596

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

Notes to Condensed Consolidated Financial Statements

CoBank, ACB

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

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

CoBank is a member of the Farm Credit System (System). We provide loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. We are cooperatively owned by our eligible U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; Agricultural Credit Associations (Associations), which are regulated, farmer-owned financial institutions and members of the System; and other businesses that serve agriculture and rural communities.

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2019 Annual Report, which includes a description of our organization and lending authority. Also included in the 2019 Annual Report is a summary of significant accounting policies. These quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies. Certain reclassifications have been made to amounts reported in previous periods to conform to the 2020 presentation. Cash collateral and variation margin related to derivative transactions were reclassified in the 2019 period to present separate lines within financing activities in the condensed consolidated statements of cash flows. Noninterest income and the provision for income taxes in the 2019 period included a reclassification between the Agribusiness and Rural Infrastructure operating segments in the segment financial information in Note 11.

CoBank is the funding bank for certain System Associations, which are collectively referred to as our "affiliated Associations." The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." Additional information about our affiliated Associations is contained in Note 12 to these condensed consolidated financial statements.

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.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provides relief from certain requirements under U.S. GAAP, was signed. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and in certain situations these modifications may not need to be classified as TDRs if certain criteria are met. While we have adopted this TDRs accounting and disclosure relief for qualifying loan and lease modifications, it was not material to our consolidated financial position, results of operations or cash flows.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The update provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform. The update simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. With respect to hedge accounting, the update allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments were effective for all entities as of March 12, 2020, through December 31, 2022. We will apply the optional accounting expedients available under this ASU to our planned debt contract modifications and certain of our derivative contract modifications related to the LIBOR transition beginning in the fourth quarter of 2020.

In December 2019, the FASB issued, "Simplifying the Accounting for Income Taxes (Topic 740)." This guidance eliminates certain intraperiod tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate or simplify certain aspects of income tax accounting that are complex or that require significant judgement in application or presentation. The guidance will be effective for fiscal years after December 15, 2021. Early adoption of the guidance is permitted and we adopted the new standard on January 1, 2020. The adoption of this guidance did not impact our consolidated financial position or results of operations; nor will the guidance impact the presentation of taxes for prior periods in the 2020 interim or year-end financial statements.

In August 2018, the FASB issued ASU, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. We adopted this new standard on January 1, 2020. The adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public business entities, the ASU becomes effective for fiscal years ending after December 15, 2020, with early adoption permitted. The adoption of this guidance will not impact the Bank's financial condition or its results of operations, but will result in removal or modification of certain of the employee benefit plan disclosures.

In June 2016, the FASB issued ASU, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost; (2) loan commitments and certain other off-balance sheet credit exposures; (3) debt securities and other financial assets measured at fair value through other comprehensive income (loss); and (4) beneficial interests in securitized financial assets. For public business entities that are not U.S. Securities and Exchange Commission (SEC) filers the ASU was to become effective in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, and early application is permitted. In October 2019, the FASB deferred the effective date of the ASU by two years to fiscal years beginning after December 15, 2022 for business entities that do not meet the definition of an SEC filer. CoBank is not yet required and has not implemented this new ASU as of September 30, 2020. However, we intend to adopt this new ASU on the required adoption date for non-SEC filers of January 1, 2023. While we continue to review the guidance and evaluate assumptions and models, we believe the ASU may result in a change in the allowance for credit losses given the change to estimated losses over the contractual life with an anticipated impact from longer duration portfolios, as well as the addition of an allowance for investment securities and other financial instruments. The amount of the increase or decrease, if any, will be impacted by the composition of our portfolios and credit quality at the adoption date, as well as economic conditions and forecasts at that time. In addition, we are required to adopt certain new loan and allowance for credit losses disclosures upon adopting the new ASU.

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

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

	September 30, 2020	December 31, 2019
Agribusiness	$ 30,739	$ 33,168
Farm Credit Banking	57,648	54,459
Rural Infrastructure	23,597	21,227
Total	$ 111,984	$ 108,854

Allowance for Credit Losses

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

	Agribusiness	Farm Credit Banking[1]	Rural Infrastructure	Total
September 30, 2020				
Allowance for Loan Losses				
Beginning Balance at January 1, 2020	$ 471,495	$ -	$ 183,269	$ 654,764
Charge-offs	(1,276)	-	(32,172)	(33,448)
Recoveries	2,010	-	279	2,289
Provision for Loan Losses (Loan Loss Reversal)	51,000	-	(5,000)	46,000
Transfers to Reserve for Unfunded Commitments[2]	(36,988)	-	(1,247)	(38,235)
Ending Balance at September 30, 2020	486,241	-	145,129	631,370
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2020	77,471	-	14,831	92,302
Transfers from Allowance for Loan Losses[2]	36,988	-	1,247	38,235
Ending Balance at September 30, 2020	114,459	-	16,078	130,537
Allowance for Credit Losses	$ 600,700	$ -	$ 161,207	$ 761,907
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans and Unfunded Commitments:				
Individually Evaluated for Impairment	$ 46,103	$ -	$ 600	$ 46,703
Collectively Evaluated for Impairment	554,597	-	160,607	715,204
Total	$ 600,700	$ -	$ 161,207	$ 761,907
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 171,449	$ 57,740,146	$ 7,944	$ 57,919,539
Collectively Evaluated for Impairment	30,662,519	-	23,663,689	54,326,208
Total	$ 30,833,968	$ 57,740,146	$ 23,671,633	$ 112,245,747

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

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

	Agribusiness	Farm Credit Banking[1]	Rural Infrastructure	Total
September 30, 2019				
Allowance for Loan Losses				
Beginning Balance at January 1, 2019	$ 438,804	$ -	$ 182,787	$ 621,591
Charge-offs	(3,517)	-	-	(3,517)
Recoveries	1,895	-	616	2,511
Provision for Loan Losses	23,000	-	3,000	26,000
Transfers (to) from Reserve for Unfunded Commitments[2]	(26,558)	-	1,568	(24,990)
Ending Balance at September 30, 2019	433,624	-	187,971	621,595
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2019	63,452	-	18,197	81,649
Transfers from (to) Allowance for Loan Losses[2]	26,558	-	(1,568)	24,990
Ending Balance at September 30, 2019	90,010	-	16,629	106,639
Allowance for Credit Losses	$ 523,634	$ -	$ 204,600	$ 728,234
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans and Unfunded Commitments:				
Individually Evaluated for Impairment	$ 51,385	$ -	$ 22,547	$ 73,932
Collectively Evaluated for Impairment	472,249	-	182,053	654,302
Total	$ 523,634	$ -	$ 204,600	$ 728,234
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 282,040	$ 52,361,284	$ 28,641	$ 52,671,965
Collectively Evaluated for Impairment	28,702,462	-	20,863,971	49,566,433
Total	$ 28,984,502	$ 52,361,284	$ 20,892,612	$ 102,238,398

(1) As a result of a strong collateral position with respect to loans to Associations, along with the earnings, capital, portfolio diversification and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Farm Credit Banking operating segment.

(2) These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

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

Credit Quality

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

September 30, 2020	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
Acceptable	$ 27,194,099	$ 1,506,354	$ 56,097,051	$ 23,439,686	$ 108,237,190
Special Mention	1,180,422	-	1,643,095	177,947	3,001,464
Substandard	944,855	-	-	48,898	993,753
Doubtful	8,238	-	-	5,102	13,340
Loss	-	-	-	-	-
Total	$ 29,327,614	$ 1,506,354	$ 57,740,146	$ 23,671,633	$ 112,245,747
December 31, 2019					
Acceptable	$ 29,723,483	$ 1,198,721	$ 51,583,749	$ 20,800,575	$ 103,306,528
Special Mention	1,297,856	-	3,004,750	159,563	4,462,169
Substandard	1,074,366	-	-	326,963	1,401,329
Doubtful	8,063	-	-	13,567	21,630
Loss	-	-	-	-	-
Total	$ 32,103,768	$ 1,198,721	$ 54,588,499	$ 21,300,668	$ 109,191,656

Aging Analysis

The following table presents an aging of past due loans and accrued interest.

