2019 Quarterly Report
SEPTEMBER 30, 2019

Dear CoBank Customer-Owner:

We're pleased to report CoBank's financial results for the third quarter of 2019. The bank remains in strong financial condition and is highly focused on serving the needs of our customers and fulfilling our mission of service to the U.S. rural economy.

Net income for the third quarter of 2019 was $248.5 million, compared to $291.3 million during the third quarter of 2018. Net income for the first nine months of 2019 was $800.9 million, compared to $937.1 million in the same period last year.

Year-over-year comparisons of our third quarter and year-to-date financial results are affected by a number of significant non-recurring items recorded in 2018 that elevated our earnings in those periods. That included a higher return of excess insurance funds from the Farm Credit System Insurance Corporation, significant gains from the sale of investment securities, additional income tax benefit from the full enactment of tax legislation and, for the third quarter of 2018, reduced income tax expense resulting from the special patronage payout CoBank made to qualifying customers in that period. Earnings in the first nine months of 2019 have also been impacted by a number of ongoing marketplace trends including spread compression and the shape of the yield curve, as well as higher operating expenses. Higher operating expenses are primarily driven by an increase in the number of employees to support new business initiatives and maintain high levels of customer service in addition to increased investments in our operating and technology platform.

The bank experienced loan growth during the first nine months of 2019. Average loan volume rose 4 percent in both the quarterly and year-to-date periods and our loan portfolio totaled $101.9 billion at September 30, 2019. Credit quality declined, although it remains strong overall despite continued softening due to volatile commodity prices, trade disputes among the United States and its trading partners, declining farm income and weather related events as well as other challenges impacting our customers. The bank ended the period with strong capital and liquidity positions, which were both well above regulatory minimums.

The table below contains key financial data for the quarter and year-to-date 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)

INCOME STATEMENT	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net interest income	$337	$341	$1,046	$1,085
Provision for loan losses	5	3	26	43
Noninterest income	49	58	169	234
Operating expenses	100	89	291	261
Net income	249	291	801	937

BALANCE SHEET (period-end)	September 30, 2019	December 31, 2018
Total loans	$101,898	$104,494
Less: allowance for loan losses	622	622
Net loans	101,276	103,872
Total assets	136,370	139,016
Total shareholders' equity	10,447	9,535

PROFITABILITY METRICS	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net interest margin	1.02%	1.11%
Return on average common equity	11.56%	15.51%
Return on average assets	0.78%	0.95%
Operating expense ratio	22.28%	19.10%
Average total loans	$104,087	$100,284
Average earning assets	136,827	130,465
Average total assets	138,055	131,455

Our board and executive team remain focused on upholding the long-term financial strength and capacity of the bank to continue to fulfill the needs of our customer-owners with excellence, and fulfill our mission to serve rural America. We greatly appreciate your support and are grateful for the trust you place in CoBank as a financial partner.

Kevin Riel

Kevin G. Riel
Chair of the Board

Tom Halverson

Thomas E. Halverson
President and Chief Executive Officer

November 8, 2019

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 2018 Annual Report to Shareholders.

Consolidated Results of Operations

Average loan volume was $104.1 billion during the first nine months of 2019 compared to $100.3 billion in the same prior-year period. The 4 percent increase in average loan volume resulted primarily from growth in lending to Associations in our Farm Credit Banking operating segment and agricultural export finance customers in our Agribusiness operating segment as well as rural power and energy customers in our Rural Infrastructure segment.

Net income decreased $136.2 million to $800.9 million for the nine-month period ended September 30, 2019, compared to $937.1 million during the same period in 2018. The 15 percent decrease in earnings primarily resulted from decreases in noninterest income and net interest income as well as an increase in operating expenses and a higher provision for income taxes. These items were somewhat offset by a lower provision for loan losses in the 2019 period.

Net Interest Margin and Net Interest Income						
Nine Months Ended September 30,		**2019**			**2018**	
($ in Millions)	**Average Balance**	**Average Rate**	**Interest Income/ Expense**	**Average Balance**	**Average Rate**	**Interest Income/ Expense**
Interest-earning Assets						
Loans	**$ 104,087**	**3.64 %**	**$ 2,831**	$ 100,284	3.26 %	$ 2,445
Investment Securities, Federal Funds Sold and Other Overnight Funds	**32,740**	**2.43**	**594**	30,181	2.22	502
Total Interest-earning Assets	**136,827**	**3.35**	**3,425**	130,465	3.02	2,947
Total Interest-bearing Liabilities	**126,127**	**2.52**	**2,379**	120,774	2.06	1,862
Interest Rate Spread		**0.83**			0.96	
Impact of Equity Financing	**$ 10,700**	**0.19**		$ 9,691	0.15	
Net Interest Margin and Net Interest Income		**1.02 %**	**$ 1,046**		1.11 %	$ 1,085

Net interest income decreased $38.5 million to $1,046.2 million for the nine months ended September 30, 2019, compared to $1,084.7 million for the same prior-year period. The 4 percent decrease in net interest income was primarily driven by lower earnings on balance sheet positioning and lower overall spreads in our loan portfolio, partially offset by higher average loan volume and an increase in earnings on invested capital.

Net interest margin declined to 1.02 percent for the first nine months of 2019 compared to 1.11 percent for the same period in 2018. The reduction in our net interest margin included the impact of lower earnings on balance sheet positioning and changes in asset mix, including increased lending to affiliated Associations and agricultural export finance customers and higher levels of investment securities, all of which have lower spreads commensurate with lower risk. Loan spreads also decreased due to continued competition for the business of our customers. These drivers were somewhat offset by an increase in earnings on invested capital which benefited net interest margin.

We recorded a $26.0 million provision for loan losses in the nine-month period ended September 30, 2019. The 2019 provision primarily reflects deterioration in credit quality in our Agribusiness and Rural Infrastructure operating segments. We recorded a $43.0 million provision for loan losses in the nine-month period ended September 30, 2018. The 2018 provision largely reflected increases in specific reserves associated with a small number of customers in our Agribusiness and Rural Infrastructure operating segments as well as increased exposure in the Agribusiness operating segment resulting from deterioration in credit quality and growth in average loan volume. Adversely classified loans and accrued interest increased to 1.51 percent of total loans and accrued interest at September 30, 2019, from 1.21 percent at December 31, 2018 due to deterioration in credit quality in our Rural Infrastructure and Agribusiness operating segments. Nonaccrual loans improved slightly to $310.7 million at September 30, 2019, from $326.3 million at December 31, 2018 primarily due to payment activity on existing nonaccrual loans in our Rural Infrastructure operating segment, somewhat offset by credit quality deterioration impacting a small number of customers in our Agribusiness operating segment. Loan charge-offs, net of recoveries, totaled $1.0 million in the first nine months of 2019 compared to $23.9 million during the same period in 2018. The 2018 charge-offs primarily related to a small number of customers in our Agribusiness operating segment.

Noninterest income decreased $64.9 million to $168.9 million for the first nine months of 2019 from $233.8 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. The decline in noninterest income resulted largely from a $49.0 million decrease in gains on sales of investment securities. Sales of investment securities are discussed further on page 11. In addition, the return of excess insurance funds from the Insurance Corporation related to the Farm Credit System Insurance Fund (Insurance Fund) decreased to $13.8 million in the first nine months of 2019 from $35.0 million in the same period of 2018. As more fully explained in our 2018 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 2019 and 2018, the Insurance Fund began the year above the SBA. Other net noninterest income decreased to $7.7 million in the first nine months of 2019 from $14.1 million in the same prior-year period primarily due to proceeds received in 2018 related to the disposition of warrants which had been obtained in a previous loan restructuring. These decreases in noninterest income were somewhat offset by a higher level of patronage received from other System institutions on loan participations we sold to them.

Total operating expenses for the nine-month period ended September 30, 2019 increased $29.8 million to $291.1 million from $261.3 million for the same period in 2018. The higher level of operating expenses was primarily driven by an increase in employee compensation expense of $16.2 million to $149.3 million for the first nine months of 2019. The increase in employee compensation expense was driven by an increase in the number of employees to support increased investments in our operating and technology platform and other new business initiatives as well as to maintain high levels of customer service. Employee compensation expense also increased due to annual merit increases, compensation expenses related to lease originations that are no longer deferred and amortized under the new lease accounting standard and a reduction in reimbursements related to our digital banking activities. As of September 30, 2019 and 2018, we had 1,105 and 1,019 employees, respectively. Information services expense increased by $6.0 million due to greater expenditures to enhance our service offerings, technology platforms and digital banking capabilities. Purchased services expense increased $2.7 million due to higher levels of legal, professional and consulting fees. General and administrative expenses increased $2.4 million and include contributions and other support provided to civic, charitable and other organizations that benefit the residents, communities and industries we serve in rural America, consistent with our overall corporate social responsibility program and the fulfillment of our mission.

Our income tax expense increased to $97.1 million for the first nine months of 2019, compared to $77.1 million for the same prior-year period. Our effective tax rates were 10.8 percent and 7.6 percent for the nine-month periods ended September 30, 2019 and 2018, respectively. Income tax expense for the nine months ended September 30, 2018 included a nonrecurring income tax benefit of $16.0 million which resulted from a change in accounting estimate to reflect the full effect of 2017 tax legislation. Excluding the impact of this nonrecurring income tax benefit, income tax expense was $93.1 million and our effective tax rate was 9.2 percent for the nine-month period ended September 30, 2018. A lower level of tax-deductible patronage in 2019, driven by the special patronage distribution in the third quarter of 2018, also contributed to the increase in income tax expense during the nine-month period ended September 30, 2019.

As a result of the lower level of earnings and higher average capital in the first nine months of 2019, our annualized return on average common shareholders' equity decreased to 11.56 percent for the nine months ended September 30, 2019 from 15.51 percent for the same period in 2018. Our annualized return on average assets decreased to 0.78 percent for the nine-month period ended September 30, 2019, compared to 0.95 percent for the same prior-year period.

For the three months ended September 30, 2019, net income decreased $42.8 million to $248.5 million, compared to $291.3 million for the same prior-year period. The decrease in net income was driven by a higher provision for income taxes and increased operating expenses as well as decreases in noninterest income and net interest income. Income tax expense increased $15.8 million as a result of a lower level of tax-deductible patronage in 2019, driven by the special patronage distribution in the third quarter of 2018. Operating expenses increased $11.7 million largely due to the increase in employee compensation expense described above. Noninterest income decreased $9.0 million which largely reflects a lower level of gains recognized on sales of investment securities and lower fee income offset by losses recognized in 2018 on the termination of interest rate caps. Net interest income decreased by $4.3 million to $336.8 million for the third quarter of 2019 compared to the same prior-year period. This decrease was primarily due to lower earnings from balance sheet positioning and lower loan spreads partially offset by higher average loan volume and an increase in earnings on invested capital. Average loan volume increased to $102.4 billion during the three months ended September 30, 2019 compared to $98.1 billion in the same prior-year period and primarily reflected an increase in lending to Associations in our Farm Credit Banking operating segment. We recorded a $5.0 million provision for loan losses during the third quarter of 2019 compared to a $3.0 million provision for loan losses in the same period of 2018.

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, 2019 and 2018 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,	2019	2018[(1)]
Operating Segment:		
Agribusiness	$ **403,804**	$ 455,372
Farm Credit Banking	**165,319**	208,827
Rural Infrastructure	**231,782**	272,931
Total	$ **800,905**	$ 937,130

(1) Previous to 2019, certain corporate and other information to reconcile total reportable segments with total consolidated results were separately disclosed as "Corporate/Other". Such amounts are now allocated to operating segments, and prior-year amounts have been reclassified to conform to the current presentation.

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 $28.9 billion at September 30, 2019, compared to $32.4 billion at December 31, 2018. The decrease in outstanding loan volume primarily resulted from lower seasonal financing requirements at many grain and farm supply cooperatives, which typically reach a low in late summer or early fall. 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 $5.4 billion and $5.8 billion in loans outstanding as of September 30, 2019 and December 31, 2018, respectively. At September 30, 2019 and December 31, 2018, 23 and 18 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, 2019 and December 31, 2018, FCL had $3.3 billion and $3.4 billion, respectively, in leases outstanding.

Agribusiness average loan volume increased 2 percent to $32.4 billion for the first nine months of 2019 from $31.8 billion for the same period of 2018. Growth in Agribusiness average loan volume resulted primarily from increased lending to agricultural export finance customers and food and agribusiness customers.

Agribusiness net income decreased $51.6 million in the first nine months of 2019 to $403.8 million from $455.4 million for the same period in 2018 due to an increase in operating expenses, a higher provision for income taxes and decreases in noninterest income and net interest income, partially offset by a lower provision for loan losses.

Net interest income decreased by $10.9 million to $545.9 million for the nine-month period ended September 30, 2019, from $556.8 million for the 2018 period. This decrease was primarily due to lower earnings on balance sheet positioning, lower overall spreads in our Agribusiness loan portfolio reflective of continued competition for the business of our customers and increased average lending to agricultural export finance customers which carry lower loan spreads commensurate with lower risk. The impact of spread reduction was somewhat offset by growth in average loan volume.

Agribusiness recorded a $23.0 million provision for loan losses during the first nine months of 2019 compared to $36.6 million in the same prior-year period. The 2019 provision reflects deterioration in overall credit quality. The 2018 provision resulted primarily from increases in specific reserves associated with a small number of customers as well as an increase in exposure due to deterioration in overall credit quality and growth in loan volume. Nonaccrual loans in Agribusiness were $282.0 million at September 30, 2019, as compared to $288.1 million at December 31, 2018. Loan charge-offs, net of recoveries, totaled $1.6 million for the nine months ended September 30, 2019, compared to $22.0 million for the same prior-year period. The charge-offs in 2018 largely related to several Agribusiness customers who experienced financial distress.

Noninterest income decreased $15.5 million to $106.0 million in the first nine months of 2019 from $121.5 million for the 2018 period, largely due to a lower level of returned excess insurance funds from the Insurance Corporation, a decrease in fee income due to a lower level of transaction-related lending fees and higher levels of losses on early extinguishments of debt. These decreases were somewhat offset by higher levels of patronage income received from other System institutions on loan participations we sold to them.

Agribusiness operating expenses increased to $172.3 million for the first nine months of 2019 from $151.2 million in the same prior-year period primarily due to the increases in employee compensation, information services expenses, purchased services and general and administrative 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, 2019, the Farm Credit Banking loan portfolio totaled $52.2 billion, compared to $50.7 billion at December 31, 2018. At September 30, 2019 and December 31, 2018, loans outstanding included $47.3 billion and $45.8 billion, respectively, in wholesale loans to our affiliated Associations and $4.9 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations. These participations included $3.9 billion in wholesale loans made by the Farm Credit Bank of Texas (FCBT). The balance of participations of $1.0 billion as of September 30, 2019 and December 31, 2018 represent wholesale loans made by AgFirst Farm Credit Bank.

Farm Credit Banking average loan volume increased 7 percent to $50.7 billion for the nine-month period ended September 30, 2019, compared to $47.6 billion for the same prior-year period. The increase resulted from greater overall lending to agricultural producers and processors by our affiliated Associations.

Farm Credit Banking net income decreased $43.5 million to $165.3 million for the first nine months of 2019, as compared to $208.8 million for the same prior-year period. The decrease resulted primarily from lower noninterest income and to a lesser extent lower net interest income.

Net interest income decreased to $193.5 million in the first nine months of 2019, compared to $206.9 million for the same period in 2018, primarily due to lower earnings on balance sheet positioning somewhat offset by the impact of 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 downgraded credit quality classifications of two affiliated Association wholesale loans and a participation in a wholesale loan made by FCBT to one of its affiliated Associations 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 decreased by $31.7 million to $3.6 million in the first nine months of 2019 from $35.3 million in the 2018 period primarily resulting from significantly higher gains recognized on the sale of investment securities attributed to the Farm Credit Banking operating segment in the 2018 period. The operating results of Farm Credit Banking in the nine months ended September 30, 2019 and 2018 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 decreased slightly to $31.8 million for the first nine months of 2019 from $33.4 million for the same prior-year period. 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 rural local exchange carriers, wireless providers, data transport networks, cable television systems, tower companies, telecommunication services and data centers. 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. The Rural Infrastructure loan portfolio decreased slightly to $20.8 billion at September 30, 2019, compared to $21.4 billion at December 31, 2018. During February 2019, we entered into a master participation agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) under which each party may purchase from the other participation interests in eligible loans. In connection with the agreement, we sold $688.2 million of non-patronage, electric distribution loans to Farmer Mac for the nine months ended September 30, 2019. We remain the servicer of these loans.

Rural Infrastructure average loan volume remained consistent at $20.9 billion for the first nine months of 2019, compared to the same prior-year period. The increase in loan volume primarily related to rural power and energy borrowers and was largely offset by a decrease in electric distribution loans resulting from the loan sales to Farmer Mac as described above.