September 30, 2020	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
30-89 Days Past Due	$ 14,431	$ -	$ -	$ -	$ 14,431
90 Days Past Due	33,887	-	-	5,102	38,989
Total Past Due	$ 48,318	$ -	$ -	$ 5,102	$ 53,420
Current	29,279,296	1,506,354	57,740,146	23,666,531	112,192,327
Total	$ 29,327,614	$ 1,506,354	$ 57,740,146	$ 23,671,633	$ 112,245,747
Accruing Loans 90 Days or More Past Due	$ 1,431	$ -	$ -	$ -	$ 1,431
December 31, 2019					
30-89 Days Past Due	$ 12,111	$ -	$ -	$ 31,360	$ 43,471
90 Days Past Due	43,329	-	-	14,943	58,272
Total Past Due	$ 55,440	$ -	$ -	$ 46,303	$ 101,743
Current	32,048,328	1,198,721	54,588,499	21,254,365	109,089,913
Total	$ 32,103,768	$ 1,198,721	$ 54,588,499	$ 21,300,668	$ 109,191,656
Accruing Loans 90 Days or More Past Due	$ 4,314	$ -	$ -	$ 1,377	$ 5,691

Impaired Loans

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

September 30, 2020	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Farm Credit Banking[1]	Rural Infrastructure	Total
Nonaccrual Loans[2]	**$ 171,449**	**$ -**	**$ -**	**$ 7,944**	**$ 179,393**
Accruing Loans 90 Days or More Past Due	**1,431**	**-**	**-**	**-**	**1,431**
Accruing Restructured Loans	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 172,880**	**$ -**	**$ -**	**$ 7,944**	**$ 180,824**
December 31, 2019					
Nonaccrual Loans[2]	$ 220,398	$ -	$ -	$ 20,285	$ 240,683
Accruing Loans 90 Days or More Past Due	4,314	-	-	1,377	5,691
Accruing Restructured Loans	6,192	-	-	-	6,192
Total Impaired Loans	$ 230,904	$ -	$ -	$ 21,662	$ 252,566

(1) There were no impaired loans in our Agribusiness Guaranteed or Farm Credit Banking portfolios for any of the periods presented.

(2) Included in nonaccrual loans at September 30, 2020 and December 31, 2019 were $76.8 million and $96.2 million, respectively, of loans that qualified as troubled debt restructurings.

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

September 30, 2020	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Farm Credit Banking(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	**$ 45,241**	**$ -**	**$ -**	**$ 7,103**	**$ 52,344**
Unpaid Principal	**65,673**	**-**	**-**	**35,573**	**101,246**
Average Balance	**55,560**	**-**	**-**	**5,249**	**60,809**
Interest Income Recognized	**13,231**	**-**	**-**	**-**	**13,231**
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	**127,639**	**-**	**-**	**841**	**128,480**
Unpaid Principal	**161,505**	**-**	**-**	**947**	**162,452**
Allowance for Loan Losses	**46,103**	**-**	**-**	**600**	**46,703**
Average Balance	**144,530**	**-**	**-**	**38,633**	**183,163**
Interest Income Recognized	**692**	**-**	**-**	**-**	**692**
Total Impaired Loans					
Carrying Amount	**172,880**	**-**	**-**	**7,944**	**180,824**
Unpaid Principal	**227,178**	**-**	**-**	**36,520**	**263,698**
Allowance for Loan Losses	**46,103**	**-**	**-**	**600**	**46,703**
Average Balance	**200,090**	**-**	**-**	**43,882**	**243,972**
Interest Income Recognized	**13,923**	**-**	**-**	**-**	**13,923**
December 31, 2019					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 81,361	$ -	$ -	$ 1,377	$ 82,738
Unpaid Principal	110,807	-	-	1,373	112,180
Average Balance	110,375	-	-	807	111,182
Interest Income Recognized	4,012	-	-	116	4,128
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	149,543	-	-	20,285	169,828
Unpaid Principal	179,071	-	-	32,403	211,474
Allowance for Loan Losses	49,567	-	-	15,047	64,614
Average Balance	166,462	-	-	29,487	195,949
Interest Income Recognized	440	-	-	1,136	1,576
Total Impaired Loans					
Carrying Amount	230,904	-	-	21,662	252,566
Unpaid Principal	289,878	-	-	33,776	323,654
Allowance for Loan Losses	49,567	-	-	15,047	64,614
Average Balance	276,837	-	-	30,294	307,131
Interest Income Recognized	4,452	-	-	1,252	5,704

(1) There were no impaired loans in our Agribusiness Guaranteed or Farm Credit Banking portfolios for any of the periods presented.

Commitments on Impaired Loans

There were $23.6 million in commitments available to be drawn by borrowers whose loans were classified as impaired at September 30, 2020.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions, interest rate reductions, and/or forgiveness of principal or interest. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2019 Annual Report. During the nine months ended September 30, 2020, there were no modifications that qualified as TDRs. During the nine months ended September 30, 2019, there were three modifications that qualified as TDRs. These combined loans totaled $6.4 million before and after their respective modifications. Included in nonaccrual loans at September 30, 2020 and December 31, 2019 were $76.8 million and $96.2 million, respectively, of loans that qualified as TDRs.

One loan modification that qualified as a TDR within the previous twelve months subsequently incurred payment defaults in the first nine months of 2020. As of September 30, 2020, this loan totaled $6.2 million. There have been no other payment defaults in the current year on our TDR-classified loans.

Note 4 – Investment Securities

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

($ in Millions)

September 30, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 16,546	$ 566	$ -	$ 17,112
U.S. Agency Debt	2,652	171	(7)	2,816
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	1,257	43	-	1,300
U.S. Agency	2,960	58	(9)	3,009
Commercial MBS:				
U.S. Agency	8,036	167	(11)	8,192
Corporate Bonds	364	15	(2)	377
Asset-Backed and Other	611	2	-	613
Total	$ 32,426	$ 1,022	$ (29)	$ 33,419
December 31, 2019				
Certificates of Deposit	$ 400	$ -	$ -	$ 400
U.S. Treasury Debt	15,908	169	(15)	16,062
U.S. Agency Debt	2,804	58	(8)	2,854
Residential MBS:				
Ginnie Mae	2,310	27	-	2,337
U.S. Agency	4,355	41	(11)	4,385
Commercial MBS:				
U.S. Agency	4,951	12	(17)	4,946
Corporate Bonds	363	10	-	373
Asset-Backed and Other	1,068	1	-	1,069
Total	$ 32,159	$ 318	$ (51)	$ 32,426

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2020 is as follows:

($ in Millions)

	Contractual Maturity				
September 30, 2020	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
U.S. Treasury Debt Securities					
Amortized Cost	$ 6,518	$ 8,245	$ 1,783	$ -	$ 16,546
Fair Value	6,536	8,616	1,960	-	17,112
Weighted Average Yield	0.63 %	1.71 %	2.11 %	- %	1.33 %
U.S. Agency Debt Securities					
Amortized Cost	$ 115	$ 1,425	$ 893	$ 219	$ 2,652
Fair Value	116	1,465	976	259	2,816
Weighted Average Yield	1.27 %	1.68 %	2.13 %	2.94 %	1.92 %
Ginnie Mae Residential MBS					
Amortized Cost	$ -	$ 1	$ 2	$ 1,254	$ 1,257
Fair Value	-	1	2	1,297	1,300
Weighted Average Yield	- %	3.13 %	3.08 %	2.62 %	2.62 %
U.S. Agency Residential MBS					
Amortized Cost	$ -	$ 1	$ 251	$ 2,708	$ 2,960
Fair Value	-	1	253	2,755	3,009
Weighted Average Yield	- %	0.74 %	1.56 %	2.23 %	2.17 %
U.S. Agency Commercial MBS					
Amortized Cost	$ 4	$ 2,806	$ 4,897	$ 329	$ 8,036
Fair Value	4	2,828	5,031	329	8,192
Weighted Average Yield	0.51 %	0.83 %	1.32 %	1.11 %	1.14 %
Corporate Bonds					
Amortized Cost	$ -	$ 156	$ 208	$ -	$ 364
Fair Value	-	157	220	-	377
Weighted Average Yield	- %	3.89 %	3.97 %	- %	3.94 %
Asset-Backed and Other					
Amortized Cost	$ 121	$ 478	$ 4	$ 8	$ 611
Fair Value	121	480	4	8	613
Weighted Average Yield	0.84 %	1.04 %	2.54 %	5.22 %	1.06 %
Total					
Amortized Cost	$ 6,758	$ 13,112	$ 8,038	$ 4,518	$ 32,426
Fair Value	6,777	13,548	8,446	4,648	33,419
Weighted Average Yield	0.64 %	1.52 %	1.66 %	2.29 %	1.48 %

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

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at September 30, 2020 and December 31, 2019. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2020				
U.S. Treasury Debt	**1,200**	**-**	**-**	**-**
U.S. Agency Debt	**205**	**(3)**	**278**	**(4)**
Residential MBS:				
Ginnie Mae	**3**	**-**	**20**	**-**
U.S. Agency	**24**	**-**	**269**	**(9)**
Commercial MBS:				
U.S. Agency	**1,482**	**(10)**	**305**	**(1)**
Corporate Bonds	**92**	**(2)**	**-**	**-**
Asset-Backed and Other	**229**	**-**	**4**	**-**
Total	**$ 3,235**	**$ (15)**	**$ 876**	**$ (14)**
December 31, 2019				
Certificates of Deposit	$ 50	$ -	$ -	$ -
U.S. Treasury Debt	2,020	(8)	3,454	(7)
U.S. Agency Debt	549	(6)	553	(2)
Residential MBS:				
Ginnie Mae	34	-	25	-
U.S. Agency	327	(1)	831	(10)
Commercial MBS:				
U.S. Agency	3,311	(14)	543	(3)
Corporate Bonds	52	-	-	-
Asset-Backed and Other	273	-	13	-
Total	$ 6,616	$ (29)	$ 5,419	$ (22)

As of September 30, 2020, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, nor is it likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of our cost basis occurs.

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

Changes in accumulated other comprehensive income (loss) for the nine months ended September 30, 2020 and 2019 are presented in the following table.

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

	Unrealized Gains (Losses) On Investment Securities		Unrealized Gains (Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at January 1, 2020	**$ 232,886**	**$ -**	**$ (63,443)**	**$ (75,018)**	**$ 94,425**
Other comprehensive income (loss) before reclassifications	**641,695**	**-**	**9,935**	**-**	**651,630**
Amounts reclassified from accumulated other comprehensive income (loss) to net income	**(7)**	**-**	**10,636**	**5,238**	**15,867**
Net current-period other comprehensive income (loss)	**641,688**	**-**	**20,571**	**5,238**	**667,497**
Balance at September 30, 2020	**$ 874,574**	**$ -**	**$ (42,872)**	**$ (69,780)**	**$ 761,922**
Balance at January 1, 2019	$ (271,344)	$ 102	$ (25,613)	$ (66,249)	$ (363,104)
Cumulative effect of change in accounting principle[2]	-	-	171	-	171
Balance at January 1, 2019, as adjusted	$ (271,344)	$ 102	$ (25,442)	$ (66,249)	$ (362,933)
Other comprehensive income (loss) before reclassifications	601,895	(321)	(46,003)	-	555,571
Amounts reclassified from accumulated other comprehensive income (loss) to net income	(270)	219	8,214	2,913	11,076
Net current-period other comprehensive income (loss)	601,625	(102)	(37,789)	2,913	566,647
Balance at September 30, 2019	$ 330,281	$ -	$ (63,231)	$ (63,336)	$ 203,714

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

(2) Effective January 1, 2019, we adopted changes in derivative accounting pursuant to ASU "Derivatives and Hedging (Topic 815)".

The following table presents the effect of reclassifications from accumulated other comprehensive income (loss) to net income for the nine-month periods ended September 30, 2020 and 2019.

Reclassifications from Accumulated Other Comprehensive Income (Loss) to Net Income

For the Nine Months Ended September 30, 2020	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain (Loss) Recognized in Income Statement
Unrealized gains (losses) on available-for-sale investment securities:		
Sales gains and losses	$ 9	Noninterest Income - Other, Net
Tax effect	(2)	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	$ (11,011)	Interest Expense
Foreign exchange contracts	327	Interest Income
Tax effect	48	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial loss	(6,190)	Operating Expenses - Employee Compensation
Prior service cost	(756)	Operating Expenses - Employee Compensation
Tax effect	1,708	Provision for Income Taxes
Total reclassifications	$ (15,867)	
For the Nine Months Ended September 30, 2019		
Unrealized gains (losses) on available-for-sale investment securities:		
Sales gains and losses	$ 262	Noninterest Income - Other, Net
Tax effect	8	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:		
Sales gains and losses	(256)	Noninterest Income - Other, Net
Tax effect	37	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	(8,754)	Interest Expense
Foreign exchange contracts	657	Interest Income
Tax effect	(117)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial loss	(3,103)	Operating Expenses - Employee Compensation
Prior service cost	(760)	Operating Expenses - Employee Compensation
Tax effect	950	Provision for Income Taxes
Total reclassifications	$ (11,076)	

Note 6 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts of derivatives at September 30, 2020 and related activity for the first nine months of 2020 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps / Floors	Spots / Forwards	Total
December 31, 2019	**$ 33,339**	**$ 6,745**	**$ 192**	**$ 40,276**
Additions /Accretion	**27,261**	**244**	**1,460**	**28,965**
Maturities /Amortization	**(14,843)**	**(375)**	**(1,518)**	**(16,736)**
Terminations	**(569)**	**-**	**-**	**(569)**
September 30, 2020	**$ 45,188**	**$ 6,614**	**$ 134**	**$ 51,936**

The notional amounts of derivatives at September 30, 2019 and related activity for the first nine months of 2019 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps / Floors	Spots / Forwards	Total
December 31, 2018	$ 28,479	$ 4,360	$ 85	$ 32,924
Additions /Accretion	8,013	2,364	1,778	12,155
Maturities /Amortization	(4,627)	(266)	(1,687)	(6,580)
Terminations	(987)	-	-	(987)
September 30, 2019	$ 30,878	$ 6,458	$ 176	$ 37,512

Accounting for Derivative Instruments and Hedging Activities

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

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

Fair Value Hedges

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

Cash Flow Hedges

Our cash flow hedges include interest rate caps and floors to hedge cap and floor risk embedded within a portion of our floating-rate investment securities and loans. Interest rate caps and interest rate floors are an integral part of our interest rate hedging strategies. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. The interest rate floors hedge cash flows from floating-rate loans. If market index rates underlying our floating rate loans decline below strike levels, we receive cash flows on the derivative. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount excluded from effectiveness assessment and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. For cash flow hedges in which the forecasted transaction is not probable of occurring, the amounts reclassified from accumulated other comprehensive income (loss) are reflected in current period earnings. At September 30, 2020, we expect that $16.0 million of expense will be reclassified from accumulated other comprehensive income (loss) into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 15 years.

Derivatives Not Designated as Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties as well as our short-term interest rate swaps indexed to the Secured Overnight Financing Rate (SOFR) are not designated as hedging instruments and do not receive hedge accounting treatment. Changes in the fair value of customer-related derivatives are recognized immediately as noninterest income/expense in current period earnings. Changes in the fair value of short-term SOFR interest rate swaps are recognized immediately as interest expense in current period earnings.

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to customers and counterparties. Generally, when the fair value of a derivative contract is positive, we are exposed to credit risk. When the fair value of a derivative contract is negative, the counterparty is exposed to us.

Derivative transactions with our customers are typically secured through our loan agreements. As of September 30, 2020 and December 31, 2019, the notional amount of derivatives with our customers totaled $12.3 billion and $10.9 billion, respectively.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires certain derivative transactions to be cleared through a central clearinghouse and traded on regulated swap execution facilities. The U.S. Commodity Futures Trading Commission has exempted certain qualifying swaps entered into by end-users and financial cooperatives from these requirements. The exemptions do not cover all swaps executed by CoBank and are generally limited to swaps entered into in connection with loans and derivatives for customer-owners. CoBank has also voluntarily chosen to clear some swap transactions for economic and risk management purposes. As a result, certain of our derivative transactions are cleared through a futures commission merchant (FCM) with a clearinghouse or central counterparty (CCP). When these swaps are cleared, a single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including initial margin and variation margin or settlement payments that are required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, set exposure limits for each counterparty and collect initial margin and variation margin or settlement payments daily for changes in the value of cleared derivatives. The margin and settlement payments collected from both parties to the swap protect against credit risk in the event of a counterparty default. As of September 30, 2020 and December 31, 2019, the notional amount of our cleared derivatives was $27.8 billion and $15.7 billion, respectively. Initial margin and settlement payments totaling $50.6 million and $167.4 million, respectively, as of September 30, 2020 and $62.5 million and $136.9 million, respectively, as of December 31, 2019 were held by our CCP for our cleared derivatives.

Our remaining non-customer derivatives are transacted with derivative counterparties and governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to credit risk with these counterparties due to the timing of daily margining activities. As of September 30, 2020 and December 31, 2019, the notional amount of derivatives with our non-customer counterparties, excluding cleared derivatives, totaled $11.8 billion and $13.7 billion, respectively.

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of September 30, 2020 we posted $314.5 million in cash as collateral with our non-customer counterparties.