Rural Infrastructure net income decreased by $41.1 million to $231.8 million for the first nine months of 2019, compared to $272.9 million for the same prior-year period. The decrease was primarily driven by decreases in noninterest income and net interest income as well as an increase in operating expenses and a higher provision for income taxes. These items were partially offset by a lower provision for loan losses.

Net interest income decreased by $14.1 million to $306.8 million for the nine-month period ended September 30, 2019, compared to $320.9 million in the 2018 period. This decrease was primarily due to interest income recognized in the 2018 period related to a nonaccrual loan which was paid off in 2018, lower earnings on balance sheet positioning and spread compression in certain portfolio sectors resulting from continued strong competition for our customers' business from other financial service providers.

Rural Infrastructure recorded a provision for loan losses of $3.0 million during the first nine months of 2019 compared to $6.4 million for the same period in 2018. The 2019 provision primarily reflects 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. The 2018 provision primarily reflected increases in specific reserves associated with a small number of customers, somewhat offset by lower reserves in the balance of the portfolio. Nonaccrual loans in Rural Infrastructure improved to $28.6 million at September 30, 2019, compared to $38.2 million at December 31, 2018 primarily due to a communications loan that was paid off during 2019. Loan recoveries, net of charge-offs, totaled $0.6 million for the first nine months of 2019. Loan charge-offs, net of recoveries, totaled $1.9 million for the first nine months of 2018.

Noninterest income decreased by $17.8 million to $59.2 million for the nine-month period ended September 30, 2019, compared to $77.0 million for the same period in 2018 largely due to a lower level of returned excess insurance funds from the Insurance Corporation and proceeds received in the 2018 period from the disposition of warrants obtained in a previous loan restructuring. This was somewhat offset by higher levels of patronage income received from other System institutions on loan participations we sold to them and an increase in fee income due to transaction-related lending fees.

Rural Infrastructure operating expenses increased by $10.3 million to $86.9 million for the first nine months of 2019 compared to $76.6 million for the same prior-year period primarily due to increases in employee compensation, information services expenses, purchased services and general and administrative 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, 2019			December 31, 2018		
	Wholesale Loans (1)	Commercial Loans (2)	Total Bank	Wholesale Loans (1)	Commercial Loans (2)	Total Bank
Acceptable	**94.84 %**	**95.08 %**	**94.96 %**	98.95 %	95.86 %	97.37 %
Special Mention	**5.16**	**1.81**	**3.53**	0.93	1.88	1.42
Substandard	**-**	**3.06**	**1.49**	0.12	2.25	1.20
Doubtful	**-**	**0.05**	**0.02**	-	0.01	0.01
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

While our overall loan quality measures remain strong at September 30, 2019, we experienced deterioration in the first nine months of 2019. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") and related accrued interest as a percent of total loans and accrued interest increased to 1.51 percent at September 30, 2019, compared to 1.21 percent at December 31, 2018. This increase resulted from deterioration in credit quality in our Agribusiness and Rural Infrastructure operating segments.

Special Mention loans and related accrued interest as a percentage of total loans and accrued interest increased to 3.53 percent at September 30, 2019, compared to 1.42 percent at December 31, 2018. At September 30, 2019, Special Mention loans included $2.2 billion in wholesale loans to two of our affiliated Associations and a $471.0 million participation in a wholesale loan made by FCBT to one of its 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 classifications primarily reflect 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, 2019, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans.

We recorded a $26.0 million provision for loan losses in the first nine months of 2019 compared to $43.0 million during the 2018 period. The 2019 provision primarily reflects deterioration in credit quality in our Rural Infrastructure and Agribusiness operating segments. The 2018 provision largely reflected increases in specific reserves associated with a small number of customers in our Agribusiness and Rural Infrastructure operating segments as well as increased exposure in the Agribusiness operating segment resulting from deterioration in credit quality and growth in average loan volume. Total loan charge-offs, net of recoveries, were $1.0 million for the first nine months of 2019 compared to $23.9 million in the 2018 period. Nonaccrual loans improved slightly to $310.7 million at September 30, 2019, from $326.3 million at December 31, 2018 primarily due to payment activity on existing nonaccrual loans, somewhat offset by credit quality deterioration impacting a small number of customers 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 $728.2 million at September 30, 2019, compared to $703.2 million at December 31, 2018. Our ACL as a percent of total loans was 0.71 percent at September 30, 2019 and 0.67 percent at December 31, 2018. As a percent of non-guaranteed loans outstanding and excluding loans to Associations, our ACL was 1.50 percent at September 30, 2019, compared to 1.33 percent at December 31, 2018.

While the overall credit quality of our loan portfolio remains strong, we experienced deterioration during the first nine months of 2019. We believe further deterioration could result from market factors impacting our customers, including an ongoing volatile agricultural commodity price environment, 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 in which 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, 2019, our liquidity was 171 days, compared to 177 days at December 31, 2018.

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 $1.9 billion and $2.7 billion as of September 30, 2019 and December 31, 2018, respectively. Our investment securities were $31.4 billion at September 30, 2019, compared to $31.3 billion at December 31, 2018.

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

Investment Securities ($ in Millions)

	September 30, 2019			December 31, 2018		
	Amortized Cost	Fair Value	Unrealized Gains	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)
Certificates of Deposit	**$ 100**	**$ 100**	**$ -**	$ 975	$ 975	$ -
U.S. Treasury Debt	**15,130**	**15,322**	**192**	15,424	15,268	(156)
U.S. Agency Debt	**2,660**	**2,728**	**68**	2,257	2,239	(18)
Residential Mortgage-Backed:						
Ginnie Mae	**2,554**	**2,607**	**53**	2,969	2,940	(29)
U.S. Agency	**4,761**	**4,800**	**39**	5,613	5,528	(85)
Non-Agency	**-**	**-**	**-**	12	13	1
Commercial Mortgage-Backed:						
U.S. Agency	**4,525**	**4,537**	**12**	2,882	2,867	(15)
Corporate Bonds	**305**	**315**	**10**	120	119	(1)
Asset-Backed and Other	**1,035**	**1,038**	**3**	1,342	1,343	1
Total	**$ 31,070**	**$ 31,447**	**$ 377**	$ 31,594	$ 31,292	$ (302)

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 include our certificates of deposit, corporate bonds and asset-backed securities (ABS). Excluding certificates of deposit with counterparties that carry the highest short-term credit rating, these securities collectively total $1.4 billion (fair value) or 4 percent of our total investment securities as of September 30, 2019. We recorded no impairment losses on investment securities during the first nine months of 2019 or 2018.

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; non-agency mortgage-backed securities (MBS) and ABS that are no longer rated triple-A by at least one major rating agency; corporate bonds that no longer carry one of the two highest ratings by at least one major rating agency; and any investment whose market value is less than 80 percent of book value. As of September 30, 2019, $101.7 million of such securities were excluded from our liquidity reserve.

During the first nine months of 2019, we sold seven U.S. Treasury debt securities and our remaining non-agency MBS and home equity ABS portfolios for total proceeds of $1.8 billion which approximated their combined book value. During the first nine months of 2018, we sold four U.S. Treasury debt securities, eight non-agency debt securities and all of our remaining FHA/VA non-wrapped reperformer MBS for total proceeds of $1.5 billion resulting in gains of $49.0 million. In the third quarter of 2019, we sold four U.S. Treasury debt securities for total proceeds of $999.3 million resulting in gains of $0.1 million. During the third quarter of 2018, we sold three non-agency debt securities for total proceeds of $19.3 million resulting in gains of $8.4 million. We sold these securities to manage liquidity, credit exposure and take advantage of favorable market conditions. The resulting gains from these investment sales are recorded in noninterest income in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2019 and 2018.

As all of our investment securities are classified as “available for sale”, we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains of $679.3 million for the first nine months of 2019, compared to unrealized losses of $475.5 million for the same prior-year period. The unrealized gains and losses 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 $808.2 million and $1,008.1 million for the first nine months of 2019 and 2018, respectively.

Notwithstanding the various sources of liquidity discussed above, if no other sources at CoBank 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, 2020 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.

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 $10.4 billion and $9.5 billion at September 30, 2019 and December 31, 2018, respectively. During the first nine months of 2019, growth in shareholders' equity resulted from retained earnings as well as an increase in accumulated other comprehensive income primarily resulting from increases in unrealized gains on investment securities driven by market interest rate changes. These factors were offset by patronage accruals and preferred stock dividends.

At September 30, 2019 and December 31, 2018, our capital and leverage ratios exceeded regulatory minimums, as shown in the following table.

Regulatory Capital Requirements and Ratios

		September 30, 2019		December 31, 2018		
	Regulatory Minimums	Actual	Actual Buffer	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 Capital Ratio	4.5 %	**12.90 %**	**8.40 %**	12.38 %	7.88 %	2.5 % (1)
Tier 1 Capital Ratio	6.0	**15.09**	**9.09**	14.57	8.57	2.5 (1)
Total Capital Ratio	8.0	**16.14**	**8.14**	15.58	7.58	2.5 (1)
Tier 1 Leverage Ratio	4.0	**7.55**	**3.55**	7.53	3.53	1.0
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5	**3.26**	**n/a**	3.19	n/a	n/a
Permanent Capital Ratio	7.0	**15.22**	**n/a**	14.69	n/a	n/a

(1) The capital conservation buffer is being phased in over three years, reaching its full value of 2.5 percent in 2020.

See pages 52 through 61 for more information on required regulatory capital disclosures, including the components of the ratios displayed above.

In September 2018, we made a special all-cash patronage distribution of $96.2 million to customer-owners. The distribution reflected the Bank's plan to share with eligible borrowers and other key stakeholders the benefits of federal tax reform legislation effective in 2018, along with earnings from significant nonrecurring items. This distribution was incremental to normal patronage distributions made by the Bank.

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.

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 Funding Corporation, 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 as a replacement to LIBOR, 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.

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 bank, and
- a timeframe and action steps for completing key objectives.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. We also continue to monitor the LIBOR transition relief being considered by the Financial Accounting Standards Board concerning the accounting for contract modifications and hedge accounting.

At this time, we are unable to predict whether or when LIBOR will cease to be available or if the Secured Overnight Financing Rate (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 April 3, 2019, the FCA issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and it would revise 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 public comment period ended on June 3, 2019.

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 Current Expected Credit Losses (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 ends on November 22, 2019.

Business Outlook

We operate in an environment that poses a number of challenges for the Bank and its customers. Interest rates remain low by historical standards and the shape of the yield curve continues to limit returns on capital and funding strategies. Monetary policy as established by the Federal Reserve and the policies of other central banks around the world could create further uncertainty regarding interest rates and asset valuations. The direction of the U.S. economic, trade and foreign policies continues to create uncertainty. In particular, the imposition of tariffs continues to introduce significant uncertainty and the related reactions by governments around the world has led to further disruption in markets for agricultural products. Although the United States has entered into a new trade agreement with Canada and Mexico, until passed by Congress and fully implemented, it is uncertain how this agreement will impact the U.S. economy and our customers. Competition for the business of our customers across most of the industries we serve continues to be intense. Agricultural commodity prices in general have remained relatively low due to strong global supplies and are subject to volatility driven by weather conditions, trade policies and other factors. Customers in many of the industries we serve are impacted by commodity prices and agricultural yields, fluctuations in the value of the U.S. dollar, weather, and ongoing political and regulatory uncertainty. Many of our power customers continue to be impacted by energy efficiency initiatives, price volatility of various fuel sources including coal and natural gas, rural population decline, changing regulation of carbon dioxide emissions, renewable energy standards and customer demand for distributed generation. Rapidly changing technology, consolidation and customer demand create volatility in the communications industry. Although these challenges could reduce credit quality and impact the level of loan demand, CoBank remains well-positioned to continue to serve as a dependable financial partner for our customers.

We continue to focus on delivering the credit and financial services our customers need to compete, grow and achieve business success, enhancing our enterprise risk management capabilities and maintaining our financial strength. In addition, we continue to collaborate with our affiliated Associations on business model solutions that further strengthen the ability to fulfill our collective mission, including through the more efficient use of capital. We believe that our strong liquidity and capital will continue to provide the capacity to support customers in all market conditions. We also believe that paying patronage is an important part of our value proposition as it effectively lowers the net cost of borrowing for our customer-owners. We continue our disciplined approach to managing risk and monitoring asset quality. We also continue to make prudent investments in our people, processes, data infrastructure and technology, including enhancing our digital banking capabilities, to strengthen the value and improve the experience we provide to our customers.

Under the guidance of our Board of Directors and through the focus of an experienced executive management team, we are focused on achieving continued success through execution of our business strategies. This includes, among other objectives, creating mutually beneficial partnerships with other System institutions, maintaining effective access to the agency debt capital markets, educating policy makers and other key stakeholders about the critical mission of CoBank and the System, prudently optimizing current lending authorities and maintaining compliance with laws and regulations. We continue to explore strategic alliances and other opportunities with our customers, other System institutions, financial service providers and other public and private entities as we strive to better fulfill our mission in rural America in a safe and sound manner.

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:

- 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;
- Government policies and political developments in the United States and other countries in which we do business;
- 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, including the implementation of the Tax Cuts and Jobs Act of 2017;
- 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, 2019 (Unaudited)		December 31, 2018	
Assets				
Total Loans	**$**	**101,898,341**	$	104,493,855
Less: Allowance for Loan Losses		**621,595**		621,591
Net Loans		**101,276,746**		103,872,264
Cash and Cash Equivalents		**307,986**		1,368,075
Federal Funds Sold and Other Overnight Funds		**1,563,000**		1,300,000
Investment Securities		**31,447,271**		31,291,720
Interest Rate Swaps and Other Financial Instruments		**500,352**		255,926
Accrued Interest Receivable and Other Assets		**1,274,795**		927,672
Total Assets	**$**	**136,370,150**	$	139,015,657
Liabilities				
Bonds and Notes	**$**	**123,687,297**	$	127,632,183
Interest Rate Swaps and Other Financial Instruments		**346,095**		154,841
Reserve for Unfunded Commitments		**106,639**		81,649
Accrued Interest Payable and Other Liabilities		**1,782,811**		1,612,051
Total Liabilities	**$**	**125,922,842**	$	129,480,724
Commitments and Contingent Liabilities (Note 9)				
Shareholders' Equity				
Preferred Stock		**1,500,000**		1,500,000
Common Stock		**3,467,868**		3,415,654
Unallocated Retained Earnings		**5,275,726**		4,982,383
Accumulated Other Comprehensive Income (Loss)		**203,714**		(363,104)
Total Shareholders' Equity	**$**	**10,447,308**	$	9,534,933
Total Liabilities and Shareholders' Equity	**$**	**136,370,150**	$	139,015,657

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,	
	2019	**2018**	**2019**	**2018**
Interest Income				
Loans	**$ 903,175**	$ 831,095	**$ 2,831,048**	$ 2,445,152
Investment Securities, Federal Funds Sold and Other Overnight Funds	**199,811**	173,619	**594,104**	502,185
Total Interest Income	**1,102,986**	1,004,714	**3,425,152**	2,947,337
Interest Expense	**766,159**	663,622	**2,378,914**	1,862,654
Net Interest Income	**336,827**	341,092	**1,046,238**	1,084,683
Provision for Loan Losses	**5,000**	3,000	**26,000**	43,000
Net Interest Income After Provision for Loan Losses	**331,827**	338,092	**1,020,238**	1,041,683
Noninterest Income (Expense)				
Net Fee Income	**28,509**	36,226	**81,407**	77,053
Patronage Income	**20,878**	16,657	**65,322**	54,852
Prepayment Income	**6,103**	10,869	**9,604**	13,223
Losses on Early Extinguishments of Debt	**(6,558)**	(3,550)	**(9,003)**	(9,447)
Gains on Sales of Investment Securities	**50**	8,439	**5**	48,998
Return of Excess Insurance Funds	**-**	-	**13,789**	35,045
Other, Net	**352**	(10,329)	**7,728**	14,086
Total Noninterest Income	**49,334**	58,312	**168,852**	233,810
Operating Expenses				
Employee Compensation	**52,438**	46,970	**149,335**	133,114
Insurance Fund Premium	**12,718**	12,296	**39,785**	39,419
Information Services	**11,380**	8,652	**32,514**	26,534
General and Administrative	**6,870**	5,533	**20,202**	17,783
Occupancy and Equipment	**4,108**	4,873	**12,579**	11,908
Farm Credit System Related	**3,811**	3,428	**12,496**	12,030
Purchased Services	**3,774**	2,526	**9,194**	6,477
Other	**5,219**	4,313	**14,954**	13,999
Total Operating Expenses	**100,318**	88,591	**291,059**	261,264
Income Before Income Taxes	**280,843**	307,813	**898,031**	1,014,229
Provision for Income Taxes	**32,307**	16,511	**97,126**	77,099
Net Income	**$ 248,536**	$ 291,302	**$ 800,905**	$ 937,130