The fair value of our derivatives to all of our dealer counterparties was a liability at both September 30, 2020 and December 31, 2019, and was offset by the collateral we posted to our dealer counterparties. The amount of losses related to derivatives we are exposed to in the event of nonperformance by dealer counterparties to our derivative positions is mitigated by collateral posted or held by us.

Hedge Terminations

We did not terminate any interest rate swaps for asset-liability management purposes during the nine months ended September 30, 2020 and 2019.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $568.5 million and $987.3 million during the first nine months of 2020 and 2019, respectively. Proceeds from the customer terminations were offset by payments for the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019 is shown in the following tables.

Fair Value of Derivative Financial Instruments

	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
As of September 30, 2020		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	**$ 444,982**	**$ 80**
Foreign Exchange Contracts	**147**	**1,897**
Total Derivatives Designated as Hedging Instruments	**$ 445,129**	**$ 1,977**
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	**$ 769,147**	**$ 717,815**
Foreign Exchange Contracts	**3**	**2**
Total Derivatives Not Designated as Hedging Instruments	**$ 769,150**	**$ 717,817**
Settlement Payments	**(167,391)**	**-**
Total Derivatives	**$ 1,046,888**	**$ 719,794**
As of December 31, 2019		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 218,800	$ 10,119
Foreign Exchange Contracts	96	1,893
Total Derivatives Designated as Hedging Instruments	$ 218,896	$ 12,012
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 298,707	$ 251,094
Foreign Exchange Contracts	28	28
Total Derivatives Not Designated as Hedging Instruments	$ 298,735	$ 251,122
Settlement Payments	(136,916)	-
Total Derivatives	$ 380,715	$ 263,134

[1] These assets make up the interest rate swaps and other financial instruments assets in the condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019.

[2] These liabilities make up the interest rate swaps and other financial instruments liabilities in the condensed consolidated balance sheets as of September 30, 2020 December 31, 2019.

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2020 and 2019 is shown below.

Effect of Fair Value and Cash Flow Hedge Accounting on the Condensed Consolidated Statement of Income

	Interest Income Loans	Interest Income Investments	Total Interest Income	Interest Expense	Net Interest Income
Nine Months Ended September 30, 2020					
Total Amount of Line Items Presented in Condensed Consolidated Statement of Income	**$ 2,117,204**	**$ 452,048**	**$ 2,569,252**	**$ (1,424,925)**	**$ 1,144,327**
Gain (Loss) on Fair Value Hedge Relationships:					
Interest Rate Contracts:					
Recognized on Derivatives	**$ -**	**$ -**	**$ -**	**$ 226,339**	**$ 226,339**
Recognized on Hedged Items	**-**	**-**	**-**	**(226,022)**	**(226,022)**
Net Income (Expense) Recognized on Fair Value Hedges	**$ -**	**$ -**	**$ -**	**$ 317**	**$ 317**
Gain (Loss) on Cash Flow Hedge Relationships:					
Interest Rate Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	**$ (681)**	**$ -**	**$ (681)**	**$ (10,330)**	**$ (11,011)**
Foreign Exchange Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)(1)	**327**	**-**	**327**	**-**	**327**
Amount Excluded from Effectiveness Testing Recognized in Earnings Based on an Amortization Approach	**(704)**	**-**	**(704)**	**-**	**(704)**
Net Income (Expense) Recognized on Cash Flow Hedges	**$ (1,058)**	**$ -**	**$ (1,058)**	**$ (10,330)**	**$ (11,388)**
Nine Months Ended September 30, 2019					
Total Amount of Line Items Presented in Condensed Consolidated Statement of Income	$ 2,831,048	$ 594,104	$ 3,425,152	$ (2,378,914)	$ 1,046,238
Gain (Loss) on Fair Value Hedge Relationships:					
Interest Rate Contracts:					
Recognized on Derivatives	$ -	$ -	$ -	$ 270,314	$ 270,314
Recognized on Hedged Items	-	-	-	(268,130)	(268,130)
Net Income (Expense) Recognized on Fair Value Hedges	$ -	$ -	$ -	$ 2,184	$ 2,184
Gain (Loss) on Cash Flow Hedge Relationships:					
Interest Rate Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	$ (262)	$ -	$ (262)	$ (8,663)	$ (8,925)
Foreign Exchange Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)(2)	657	-	657	-	657
Amount Excluded from Effectiveness Testing Recognized in Earnings Based on an Amortization Approach	1,364	-	1,364	-	1,364
Net Income (Expense) Recognized on Cash Flow Hedges	$ 1,759	$ -	$ 1,759	$ (8,663)	$ (6,904)

(1) Fully offset by a $327 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2020.

(2) Fully offset by a $657 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2019.

Effect of Cash Flow Hedge Accounting on the Condensed Consolidated Balance Sheet

Nine Months Ended September 30,	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives 2020	2019
Interest Rate Contracts	$ 9,899	$ (46,322)
Foreign Exchange Contracts	46	(394)
Total	$ 9,945	$ (46,716)

Effect of Derivative Financial Instruments Not Designated as Hedging Relationships on the Condensed Consolidated Statements of Income

Nine Months Ended September 30,	Net Amount of Gain (Loss) Recognized 2020	2019
Interest Rate Contracts	$ 3,381 [1]	$ (8,272) [2]
Foreign Exchange Contracts	1	1
Total	$ 3,382	$ (8,271)

[1] Includes $338 loss on short-term derivatives indexed to SOFR and recognized in interest expense and $3,719 gain on derivatives with customers and related offsetting derivatives with counterparties including credit valuation adjustments and recognized in noninterest income/expense for the nine months ended September 30, 2020.

[2] Includes $8,272 loss on derivatives with customers and related offsetting derivatives with counterparties including credit valuation adjustments and recognized in noninterest income/expense for the nine months ended September 30, 2019.

A summary of the cumulative basis adjustment for fair value hedging relationships included in the carrying amount of hedged liabilities as of September 30, 2020 and December 31, 2019 is shown in the following table.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Carrying Amount of Hedged Liabilities	Cumulative Basis Adjustment Included in the Carrying Amount of Hedged Liabilities: Hedged Items Currently Designated	Hedged Items No Longer Designated
As of September 30, 2020			
Bonds and Notes	$ 16,236,612	$ 393,322	$ 127
As of December 31, 2019			
Bonds and Notes	$ 15,627,566	$ (167,301)	$ 231

Asset/Liability Offsetting

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

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

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/ Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Cash Collateral Received/Pledged[1]	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Investments Securities Received/Pledged as Collateral	Net Amount
As of September 30, 2020				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**$ 51,479**	**$ -**	**$ -**	**$ 51,479**
Customer	**729,471**	**-**	**-**	**729,471**
Clearinghouse	**265,938**	**-**	**-**	**265,938**
Accrued Interest Receivable on Derivative Contracts	**70,176**	**-**	**-**	**70,176**
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**364,582**	**(314,480)**	**-**	**50,102**
Customer	**36,524**	**-**	**-**	**36,524**
Clearinghouse	**318,688**	**-**	**(50,582)**	**268,106**
Accrued Interest Payable on Derivative Contracts	**11,857**	**-**	**-**	**11,857**
As of December 31, 2019				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 53,526	$ -	$ -	$ 53,526
Customer	259,908	-	-	259,908
Clearinghouse	67,281	-	-	67,281
Accrued Interest Receivable on Derivative Contracts	15,190	-	-	15,190
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	161,906	(115,490)	-	46,416
Customer	29,407	-	-	29,407
Clearinghouse	71,821	-	(62,532)	9,289
Accrued Interest Payable on Derivative Contracts	8,009	-	-	8,009

[1] Cash collateral received is recognized in the condensed consolidated balance sheets.

Note 7 – Fair Value Measurements

The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability. Observable inputs are based on market data obtained from independent sources. Unobservable inputs are supported by limited or no market activity and require significant management judgment or estimation.

Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at September 30, 2020 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at September 30, 2020 include our derivative contracts, collateral balances related to derivative contracts, federal funds sold and other overnight funds, U.S. Treasury and agency debt investment securities, Ginnie Mae MBS, corporate bonds, and the substantial majority of agency MBS and asset-backed securities (ABS).

The fair value of federal funds sold and other overnight funds is generally their face value, plus accrued interest, as these instruments are readily convertible to cash and are short-term in nature.

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. The estimated fair values of investment securities also appear in Note 4.

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

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

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

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at September 30, 2020 include a small portion of agency MBS and ABS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Fair value for Level 3 agency MBS is estimated through a third-party pricing service that uses valuation models to estimate current market prices. Fair value for our Level 3 ABS is calculated internally using third-party models. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at September 30, 2020 also include $92.4 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets is based on either the fair value of the underlying collateral, if the loan is collateral dependent, or the present value of expected future cash flows. Such valuations may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the ‘Assets and Liabilities Measured at Fair Value on a Recurring Basis’ tables on pages 49 and 50 because they are not measured on a recurring basis.