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,	
	2019	**2018**	**2019**	**2018**
Net Income	**$ 248,536**	$ 291,302	**$ 800,905**	$ 937,130
Other Comprehensive Income (Loss), Net of Tax:				
Net Change in Unrealized Gains (Losses) on Investment Securities Not Other-Than-Temporarily Impaired	**95,076**	(115,467)	**601,625**	(430,401)
Net Change in Unrealized Losses on Other-Than-Temporary Impaired Investment Securities	**-**	(3,291)	**(102)**	(3,375)
Net Change in Unrealized (Losses) Gains on Interest Rate Swaps and Other Financial Instruments	**(8,539)**	17,875	**(37,789)**	33,335
Net Pension Adjustment	**971**	1,466	**2,913**	4,398
Other Comprehensive Income (Loss)	**87,508**	(99,417)	**566,647**	(396,043)
Comprehensive Income	**$ 336,044**	$ 191,885	**$ 1,367,552**	$ 541,087

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,	2019	2018
Balance at Beginning of Period	**$ 9,534,933**	$ 9,060,077
Cumulative effect adjustment from change in accounting principle[1]	**8,596**	-
Balance at Beginning of Period, as adjusted	**9,543,529**	9,060,077
Comprehensive Income	**1,367,552**	541,087
Preferred Stock:		
Dividends	**(65,862)**	(65,055)
Common Stock:		
Issuances	**59**	55
Retirements	**(44,026)**	(31,164)
Cash Patronage Accrued	**(353,944)**	(350,385)
Special Cash Patronage Distribution	**-**	(96,187)
Balance at End of Period	**$ 10,447,308**	$ 9,058,428

[1] Effective January 1, 2019, we adopted changes in lease accounting pursuant to ASU "Leases (Topic 842)", as described in Note 2.

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,		2019		2018
Cash Flows Provided by Operating Activities				
Net Income	$	**800,905**	$	937,130
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Provision for Loan Losses		**26,000**		43,000
Deferred Income Taxes		**5,421**		4,761
Depreciation and Amortization/Accretion, Net		**12,499**		1,112
Losses on Early Extinguishments of Debt		**9,003**		9,447
Gains on Sales of Investment Securities		**(5)**		(48,998)
Increase in Accrued Interest Receivable and Other Assets		**8,366**		51,684
Decrease in Accrued Interest Payable and Other Liabilities		**(13,634)**		(9,325)
Net Losses on Interest Rate Swaps and Other Financial Instruments		**14,841**		18,167
Proceeds for Termination of Interest Rate Swaps and Caps		**-**		3,124
Purchase of Interest Rate Caps		**(47,017)**		(808)
Payments on Operating Lease Liabilities		**(7,290)**		-
Other		**(857)**		(1,184)
Net Cash Provided by Operating Activities		**808,232**		1,008,110
Cash Flows Provided by (Used in) Investing Activities				
Net Decrease in Loans		**2,580,214**		885,815
Net Decrease (Increase) in Investment Securities		**631,026**		(1,737,798)
Net (Increase) Decrease in Federal Funds Sold and Other Overnight Funds		**(263,000)**		609,000
Net Cash Provided by (Used in) Investing Activities		**2,948,240**		(242,983)
Cash Flows Used in Financing Activities				
Net Repayments of Bonds and Notes		**(4,228,476)**		(1,169,278)
Payments on Early Extinguishments of Debt		**(9,003)**		(9,447)
Net Retirements of Common Stock		**(43,967)**		(31,109)
Cash Patronage Distribution		**(475,073)**		(494,220)
Special Cash Patronage Distribution		**-**		(96,187)
Preferred Stock Dividends Paid		**(60,042)**		(58,687)
Net Cash Used in Financing Activities		**(4,816,561)**		(1,858,928)
Net Decrease in Cash		**(1,060,089)**		(1,093,801)
Cash at Beginning of Period		**1,368,075**		1,313,620
Cash at End of Period	$	**307,986**	$	219,819
Supplemental Disclosures:				
Schedule of Noncash Investing and Financing Activities				
Net Change in Accrued Securities Purchases	$	**(147,443)**	$	(60,343)
Net Change in Receivables from Investment Securities		**62,798**		(55,598)
Net Change in Unrealized Gains (Losses) on Investment Securities, Before Taxes		**679,314**		(475,080)
Net Change in Unrealized (Losses) Gains on Interest Rate Swaps, Other Financial Instrumets and Hedged Items, Before Taxes		**(37,660)**		33,367
Patronage in Common Stock		**96,181**		94,567
Cash Patronage Payable		**353,943**		446,574
Reclassification of Stranded Tax Effects from Accumulated Other Comprehensive Income to Retained Earnings (Note 2)		**-**		26,614
Supplemental Noncash Information Related to Leases				
Addition of Right-of-Use Assets and Operating Lease Liabilities to Balance Sheet (Note 2)		**82,290**		-
Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities		**6,055**		-
Reclassification of Deferred Gains Associated with Sale-Leaseback Transaction (Note 2)		**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 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 2018 Annual Report, which includes a description of our organization and lending authority. Also included in the 2018 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 2019 presentation.

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.

We have evaluated subsequent events through November 8, 2019, which is the date the financial statements were issued.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, adds and modifies certain requirements to improve effectiveness of fair value measurement disclosures. This guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Bank early adopted the removed and modified disclosures in 2018. The adoption of this guidance will not impact the Bank's financial condition or its results of operations.

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 Cost." 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We are currently reviewing the guidance to determine the effect on our consolidated financial condition and results of operations.

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA reduced the federal corporate tax rate from 35 percent to 21 percent. In accordance with accounting principles generally accepted in the United States of America (GAAP), the change to a lower corporate tax rate led to a remeasurement of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). For deferred tax amounts originally recorded in accumulated other comprehensive income (loss), this remeasurement resulted in a disproportionate effect of $26.6 million which remained "stranded" in accumulated other comprehensive loss as of December 31, 2017. In February 2018, the FASB issued ASU, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The guidance provided entities the option to reclassify the stranded tax effects of the TCJA from accumulated other comprehensive income (loss) to retained earnings. We adopted this guidance in 2018. As a result, the stranded tax effect was reclassified in 2018 resulting in increases to accumulated other comprehensive loss and retained earnings of $26.6 million. The Bank utilizes the item-by-item approach for releasing income tax effects from accumulated other comprehensive income (loss). The reclassification by component of accumulated other comprehensive loss is presented in Note 5.

In August 2017, the FASB issued ASU, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The new guidance will make more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. We adopted the new standard on January 1, 2019. The effect of adoption was not material to our consolidated financial position or results of operation. In addition, we adopted certain new derivative disclosures required under the ASU, which are included in Note 6.

In August 2016, the FASB issued ASU, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance addresses, among other issues, the presentation of debt prepayment or extinguishment costs and settlement of zero-coupon debt instruments in the statement of cash flows. We adopted this standard in 2018. While the adoption did not have a significant impact on our statement of cash flows as a whole, the classification of certain transactions changed as a result of this guidance. Specifically, payments on early extinguishments of debt are now presented within financing activities whereas such cash outflows were previously classified within operating activities. In addition, upon settlement of our discount notes, which are zero-coupon debt instruments, the portion of the cash payment attributed to the accreted interest related to the debt discount has been classified as a cash outflow within operating activities whereas previously this outflow was classified as a financing activity. The adoption of this standard resulted in a decrease in net cash provided by operating activities of $198.5 million and

$145.5 million during the nine months ended September 30, 2019 and 2018, respectively. This impact is fully offset by the corresponding increase in net cash provided by financing activities resulting from the changes in classification. The adoption of this guidance did not impact our consolidated financial position or results of operations.

In February 2016, the FASB issued ASU, “Leases (Topic 842).” This guidance is intended to improve financial reporting about leasing transactions and affects all organizations that lease assets. The ASU establishes a right-of-use (ROU) model that requires organizations that lease assets, referred to as lessees, to recognize on the balance sheet the ROU assets and liabilities created by those leases. The accounting for organizations that own the assets leased by the lessee, also known as lessor accounting, remains largely unchanged under the new lease accounting standard except for certain initial direct costs previously deferred and amortized are expensed under the new lessor accounting provisions. In July 2018, the FASB issued additional guidance which provided a new and optional transition method whereby an entity initially applies the leasing standard at the adoption date and recognizes a cumulative-effect adjustment to opening retained earnings. We adopted the new lease accounting standard effective January 1, 2019, under the optional transition method. The new standard provides a number of optional practical expedients in transition. We elected certain of the practical expedients, which among other things, allowed us to carry forward our historical lease classification. On adoption, we recorded ROU assets of $82.3 million, with offsetting lease liabilities of the same amount, on our consolidated balance sheet. The most significant ROU assets and lease liabilities are related to operating leases, in which the Bank is the lessee, at our corporate headquarters and banking center offices. Upon adoption, the Bank also recognized a cumulative effect adjustment of $8.6 million to increase the beginning balance of retained earnings for remaining deferred gains associated with the sale-leaseback of our corporate headquarters which occurred in a prior period. From a lessor standpoint, the new lease accounting standard increased our compensation expense related to lease originations by $5.7 million for the nine months ended September 30, 2019 as a result of expensing certain initial direct costs that were previously deferred and amortized. In addition, we adopted certain new lease disclosures required under the ASU, which are included in Note 10. Information related to FCL’s direct financing leases and property on operating leases is included in the 2018 Annual Report.

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 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. While we continue to review the guidance and evaluate assumptions and models, we believe the ASU may result in an increase 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, 2019	December 31, 2018
Agribusiness	$ 28,851	$ 32,432
Farm Credit Banking	52,229	50,695
Rural Infrastructure	20,818	21,367
Total	$ 101,898	$ 104,494

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, 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:				
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.

	Agribusiness	Farm Credit Banking[1]	Rural Infrastructure	Total
September 30, 2018				
Allowance for Loan Losses				
Beginning Balance at January 1, 2018	$ 411,078	$ -	$ 165,849	$ 576,927
Charge-offs	(23,102)	-	(2,135)	(25,237)
Recoveries	1,125	-	231	1,356
Provision for Loan Losses	36,600	-	6,400	43,000
Transfers (to) from Reserve for Unfunded Commitments[2]	(15,224)	-	5,212	(10,012)
Ending Balance at September 30, 2018	410,477	-	175,557	586,034
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2018	68,826	-	25,039	93,865
Transfers from (to) Allowance for Loan Losses[2]	15,224	-	(5,212)	10,012
Ending Balance at September 30, 2018	84,050	-	19,827	103,877
Allowance for Credit Losses	$ 494,527	$ -	$ 195,384	$ 689,911
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 77,579	$ -	$ 17,897	$ 95,476
Collectively Evaluated for Impairment	416,948	-	177,487	594,435
Total	$ 494,527	$ -	$ 195,384	$ 689,911
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 338,733	$ 49,302,303	$ 39,056	$ 49,680,092
Collectively Evaluated for Impairment	28,155,073	-	20,834,034	48,989,107
Total	$ 28,493,806	$ 49,302,303	$ 20,873,090	$ 98,669,199

[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, 2019	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
Acceptable	**$ 25,812,441**	**$ 1,254,404**	**$ 49,659,551**	**$ 20,354,924**	**$ 97,081,320**
Special Mention	**738,679**	**-**	**2,701,733**	**165,218**	**3,605,630**
Substandard	**1,176,543**	**-**	**-**	**350,949**	**1,527,492**
Doubtful	**2,435**	**-**	**-**	**21,521**	**23,956**
Loss	**-**	**-**	**-**	**-**	**-**
Total	**$ 27,730,098**	**$ 1,254,404**	**$ 52,361,284**	**$ 20,892,612**	**$ 102,238,398**
December 31, 2018					
Acceptable	$ 29,678,071	$ 1,075,376	$ 50,295,238	$ 21,034,895	$ 102,083,580
Special Mention	877,840	-	471,155	138,826	1,487,821
Substandard	941,973	-	58,911	271,327	1,272,211
Doubtful	5,498	-	-	-	5,498
Loss	-	-	-	-	-
Total	$ 31,503,382	$ 1,075,376	$ 50,825,304	$ 21,445,048	$ 104,849,110

Aging Analysis

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

September 30, 2019	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
30-89 Days Past Due	**$ 96,988**	**$ -**	**$ -**	**$ -**	**$ 96,988**
90 Days Past Due	**27,780**	**-**	**-**	**23,429**	**51,209**
Total Past Due	**$ 124,768**	**$ -**	**$ -**	**$ 23,429**	**$ 148,197**
Current	**27,605,330**	**1,254,404**	**52,361,284**	**20,869,183**	**102,090,201**
Total	**$ 27,730,098**	**$ 1,254,404**	**$ 52,361,284**	**$ 20,892,612**	**$ 102,238,398**
Accruing Loans 90 Days or More Past Due	**$ 90**	**$ -**	**$ -**	**$ 1,907**	**$ 1,997**
December 31, 2018					
30-89 Days Past Due	$ 27,692	$ -	$ -	$ 1,025	$ 28,717
90 Days Past Due	15,748	-	-	21,521	37,269
Total Past Due	$ 43,440	$ -	$ -	$ 22,546	$ 65,986
Current	31,459,942	1,075,376	50,825,304	21,422,502	104,783,124
Total	$ 31,503,382	$ 1,075,376	$ 50,825,304	$ 21,445,048	$ 104,849,110
Accruing Loans 90 Days or More Past Due	$ 1,685	$ -	$ -	$ -	$ 1,685

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, 2019	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Farm Credit Banking[(1)]	Rural Infrastructure	Total
Nonaccrual Loans[(2)]	**$ 282,040**	**$ -**	**$ -**	**$ 28,641**	**$ 310,681**
Accruing Loans 90 Days or More Past Due	**90**	**-**	**-**	**1,907**	**1,997**
Accruing Restructured Loans	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 282,130**	**$ -**	**$ -**	**$ 30,548**	**$ 312,678**
December 31, 2018					
Nonaccrual Loans[(2)]	$ 288,125	$ -	$ -	$ 38,163	$ 326,288
Accruing Loans 90 Days or More Past Due	1,685	-	-	-	1,685
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 289,810	$ -	$ -	$ 38,163	$ 327,973

(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, 2019 and December 31, 2018 were $103.0 million and $101.9 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, 2019	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Farm Credit Banking[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	**$ 106,021**	**$ -**	**$ -**	**$ 1,907**	**$ 107,928**
Unpaid Principal	**126,359**	**-**	**-**	**1,828**	**128,187**
Average Balance	**110,970**	**-**	**-**	**616**	**111,586**
Interest Income Recognized	**2,804**	**-**	**-**	**89**	**2,893**
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	**176,109**	**-**	**-**	**28,641**	**204,750**
Unpaid Principal	**206,471**	**-**	**-**	**32,764**	**239,235**
Allowance for Loan Losses	**51,385**	**-**	**-**	**22,547**	**73,932**
Average Balance	**168,270**	**-**	**-**	**30,125**	**198,395**
Interest Income Recognized	**1**	**-**	**-**	**1,136**	**1,137**
Total Impaired Loans					
Carrying Amount	**282,130**	**-**	**-**	**30,548**	**312,678**
Unpaid Principal	**332,830**	**-**	**-**	**34,592**	**367,422**
Allowance for Loan Losses	**51,385**	**-**	**-**	**22,547**	**73,932**
Average Balance	**279,240**	**-**	**-**	**30,741**	**309,981**
Interest Income Recognized	**2,805**	**-**	**-**	**1,225**	**4,030**
December 31, 2018					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 153,541	$ -	$ -	$ -	$ 153,541
Unpaid Principal	174,350	-	-	-	174,350
Average Balance	137,035	-	-	-	137,035
Interest Income Recognized	6,482	-	-	7,588	14,070
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	136,269	-	-	38,163	174,432
Unpaid Principal	154,863	-	-	42,423	197,286
Allowance for Loan Losses	64,289	-	-	22,797	87,086
Average Balance	158,276	-	-	39,596	197,872
Interest Income Recognized	1,784	-	-	-	1,784
Total Impaired Loans					
Carrying Amount	289,810	-	-	38,163	327,973
Unpaid Principal	329,213	-	-	42,423	371,636
Allowance for Loan Losses	64,289	-	-	22,797	87,086
Average Balance	295,311	-	-	39,596	334,907
Interest Income Recognized	8,266	-	-	7,588	15,854

[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 $31.2 million in commitments available to be drawn by borrowers whose loans were classified as impaired at September 30, 2019.

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 2018 Annual Report. 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. During the nine months ended September 30, 2018, there were three modifications that qualified as TDRs. These combined loans totaled $124.1 million and $115.6 million before and after their respective modifications. Included in nonaccrual loans at September 30, 2019 and December 31, 2018 were $103.0 million and $101.9 million, respectively, of loans that qualified as TDRs.