Our Level 3 liabilities at September 30, 2020 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of Level 3 assets or liabilities occurred during the nine months ended September 30, 2020 and 2019.

The following table presents quantitative information about Level 3 fair value measurements as of September 30, 2020.

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

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets				
Investment Securities:				
U.S. Agency MBS	$ 87	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Other (included in Asset-Backed)	24	Discounted Cash Flow	Prepayment Rate	0% (0%)
Impaired Loans	92	Appraisal / Discounted Cash Flow	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 12	Discounted Cash Flow	Mark-to-Market Spread	0.1-1.2% (0.9%)

* Excludes ranges which are determined by a third-party pricing service.

** Range of inputs are unique to each collateral property.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2020 and December 31, 2019 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

September 30, 2020

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	$ 878	$ -	878
Investment Securities:				
U.S. Treasury Debt	-	17,112	-	17,112
U.S. Agency Debt	-	2,816	-	2,816
Residential MBS:				
Ginnie Mae	-	1,300	-	1,300
U.S. Agency	-	2,922	87	3,009
Commercial MBS:				
U.S. Agency	-	8,192	-	8,192
Corporate Bonds	-	377	-	377
Asset-Backed and Other	-	589	24	613
Interest Rate Swaps and Other Financial Instruments	-	1,047	-	1,047
Assets Held in Trust (included in Other Assets)	104	-	-	104
Collateral Assets (included in Other Assets)	-	314	-	314
Total Assets	**$ 104**	**$ 35,547**	**$ 111**	**$ 35,762**
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 720	$ -	$ 720
Standby Letters of Credit (included in Other Liabilities)	-	-	12	12
Total Liabilities	**$ -**	**$ 720**	**$ 12**	**$ 732**

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2019				
($ in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	1,810	$ -	$ 1,810
Investment Securities:				
Certificates of Deposit	-	400	-	400
U.S. Treasury Debt	-	16,062	-	16,062
U.S. Agency Debt	-	2,854	-	2,854
Residential MBS:				
Ginnie Mae	-	2,337	-	2,337
U.S. Agency	-	4,286	99	4,385
Commercial MBS:				
U.S. Agency	-	4,946	-	4,946
Corporate Bonds	-	373	-	373
Asset-Backed and Other	-	1,055	14	1,069
Interest Rate Swaps and Other Financial Instruments	-	381	-	381
Assets Held in Trust (included in Other Assets)	97	-	-	97
Collateral Assets (included in Other Assets)	-	115	-	115
Total Assets	$ 97	$ 34,619	$ 113	$ 34,829
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 263	$ -	$ 263
Standby Letters of Credit (included in Other Liabilities)	-	-	11	11
Total Liabilities	$ -	$ 263	$ 11	$ 274

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

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis			
($ in Millions)	**U.S. Agency Residential MBS**	**Asset-Backed Securities and Other**	**Standby Letters of Credit**
Balance at December 31, 2019	**$ 99**	**$ 14**	**$ 11**
Total Gains or Losses (Realized/Unrealized)			
Included in Other Comprehensive Income	**(3)**	**-**	**-**
Purchases	**-**	**10**	**-**
Issuances	**-**	**-**	**9**
Settlements	**(10)**	**-**	**(8)**
Accretion	**1**	**-**	**-**
Balance at September 30, 2020	**$ 87**	**$ 24**	**$ 12**
Balance at December 31, 2018	$ 113	$ 12	$ 10
Total Gains or Losses (Realized/Unrealized):			
Included in Other Comprehensive Income	-	1	-
Purchases	-	5	-
Sales	-	(5)	-
Issuances	-	-	9
Settlements	(13)	(1)	(9)
Accretion	2	-	-
Balance at September 30, 2019	$ 102	$ 12	$ 10

Estimated Fair Value of Certain Other Financial Instruments

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of September 30, 2020 and December 31, 2019.

($ in Millions)

	September 30, 2020			December 31, 2019		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	$ 111,353	$ 115,131	Level 3	$ 108,199	$ 110,180	Level 3
Financial Liabilities:						
Bonds and Notes	$ 134,143	$ 138,101	Level 3	$ 132,230	$ 133,924	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	$ -	$ (107)	Level 3	$ -	$ (95)	Level 3

Commitments to Extend Credit

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

Note 8 – Employee Benefit Plans

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

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

We contributed $2.4 million to our funded qualified defined benefit pension plans during the nine months ended September 30, 2020, and anticipate that we will contribute approximately $0.8 million more to such plans during the remainder of 2020. We expect to contribute a total of $0.3 million, net of collected retiree premiums, to our other postretirement benefit plans in 2020. We contributed $0.4 million to our trust funds related to our nonqualified retirement plans during the nine months ended September 30, 2020. Our actual contributions could differ from the estimates noted above.

Note 9 – Commitments and Contingent Liabilities

Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices, farmer delivery patterns, weather, environmental and other factors, we provide a significant amount of revolving loan commitments. We also provide revolving loan commitments to other customers including those in the electric distribution and power supply industries. At September 30, 2020, commitments to extend credit and commercial letters of credit were $37.4 billion and $117.0 million, respectively.

Under the Farm Credit Act, we are primarily liable for the portion of outstanding Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) issued by CoBank. Additionally, we are contingently liable by statute for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were $309.1 billion at September 30, 2020.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible unencumbered assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At September 30, 2020, the aggregated assets of the Insurance Fund totaled $5.4 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves.

In June 2016, a lawsuit was commenced by the filing of a complaint in the United States District Court Southern District of New York against CoBank by a number of investors (the "Plaintiffs") who had held CoBank's 7.875 percent Subordinated Notes due in 2018 (the "Notes"). The Notes were redeemed at par plus accrued interest by CoBank in April 2016 due to the occurrence of a "Regulatory Event" (as defined under the terms of the Notes). The Plaintiffs have asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that CoBank impermissibly redeemed the Notes. The Plaintiffs have requested damages in an amount to be determined at trial, reasonable attorneys' fees and any other such relief as the court may deem just and proper. CoBank filed its answer in September 2016 and discovery concluded in January 2018. CoBank and Plaintiffs filed their respective motions for summary judgment in March 2018. There is presently no indication of when the court will rule on the motions for summary judgment. CoBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that the liabilities, if any, arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

Note 10 – Leased Property

We have operating leases for our corporate headquarters, banking center offices, certain equipment and vehicles. We determine if an arrangement is a lease and the related lease classification at inception. Right-of-use (ROU) assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. If available, we use the implicit rate in the lease in determining the present value of future payments. We use our incremental borrowing rate based on the information available at commencement date when the implicit rate in the lease is not available. ROU assets and lease liabilities are included in accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively, in our condensed consolidated balance sheets. These operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date we take possession of the property. We determine the lease term by assuming the exercise of renewal and termination options that are reasonably certain. Our leases have remaining minimum lease terms of 1 year to 10 years, some of which include options to extend the leases for up to an additional 15 years. Rent expense for leases is reflected in occupancy and equipment expense in the accompanying condensed consolidated statements of income. Additionally, the depreciable life of leased assets and leasehold improvements is limited by the expected lease term.

Other information related to our operating leases is as follows:

Operating Leases				
		September 30, 2020		**December 31, 2019**
Right-of-Use Assets	**$**	**71,449**	$	75,666
Lease Liabilities		**74,818**		78,707
Nine Months Ended September 30,		**2020**		**2019**
Operating Lease Cost	**$**	**10,369**	$	7,088
Weighted Average Remaining Lease Term		**10 years**		11 years
Weighted Average Discount Rate		**2.97%**		3.02%

Future minimum lease payments under non-cancellable operating leases as of September 30, 2020 were as follows:

Future Minimum Lease Payments		
Year Ending September 30,		
2021	$	9,574
2022		9,530
2023		9,065
2024		8,341
2025		8,354
Thereafter		41,573
Total future minimum lease payments	$	86,437
Less imputed interest		11,619
Lease liabilities reported as of September 30, 2020	$	74,818

In 2016, the Bank completed a sale-leaseback transaction associated with our corporate headquarters in Greenwood Village, Colorado. Upon completion of this sale-leaseback transaction, the resulting gain was deferred to be recognized ratably over the expected lease term of 15 years as an offset to occupancy and equipment expense in our condensed consolidated statements of income. In connection with the Bank's adoption of the new lease accounting standard on January 1, 2019, the remaining deferred gain of $8.6 million related to the sale-leaseback transaction was recognized in retained earnings through a cumulative effect adjustment.