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, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of Deposit	$ 100	$ -	$ -	$ 100
U.S. Treasury Debt	15,130	205	(13)	15,322
U.S. Agency Debt	2,660	71	(3)	2,728
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	2,554	53	-	2,607
U.S. Agency	4,761	51	(12)	4,800
Commercial MBS:				
U.S. Agency	4,525	20	(8)	4,537
Corporate Bonds	305	10	-	315
Asset-Backed and Other	1,035	3	-	1,038
Total	$ 31,070	$ 413	$ (36)	$ 31,447
December 31, 2018				
Certificates of Deposit	$ 975	$ -	$ -	$ 975
U.S. Treasury Debt	15,424	20	(176)	15,268
U.S. Agency Debt	2,257	3	(21)	2,239
Residential MBS:				
Ginnie Mae	2,969	5	(34)	2,940
U.S. Agency	5,613	4	(89)	5,528
Non-Agency	12	1	-	13
Commercial MBS:				
U.S. Agency	2,882	1	(16)	2,867
Corporate Bonds	120	-	(1)	119
Asset-Backed and Other	1,342	1	-	1,343
Total	$ 31,594	$ 35	$ (337)	$ 31,292

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2019 is as follows:

($ in Millions)

	Contractual Maturity				
September 30, 2019	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Certificates of Deposit					
Amortized Cost	$ 50	$ 50	$ -	$ -	$ 100
Fair Value	50	50	-	-	100
Weighted Average Yield	2.04 %	2.24 %	- %	- %	2.14 %
U.S. Treasury Debt Securities					
Amortized Cost	$ 3,828	$ 8,652	$ 2,650	$ -	$ 15,130
Fair Value	3,828	8,721	2,773	-	15,322
Weighted Average Yield	1.99 %	1.94 %	2.43 %	- %	2.04 %
U.S. Agency Debt Securities					
Amortized Cost	$ 141	$ 1,323	$ 905	$ 291	$ 2,660
Fair Value	142	1,330	939	317	2,728
Weighted Average Yield	2.41 %	2.14 %	2.58 %	2.94 %	2.39 %
Ginnie Mae Residential MBS					
Amortized Cost	$ -	$ 2	$ 2	$ 2,550	$ 2,554
Fair Value	-	2	2	2,603	2,607
Weighted Average Yield	- %	3.78 %	3.99 %	2.77 %	2.77 %
U.S. Agency Residential MBS					
Amortized Cost	$ -	$ 2	$ 82	$ 4,677	$ 4,761
Fair Value	-	2	82	4,716	4,800
Weighted Average Yield	- %	2.51 %	2.98 %	2.58 %	2.59 %
U.S. Agency Commercial MBS					
Amortized Cost	$ -	$ 1,954	$ 2,571	$ -	$ 4,525
Fair Value	-	1,955	2,582	-	4,537
Weighted Average Yield	- %	2.44 %	2.55 %	- %	2.50 %
Corporate Bonds					
Amortized Cost	$ -	$ 73	$ 232	$ -	$ 305
Fair Value	-	74	241	-	315
Weighted Average Yield	- %	4.19 %	3.93 %	- %	3.99 %
Asset-Backed and Other					
Amortized Cost	$ 53	$ 974	$ -	$ 8	$ 1,035
Fair Value	53	976	-	9	1,038
Weighted Average Yield	2.43 %	2.60 %	- %	5.91 %	2.62 %
Total					
Amortized Cost	$ 4,072	$ 13,030	$ 6,442	$ 7,526	$ 31,070
Fair Value	4,073	13,110	6,619	7,645	31,447
Weighted Average Yield	2.01 %	2.10 %	2.56 %	2.66 %	2.32 %

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, 2019 and December 31, 2018. 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, 2019				
U.S. Treasury Debt	**$ 3,197**	**$ (5)**	**$ 1,989**	**$ (8)**
U.S. Agency Debt	**245**	**(1)**	**579**	**(2)**
Residential MBS:				
Ginnie Mae	**38**	**-**	**27**	**-**
U.S. Agency	**372**	**(1)**	**985**	**(11)**
Commercial MBS:				
U.S. Agency	**2,595**	**(6)**	**498**	**(2)**
Corporate Bonds	**47**	**-**	**-**	**-**
Asset-Backed and Other	**261**	**-**	**-**	**-**
Total	**$ 6,755**	**$ (13)**	**$ 4,078**	**$ (23)**
December 31, 2018				
U.S. Treasury Debt	$ 2,839	$ (4)	$ 10,001	$ (172)
U.S. Agency Debt	42	-	1,504	(21)
Residential MBS:				
Ginnie Mae	304	(3)	1,410	(31)
U.S. Agency	139	-	4,474	(89)
Non-Agency	2	-	3	-
Commercial MBS:				
U.S. Agency	1,695	(7)	746	(9)
Corporate Bonds	86	(1)	-	-
Asset-Backed and Other	647	-	13	-
Total	$ 5,754	$ (15) $ -	$ 18,151	$ (322)

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, 2019 and 2018 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, 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**
Balance at January 1, 2018	$ (125,198)	$ 3,236	$ (49,981)	$ (60,025)	$ (231,968)
Cumulative effect of change in accounting principle[3]	(9,953)	270	(4,474)	(12,457)	(26,614)
Balance at January 1, 2018, as adjusted	$ (135,151)	$ 3,506	$ (54,455)	$ (72,482)	$ (258,582)
Other comprehensive income (loss) before reclassifications	(387,603)	2,822	15,891	-	(368,890)
Amounts reclassified from accumulated other comprehensive income (loss) to net income	(42,798)	(6,197)	17,444	4,398	(27,153)
Net current-period other comprehensive income (loss)	(430,401)	(3,375)	33,335	4,398	(396,043)
Balance at September 30, 2018	$ (565,552)	$ 131	$ (21,120)	$ (68,084)	$ (654,625)

(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)", as described in Note 2.

(3) Effective January 1, 2018, we adopted changes pursuant to ASU "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," as described in Note 2.

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, 2019 and 2018.

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

For the Nine Months Ended September 30, 2019		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	**$**	**262**	Noninterest Income - Other, Net
Tax effect		**8**	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:			
Sales gains and losses		**(256)**	Noninterest Income - Other, Net
Tax effect		**37**	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts		**(8,754)**	Interest Expense
Foreign exchange contracts		**657**	Interest Income
Tax effect		**(117)**	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial loss		**(3,103)**	Operating Expenses - Employee Compensation
Prior service cost		**(760)**	Operating Expenses - Employee Compensation
Tax effect		**950**	Provision for Income Taxes
Total reclassifications	**$**	**(11,076)**	

For the Nine Months Ended September 30, 2018			
Unrealized gains (losses) on available-for-sale investment securities:			
Sales gains and losses	$	42,801	Noninterest Income - Other, Net
Tax effect		(3)	Provision for Income Taxes
Unrealized gains (losses) on non-OTTI investment securities:			
Sales gains and losses		6,197	Noninterest Income - Other, Net
Unrealized gains (losses) on interest rate swaps and other financial instruments:			
Interest rate contracts		(6,587)	Interest Expense
Termination of interest rate contracts		(13,073)	Noninterest Expense - Other, Net
Foreign exchange contracts		2,889	Interest Income
Tax effect		(673)	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial loss		(5,064)	Operating Expenses - Employee Compensation
Prior service cost		(769)	Operating Expenses - Employee Compensation
Tax effect		1,435	Provision for Income Taxes
Total reclassifications	$	27,153	

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, 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**

The notional amounts of derivatives at September 30, 2018 and related activity for the first nine months of 2018 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, 2017	$ 26,355	$ 5,123	$ 183	$ 31,661
Additions /Accretion	5,425	244	3,515	9,184
Maturities /Amortization	(4,866)	(174)	(3,534)	(8,574)
Terminations	(439)	(600)	-	(1,039)
September 30, 2018	$ 26,475	$ 4,593	$ 164	$ 31,232

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, 2019, we expect that $14.5 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 16 years.

Derivatives Not Designated as Hedges

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

Counterparty Credit Risk

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

Derivative transactions with our customers are typically secured through our loan agreements. As of September 30, 2019 and December 31, 2018, the notional amount of derivatives with our customers totaled $9.8 billion and $9.2 billion, respectively.

Non-customer derivatives are transacted with derivative counterparties or with a central clearinghouse. Non-customer transactions with derivative counterparties are governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to credit risk with these counterparties due to the timing of daily margining activities. As of September 30, 2019 and December 31, 2018, the notional amount of derivatives with our non-customer counterparties totaled $13.1 billion and $11.0 billion, respectively, which excludes the $14.6 billion and $12.7 billion, respectively, of cleared derivatives discussed below.

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, 2019, our non-customer counterparties had posted $0.8 million in cash as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $0.1 million at September 30, 2019 and December 31, 2018.