Note 11 – Segment Financial Information

We conduct our business through three operating segments: Agribusiness, Farm Credit Banking and Rural Infrastructure.

The accompanying tables present condensed disaggregated information for the operating segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. All customer activity, including loans and leases and related income, is specifically assigned to the business units that make up the operating segments. Investment securities and federal funds sold and other overnight funds, which are primarily held as a liquidity reserve to support our banking operations, are not specifically assigned to operating segments; however, the income from investment securities and federal funds sold and other overnight funds is attributed to the operating segments. Intersegment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 22 percent of these loans are guaranteed by the U.S. government.

For the nine-month periods ended September 30, 2020 and 2019, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended September 30, 2020

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	**$ 186,488**	**$ 75,390**	**$ 123,875**	**$ 385,753**
Provision for Loan Losses	**3,500**	**-**	**500**	**4,000**
Noninterest Income	**38,861**	**870**	**31,510**	**71,241**
Operating Expenses	**61,878**	**12,083**	**30,544**	**104,505**
Provision for Income Taxes	**19,517**	**-**	**20,191**	**39,708**
Net Income	**$ 140,454**	**$ 64,177**	**$ 104,150**	**$ 308,781**

For the Three Months Ended September 30, 2019

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	$ 171,528	$ 61,514	$ 103,785	$ 336,827
Provision for Loan Losses/(Loan Loss Reversal)	8,200	-	(3,200)	5,000
Noninterest Income	33,568	522	15,244	49,334
Operating Expenses	59,047	10,880	30,391	100,318
Provision for Income Taxes	17,560	-	14,747	32,307
Net Income	$ 120,289	$ 51,156	$ 77,091	$ 248,536

Segment Financial Information

For the Nine Months Ended September 30, 2020

		Agribusiness		Farm Credit Banking		Rural Infrastructure		Total CoBank
Results of Operations ($ in Thousands):								
Net Interest Income	$	584,036	$	215,253	$	345,038	$	1,144,327
Provision for Loan Losses (Loan Loss Reversal)		51,000		-		(5,000)		46,000
Noninterest Income		126,560		10,033		87,011		223,604
Operating Expenses		183,243		33,928		87,980		305,151
Provision for Income Taxes		54,833		-		57,962		112,795
Net Income	$	421,520	$	191,358	$	291,107	$	903,985
Selected Financial Information at September 30, 2020 ($ in Millions):								
Loans	$	30,739	$	57,648	$	23,597	$	111,984
Less: Allowance for Loan Losses		(487)		-		(144)		(631)
Net Loans	$	30,252	$	57,648	$	23,453	$	111,353
Accrued Interest Receivable and Other Assets		461		269		683		1,413
Total Segment Assets	$	30,713	$	57,917	$	24,136	$	112,766
Federal Funds Sold and Other Overnight Funds								878
Investment Securities								33,419
Other Assets								1,288
Total Assets	$	30,713	$	57,917	$	24,136	$	148,351

For the Nine Months Ended September 30, 2019

		Agribusiness		Farm Credit Banking		Rural Infrastructure		Total CoBank
Results of Operations ($ in Thousands):								
Net Interest Income	$	545,937	$	193,468	$	306,833	$	1,046,238
Provision for Loan Losses		23,000		-		3,000		26,000
Noninterest Income[(1)]		114,725		3,641		50,486		168,852
Operating Expenses		172,338		31,790		86,931		291,059
Provision for Income Taxes[(1)]		54,944		-		42,182		97,126
Net Income[(1)]	$	410,380	$	165,319	$	225,206	$	800,905
Selected Financial Information at September 30, 2019 ($ in Millions):								
Loans	$	28,851	$	52,229	$	20,818	$	101,898
Less: Allowance for Loan Losses		(433)		-		(188)		(621)
Net Loans	$	28,418	$	52,229	$	20,630	$	101,277
Accrued Interest Receivable and Other Assets		462		279		565		1,306
Total Segment Assets	$	28,880	$	52,508	$	21,195	$	102,583
Federal Funds Sold and Other Overnight Funds								1,563
Investment Securities								31,447
Other Assets								777
Total Assets	$	28,880	$	52,508	$	21,195	$	136,370

(1) As discussed in Note 1, the 2019 period included reclassifications between the Agribusiness and Rural Infrastructure operating segments which had no impact on CoBank's consolidated net income.

Note 12 – Affiliated Associations

CoBank is chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. As of September 30, 2020, we have 21 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural and other purposes to full- and part-time farmers. Associations may also make loans to, among others, processing and marketing entities, farm-related businesses, and rural residents for home purchase and improvements. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations may serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

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

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in our condensed consolidated financial statements. We separately publish certain unaudited combined financial information of the District, including a condensed statement of condition and statement of income, which can be found on our website at www.cobank.com. Such information is not incorporated by reference into, and should not be considered a part of, this quarterly report.

On March 3, 2020 and March 4, 2020, respectively, the boards of Farm Credit of Western Oklahoma, ACA and AgPreference, ACA approved a letter of intent to pursue a merger. The Associations anticipate a merger date of January 1, 2021 subject to receiving all regulatory and shareholder approvals required.

Note 13 – Subsequent Events

We have evaluated subsequent events through November 9, 2020, which is the date the financial statements were issued.

On October 19, 2020, we participated in the mandatory transition of $24.4 billion of our LIBOR-indexed cleared derivative transactions with our clearinghouse (CCP) from Overnight Index Swap (OIS) discounting to Secured Overnight Financing Rate (SOFR) discounting. As part of this transition, we received approximately $218.1 million in notional value of Effective Federal Funds Rate vs. SOFR basis swaps with various maturity dates based on our cleared derivative position with our CCP on this date. We participated in the CCP auction of our basis swaps on October 22, 2020 and liquidated all of these basis swaps for a nominal amount to eliminate future interest rate risk.

On October 28, 2020, the Funding Corporation completed a debt exchange of approximately $1.4 billion, or 83 percent, of our LIBOR-indexed floating rate debt maturing beyond December 31, 2021 to insert Alternative Reference Rates Committee (ARRC) reference rate contractual fallback language in the event LIBOR is discontinued or no longer remains a representative rate index. No other contractual terms were modified in the debt exchange that would impact the amount or timing of cash flows of these LIBOR-indexed floating rate debt instruments.

Regulatory Capital Disclosures

CoBank, ACB

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

Overview

These quarterly regulatory capital disclosures (set forth in Title 12 of the Code of Federal Regulations parts 628.61 through 628.63) should be read in conjunction with our 2019 Annual Report to Shareholders, which includes additional qualitative disclosures. Unless otherwise noted, there have been no material changes to the qualitative disclosures contained in our 2019 Annual Report.

The following table summarizes the interim disclosure requirements and indicates where each matter is disclosed in this quarterly report.

Disclosure Requirement	Description	Q3 2020 Quarterly Report Reference
Scope of Application	Corporate entity and consolidated subsidiaries	Page 58
Capital Structure	Regulatory capital components	Pages 58 through 59
Capital Adequacy	Risk-weighted assets	Page 60
	Regulatory capital ratios	Page 14
Capital Buffers	Quantitative disclosures	Pages 14, 60
Credit Risk	Summary of exposures	Page 61
	Geographic distribution	Page 62 through 63
	Industry distribution	Page 63
	Contractual maturity	Page 64
	Impaired loans and allowance for credit losses	Note 3
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Note 6, Page 64 through 65
Credit Risk Mitigation	Exposures with reduced capital requirements	Pages 7, 10, 64 through 65
Securitization	Securitization exposures	Notes 4 and 7, Pages 12 through 13, 65 through 66
Equities	General description	Page 66
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Note 6, Page 66 through 67

Scope of Application

The disclosures contained herein relate to CoBank, ACB and its wholly-owned subsidiaries, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. These entities are also consolidated in our financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). FCL is required to comply with the capital regulations on a standalone basis, but it is not required to make the disclosures contained herein for CoBank as a whole. FCL's capital ratios exceeded the minimum regulatory requirements at September 30, 2020.

Capital Structure

Common equity tier 1, which includes common stock and retained earnings, is the largest component of the Bank's capital structure. Preferred stock is included in tier 1 regulatory capital, subject to certain limitations. In addition, our allowance for credit losses is included in tier 2 regulatory capital, subject to certain limitations.

The following table provides a summary of the Bank's regulatory capital components.

Regulatory Capital Components		
Three Months Ended September 30, 2020		**Average Balance**
Common Equity Tier 1 Capital (CET1)		
Common Cooperative Equities:		
Statutory Minimum Purchased Borrower Stock	$	2,468
Other Required Member Purchased Stock		916,158
Allocated Equities:		
Qualified Allocated Equities Subject to Retirement		2,668,346
Nonqualified Allocated Equities Subject to Retirement		-
Nonqualified Allocated Equities Not Subject to Retirement		2,944,725
Unallocated Retained Earnings		3,031,421
Paid-In Capital		-
Regulatory Adjustments and Deductions Made to CET1		(89,229)
Total CET1	$	9,473,889
Tier 1 Capital		
Non-Cumulative Perpetual Preferred Stock	$	1,500,000
Regulatory Adjustments and Deductions Made to Tier 1 Capital		-
Total Additional Tier 1 Capital		1,500,000
Total Tier 1 Capital	$	10,973,889
Tier 2 Capital		
Common Cooperative Equities Not Included in CET1	$	-
Tier 2 Capital Elements:		
Allowance for Credit Losses		786,172
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Tier 2 Capital	$	786,172
Total Capital	$	11,760,061

Capital Adequacy and Capital Buffers

Our risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements (e.g. Total CET1) by risk-weighted assets. The following table presents information on the components of risk-weighted assets included in the calculation of regulatory capital ratios.

Risk-Weighted Assets

Three Months Ended September 30, 2020		Average Balance	
On-Balance Sheet Assets:			
Exposures to Sovereign Entities	$	-	
Exposures to Supranational Entities and Multilateral Development Banks		66,288	
Exposures to Government-Sponsored Enterprises		13,789,012	(1)
Exposures to Depository Institutions, Foreign Banks, and Credit Unions		3,911,925	(2)
Exposures to Public Sector Entities		61,401	
Corporate Exposures, including Borrower Loans and Leases		43,031,939	
Residential Mortgage Exposures		-	
Past Due and Nonaccrual Exposures		340,544	
Securitization Exposures		579,037	
Equity Investment Exposures		35,962	
Other Assets		1,074,270	
Off-Balance Sheet:			
Unfunded Loan Commitments		9,397,056	
Equity Investment Commitments		23,697	
Over-the-Counter Derivatives		904,461	
Cleared Derivative Transactions		1,425	
Letters of Credit		1,191,936	
Reverse Repurchase Transactions		191	
Unsettled Transactions		11,977	
Total Risk-Weighted Assets Before Additions (Deductions)	$	74,421,121	
Additions:			
Intra-System Equity Investments	$	89,229	
Deductions:			
Regulatory Adjustments and Deductions Made to CET1		(89,229)	
Regulatory Adjustments and Deductions Made to Additional Tier 1 Capital		-	
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-	
Total Risk-Weighted Assets	$	74,421,121	(3)

(1) Includes exposures to Farm Credit System entities.

(2) Also includes exposures to other financial institutions that are risk weighted as exposures to U.S. depository institutions and credit unions.

(3) For purposes of calculating the permanent capital ratio, average risk-weighted assets for the three months ended September 30, 2020 was $73.7 billion.

As shown on page 14 of this quarterly report, the Bank exceeded all capital requirements as of September 30, 2020 to which it was subject, including applicable capital buffers. Because capital exceeded the buffer requirements, the Bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $680.6 million as of September 30, 2020.

Credit Risk

The following table summarizes credit exposures related to loans, unfunded loan commitments, investment securities, letters of credit, and reverse repurchase transactions. The contractual amount of a commitment to extend credit represents our maximum exposure to credit loss in the event of default by the borrower, if the borrower were to fully draw against the commitment.

Major Credit Exposures - Lending and Investments

Three Months Ended September 30, 2020	Average Balance	End of Period
Loans Outstanding	$ 111,575,805	$ 111,984,241
Unfunded Loan Commitments	37,824,661	37,385,220
Investment Securities	33,952,687	33,419,084
Letters of Credit	1,455,195	1,550,291
Equity Investment Commitments	52,081	48,584
Reverse Repurchase Transactions	953	-

The table below shows derivatives by underlying exposure type, segregated between contracts traded in over-the-counter markets and those cleared through a central clearinghouse. Gross positive fair value represents the credit exposure attributed to derivatives before the mitigating effects of counterparty collateral.

Major Credit Exposures - Derivatives

Three Months Ended and As of September 30, 2020	Average Balance		End of Period	
	Notional Amount	Gross Positive Value	Notional Amount	Gross Positive Value
Over-the-Counter Derivatives:				
Interest Rate Contracts	$ 24,015,743	$ 806,859	$ 23,980,089	$ 780,800
Foreign Exchange Contracts	98,129	263	133,860	150
Total Over-the-Counter Derivatives	24,113,872	807,122	24,113,949	780,950
Cleared Derivatives:				
Interest Rate Contracts	23,200,728	275,649	27,822,239	265,938
Total Derivatives	$ 47,314,600	$ 1,082,771	$ 51,936,188	$ 1,046,888

The following table illustrates the geographic distribution of our total loan commitments as of September 30, 2020.

Total Lending Portfolio - Geographic Distribution

As of September 30, 2020	Wholesale Loans[1]	Commercial Loans
California	43 %	7 %
Washington	19	2
Texas	5 [2]	7
Connecticut	11 [2]	1
Kansas	5	4
Illinois	-	6
Oklahoma	4	2
Minnesota	-	5
Iowa	-	5
Colorado	2	3
Ohio	-	3
New York	-	3
Asia	-	3
Florida	-	3
Nebraska	-	3
Missouri	-	3
Latin America	-	3
Georgia	-	3
New Mexico	3	-
Indiana	-	2
North Dakota	-	2
Wisconsin	-	2
Mississippi	1 [2]	2
North Carolina	-	2
Virginia	-	2
Arkansas	-	2
Maryland	1 [2]	-
Alabama	1 [2]	1
Utah	2	-
South Dakota	-	2
Europe, Middle East, and Africa	-	1
Massachusetts	-	1
Arizona	-	1
Louisiana	-	1
Tennessee	-	1
Michigan	-	1
South Carolina	-	1
New Jersey	-	1
Other	3 [2]	9
Total	100 %	100 %

(1) The distribution of wholesale loan commitments to Associations is based on the state in which the Association is headquartered and may not be representative of their underlying loan portfolio.

(2) Includes participation interests in loan commitments to nonaffiliated Associations.

The following table illustrates the geographic distribution of our impaired loans as of September 30, 2020.

Impaired Loans - Geographic Distribution	
As of September 30, 2020	**Share[(1)]**
Colorado	33 %
Arkansas	14
California	13
Oklahoma	6
Wisconsin	5
Iowa	5
Washington	4
Ohio	4
Michigan	3
Minnesota	2
Arizona	2
South Dakota	1
New Jersey	1
Other	7
Total	100 %

(1) The distribution of impaired loans is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.

The following table illustrates the primary business/commodity distribution of our total loan commitments as of September 30, 2020.

Total Lending Portfolio - Distribution by Primary Business/Commodity	
As of September 30, 2020	**Share**
Affliated Associations	41 %
Farm Supply and Grain Marketing	11
Electric Distribution	8
Generation and Transmission	4
Nonaffliated Entities	4
Agricultural Export Finance	4
Regulated Utilities	3
Fruits, Nuts, Vegetables	3
Lease Financing (through FCL)	2
Fish, Livestock, Poultry	3
Forest Products	2
Dairy	2
Independent Power Producers	1
Water and Wastewater	1
Local Exchange Carriers	1
Competitive Local Telephone Exchange Carriers	1
Wireless	1
Sugar and Related Products	1
Cable	1
Other	6
Total	100 %

The following table presents a summary of the remaining contractual maturity of our loans, unfunded commitments, investment securities, letters of credit and derivatives at September 30, 2020.

($ in Millions)

Contractual Maturity

As of September 30, 2020	In One Year or Less	One to Five Years	After Five Years	Total
Loans Outstanding	$ 69,449	$ 18,432	$ 24,103	$ 111,984
Unfunded Loan Commitments	21,121	8,698	7,566	37,385
Investment Securities	6,777	13,548	13,094	33,419
Letters of Credit	367	853	330	1,550
Derivatives (Notional Amounts)	15,956	22,281	13,699	51,936
Equity Investment Commitments	7	29	13	49

Refer to Note 3 in the condensed consolidated financial statements in this quarterly report for amounts of impaired loans (with or without related allowance for credit loss), loans in nonaccrual status and greater than 90 days past due, loans past due greater than 90 days and still accruing interest, the allowance for credit losses, charge-offs, and changes in components of our allowance for credit losses.

Counterparty Credit Risk

Refer to Note 6 in the condensed consolidated financial statements in this quarterly report for information related to derivative financial instruments utilized by CoBank including a summary of the fair value of derivative assets and liabilities, collateral held and net unsecured exposure.

Credit Risk Mitigation

CoBank uses various strategies to mitigate credit risk in its lending, leasing, investing and derivatives activities. The disclosures in this section relate solely to credit risk mitigation instruments and activities that reduce regulatory capital requirements, which include certain guarantees in our lending and investment portfolios, and collateral or settlement payments in our derivatives portfolio.

Loans

Our Agricultural Export Finance Division (AEFD) utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program for a portion of its export financing. Refer to the Operating Segment Financial Review section on page 7 of this quarterly report for additional discussion related to our AEFD.

As discussed on page 10 of this quarterly report, our loans to affiliated Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios. Lower regulatory capital requirements are commensurate with the lower risk profile associated with our loans to affiliated Associations.

Investments

Credit risk in our investment portfolio is mitigated by investing primarily in securities issued or guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency). Credit risk in our investment portfolio primarily exists in the 3 percent of our investments securities that are not guaranteed by the U.S. government or a U.S. Agency, which currently include asset-backed securities (ABS) and corporate bonds of midstream energy companies. Our ABS and midstream energy corporate bonds collectively total $990.3 million of our total investment portfolio as of September 30, 2020. Credit risk in our investment portfolio also arises from counterparties to short-term investments, which include our overnight bank deposits and federal funds sold. With the exception of corporate bonds, which are risk-weighted based on the corporate counterparty, these exposures are captured in the Securitization section below.

The following table summarizes the loan and investment exposures whose capital requirements are reduced as a result of credit risk mitigants.

Loan and Investment Exposures

Three Months Ended September 30, 2020	Average Exposure Amount	Risk Weighted Exposures
Guaranteed Loans	$ 1,704,496	$ -
Loans to Farm Credit System entities	56,949,255	11,389,851
Investment Securities Issued or Guaranteed by U.S. Government	20,043,258	-
Investment Securities Issued or Guaranteed by a U.S. Agency	11,995,804	2,399,161
Total	$ 90,692,813	$ 13,789,012

Derivatives

As described in Note 6 in the condensed consolidated financial statements in this quarterly report, transactions with dealers in our over-the-counter derivative portfolio, as well as those cleared through a clearinghouse, are collateralized or otherwise secured through settlement payments. As a result, at September 30, 2020, we posted financial collateral with dealers totaling $314.5 million that was included in calculating risk-weighted assets. Total risk-weighted assets for our over-the-counter derivatives and cleared derivative transactions amounted to $904.5 million and $1.4 million, respectively, for the three-month period ended September 30, 2020.

Securitization

The Bank participates in securitizations as investors through the purchase of MBS and ABS, which are included in our investment portfolio. As of September 30, 2020, CoBank did not retain any resecuritization exposures. The following disclosures relate only to ABS not guaranteed by the U.S. government or a U.S. Agency. The average balance of these unguaranteed securities was $560.8 million for the three-month period ended September 30, 2020.

Below is a summary of our securitization exposures held during the three months ended September 30, 2020 by exposure type and categorized by risk-weight band.

Securitization Exposures

Three Months Ended September 30, 2020	Average Exposure Amount	Risk Weighted Asset (Under Gross Up Approach)
Asset-Backed Securities	$ 560,760	$ 579,037
Total	$ 560,760	$ 579,037

Securitization Risk-Weight Bands

Three Months Ended September 30, 2020	Average Exposure Amount	Risk Weighted Asset
Gross-Up Risk-Weight Bands:		
100% - 125%	$ 535,290	$ 543,342
>125% and <1,250%	25,470	35,695
1,250%	-	-
Total	$ 560,760	$ 579,037

For the three-month period ended September 30, 2020, we did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Refer to Note 4 in the condensed consolidated financial statements in this quarterly report for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains (losses) and fair value of ABS held in our investment portfolio. In addition, Note 7 of the quarterly report describes the methods and assumptions, including any changes as applicable, applied in valuing our ABS.

Equities

The Bank has certain exposure to equity investments. We make investments and are a limited partner in certain Rural Business Investment Companies (RBICs). These RBICs focus on small and middle market companies that create jobs and promote commerce in rural America. The Bank also holds investments in various unincorporated business entities (UBEs), as defined by FCA regulation. We hold these investments to acquire and manage unusual or complex collateral associated with loan workouts as well as to make mission-related investments. Our investments in RBICs and UBEs are not publicly traded and are accounted for under the equity method. There have been no sales or liquidations of these investments during the three months ended September 30, 2020.

Interest Rate Risk

Interest rate risk, also referred to as market risk, is the risk that changes in interest rates may adversely affect operating results and financial condition. We use asset/liability models to evaluate the dynamics of our balance sheet and to estimate earnings volatility under different interest rate scenarios. Our analysis includes calculating the impact of significant increases or decreases in interest rates on net interest income, over a 12-month period, and the estimated market value of equity.

This analysis estimates the effect of immediate and sustained parallel positive (up) and negative (down) shifts in the yield curve (called "shocks") of down 300, down 200, down 100, up 100, up 200 and up 300 basis points. Pursuant to regulation and our Board policy, when the nine-month Treasury rate is below 4 percent, as it was for the period presented, we perform a shock equal to one-half the nine-month Treasury rate.

The following tables summarize the impact of interest rate changes on net interest income and the market value of equity.

Net Interest Income at Risk

Scenario:			
-	300	bp shock	n/a
-	200	bp shock	n/a
-	100	bp shock	n/a
-	5	bp shock	- %
+	100	bp shock	(0.5)
+	200	bp shock	(0.9)
+	300	bp shock	(0.8)

Market Value of Equity at Risk

Scenario:			
-	300	bp shock	n/a
-	200	bp shock	n/a
-	100	bp shock	n/a
-	5	bp shock	0.2 %
+	100	bp shock	(4.0)
+	200	bp shock	(8.5)
+	300	bp shock	(13.0)

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 chief executive officer and our chief financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The chief executive officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this quarterly report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term "internal controls," as defined by the American Institute of Certified Public Accountants' Codification of Statement on Auditing Standards, AU-C Section 315, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. We continually assess the adequacy of our internal control over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory requirements and recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Certification Required by Farm Credit Administration Regulations

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

Signed this 9th day of November, 2020.

/s/ KEVIN G. RIEL

Kevin G. Riel
Chair of the Board

/s/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

I, Thomas E. Halverson, 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/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

Dated: November 9, 2020

CERTIFICATION

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

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

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

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

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

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

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

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

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: November 9, 2020

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(860) 814-4043
(800) 876-3227
FCL: (860) 814-4049

Fargo Banking Center
4143 26th Avenue South, Suite 101
Fargo, ND 58104
(701) 277-5007
(866) 280-2892

Louisville Banking Center *
2000 High Wickham Place, Suite 101
Louisville, KY 40245
(502) 423-5650
(800) 262-6599
FCL: (800) 942-3309

Lubbock Banking Center *
5715 West 50th
Lubbock, TX 79414
(806) 788-3700
FCL: (806) 788-3705

Minneapolis Banking Center *
1665 Utica Avenue South, Suite 400
Minneapolis, MN 55416
(952) 417-7900
(800) 282-4150
FCL: (800) 444-2929

North Carolina Farm Credit Leasing Office**
2126 Thurmond Place
Charlotte, NC 28205
(800) 444-2929

Ohio Farm Credit Leasing Office **
1225 Irmscher Boulevard
Celina, OH 45822
(855) 838-9961 Ext. 23969

Omaha Banking Center *
13810 FNB Parkway, Suite 301
Omaha, NE 68154
(402) 492-2000
(800) 346-5717

Sacramento Banking Center *
3755 Atherton Road
Rocklin, CA 95765
(916) 380-3524
(800) 457-0942
FCL: (800) 289-7080

Spokane Banking Center
2001 South Flint Road, Suite 102
Spokane, WA 99224
(509) 363-8700
(800) 378-5577

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

St. Louis Banking Center *
635 Maryville Centre Drive, Suite 130
St. Louis, MO 63141
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

Wichita Banking Center *
245 North Waco, Suite 130
Wichita, KS 67202
(316) 290-2000
(800) 322-3654
FCL: (800) 322-6558

International

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

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

CoBank's 2020 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 8, 2020, August 10, 2020, November 9, 2020, and March 1, 2021 (Annual Report).