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, 2019 and December 31, 2018, the notional amount of our cleared derivatives was $14.6 billion and $12.7 billion, respectively. Initial margin and settlement payments totaling $94.7 million and $148.0 million, respectively, as of September 30, 2019 and $46.5 million and $61.9 million, respectively, as of December 31, 2018 were held by our CCP for our cleared derivatives.

Hedge Terminations

We did not terminate any interest rate swaps for asset-liability management purposes during the nine months ended September 30, 2019. During the nine months ended September 30, 2018 we terminated $600 million in notional value of interest rate caps which hedged debt funding certain investment securities sold earlier in 2018. These caps were previously accounted for as cash flow hedges.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $987.3 million and $438.5 million during the first nine months of 2019 and 2018, 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, 2019 and December 31, 2018 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, 2019		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	**$ 272,289**	**$ 10,388**
Foreign Exchange Contracts	**790**	**103**
Total Derivatives Designated as Hedging Instruments	**$ 273,079**	**$ 10,491**
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	**$ 375,286**	**$ 335,582**
Foreign Exchange Contracts	**24**	**22**
Total Derivatives Not Designated as Hedging Instruments	**$ 375,310**	**$ 335,604**
Settlement Payments	**(148,037)**	**-**
Total Derivatives	**$ 500,352**	**$ 346,095**
As of December 31, 2018		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 77,238	$ 86,345
Foreign Exchange Contracts	589	297
Total Derivatives Designated as Hedging Instruments	$ 77,827	$ 86,642
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 178,036	$ 130,059
Foreign Exchange Contracts	63	63
Total Derivatives Not Designated as Hedging Instruments	$ 178,099	$ 130,122
Settlement Payments	-	(61,923)
Total Derivatives	$ 255,926	$ 154,841

[1] These assets make up the interest rate swaps and other financial instruments assets in the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018.

[2] These liabilities make up the interest rate swaps and other financial instruments liabilities in the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018.

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, 2019 and 2018 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	Noninterest Income (Expense)
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**	**$ 168,852**
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)[1]	**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)**	**$ -**
Nine Months Ended September 30, 2018						
Total Amount of Line Items Presented in Condensed Consolidated Statement of Income	$ 2,445,152	$ 502,185	$ 2,947,337	$(1,862,654)	$ 1,084,683	$ 233,810
Gain (Loss) on Fair Value Hedge Relationships:						
Interest Rate Contracts:						
Recognized on Derivatives	$ -	$ -	$ -	$ (63,248)	$ (63,248)	$ -
Recognized on Hedged Items	-	-	-	64,642	64,642	-
Net Income (Expense) Recognized on Fair Value Hedges	$ -	$ -	$ -	$ 1,394	$ 1,394	$ -
Gain (Loss) on Cash Flow Hedge Relationships:						
Interest Rate Contracts:						
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	$ (6)	$ -	$ (6)	$ (6,581) [2]	$ (6,587)	$ (13,073) [2]
Foreign Exchange Contracts:						
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)[3]	2,889	-	2,889	-	2,889	-
Amount Excluded from Effectiveness Testing Recognized in Earnings Based on an Amortization Approach	1,972	-	1,972	-	1,972	-
Net Income (Expense) Recognized on Cash Flow Hedges	$ 4,855	$ -	$ 4,855	$ (6,581)	$ (1,726)	$ (13,073)

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

(2) $13,073 related to termination of interest rate contracts is located in Noninterest Expense - Other, Net and the remaining $6,581 related to continuing interest rate contracts is located in Interest Expense in the condensed consolidated statement of income for the nine months ended September 30, 2018.

(3) Fully offset by a $2,889 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, 2018.

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

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives	
Nine Months Ended September 30,	**2019**	**2018**
Interest Rate Contracts	**$ (46,322)**	$ 10,317
Foreign Exchange Contracts	**(394)**	3,154
Total	**$ (46,716)**	$ 13,471

Effect of Derivative Financial Instruments Not Designated as Hedging Relationships on the Condensed Consolidated Statements of Income[1]

	Net Amount of Gain or (Loss) Recognized in Other Noninterest Income/Expense	
Nine Months Ended September 30,	**2019**	**2018**
Interest Rate Contracts	**$ (8,272)**	$ 120
Foreign Exchange Contracts	**1**	(24)
Total	**$ (8,271)**	$ 96

[1] Primarily represents our derivatives with customers and related offsetting derivatives with counterparties including credit valuation adjustments.

A summary of the cumulative basis adjustment for fair value hedging relationships included in the carrying amount of hedged liabilities as of September 30, 2019 and December 31, 2018 is shown in the following table.

Derivative Financial Instruments in Fair Value Hedging Relationships

		Cumulative Basis Adjustment Included in the Carrying Amount of Hedged Liabilities	
	Carrying Amount of Hedged Liabilities	Hedged Items Currently Designated	Hedged Items No Longer Designated
As of September 30, 2019			
Bonds and Notes	**$ 11,828,391**	**$ (216,093)**	**$ 273**
As of December 31, 2018			
Bonds and Notes	$ 10,535,485	$ (52,037)	$ 425

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, 2019				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**$ 48,890**	**$ (790)**	**$ -**	**$ 48,100**
Customer	**348,729**	**-**	**-**	**348,729**
Clearinghouse	**102,733**	**-**	**-**	**102,733**
Accrued Interest Receivable on Derivative Contracts	**8,907**	**-**	**-**	**8,907**
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**226,588**	**(174,980)**	**-**	**51,608**
Customer	**23,131**	**-**	**-**	**23,131**
Clearinghouse	**96,376**	**-**	**(94,724)**	**1,652**
Accrued Interest Payable on Derivative Contracts	**16,271**	**-**	**-**	**16,271**
As of December 31, 2018				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 118,503	$ (99,220)	$ -	$ 19,283
Customer	81,718	-	-	81,718
Clearinghouse	55,705	-	-	55,705
Accrued Interest Receivable on Derivative Contracts	7,479	-	-	7,479
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	39,218	(2,450)	-	36,768
Customer	70,068	-	-	70,068
Clearinghouse	45,555	-	(46,528)	- [2]
Accrued Interest Payable on Derivative Contracts	14,888	-	-	14,888

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

[2] Cash and investment securities pledged as collateral fully offset the related gross liability 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, 2019 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, 2019 include our derivative contracts, collateral balances related to derivative contracts, certificates of deposit, 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 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
Certificates of Deposit	Third-Party Pricing Service	Benchmark Yield Curve
		Quoted Prices
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, 2019 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, 2019 also include $144.7 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 page 44 and 45 because they are not measured on a recurring basis.

Our Level 3 liabilities at September 30, 2019 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, 2019 and 2018.

The following table presents quantitative information about Level 3 fair value measurements as of September 30, 2019.

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	$	102	Third-Party Pricing Service	Prepayment Rate	*
				Lifetime Default Rate	*
				Loss Severity	*
Other (included in Asset-Backed)		12	Discounted Cash Flow	Prepayment Rate	0% (0%)
Impaired Loans		145	Appraisal /	Income/Expense Data	**
			Discounted Cash Flow	Comparable Sales	**
				Replacement Cost	**
Liabilities					
Standby Letters of Credit	$	10	Discounted Cash Flow	Mark-to-Market Spread	0.1-1.3% (1.0%)

* 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, 2019 and December 31, 2018 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis								
September 30, 2019								
($ in Millions)		Level 1		Level 2		Level 3		Total
Assets								
Federal Funds Sold and Other Overnight Funds	$	-	$	1,563	$	-	$	1,563
Investment Securities:								
Certificates of Deposit		-		100		-		100
U.S. Treasury Debt		-		15,322		-		15,322
U.S. Agency Debt		-		2,728		-		2,728
Residential MBS:								
Ginnie Mae		-		2,607		-		2,607
U.S. Agency		-		4,698		102		4,800
Commercial MBS:								
U.S. Agency		-		4,537		-		4,537
Corporate Bonds		-		315		-		315
Asset-Backed and Other		-		1,026		12		1,038
Interest Rate Swaps and Other Financial Instruments		-		500		-		500
Assets Held in Trust (included in Other Assets)		92		-		-		92
Collateral Assets (included in Other Assets)		-		175		-		175
Total Assets	$	92	$	33,571	$	114	$	33,777
Liabilities								
Interest Rate Swaps and Other Financial Instruments	$	-	$	346	$	-	$	346
Collateral Liabilities (included in Bonds and Notes)		-		1		-		1
Standby Letters of Credit (included in Other Liabilities)		-		-		10		10
Total Liabilities	$	-	$	347	$	10	$	357

Assets and Liabilities Measured at Fair Value on a Recurring Basis								
December 31, 2018								
Assets								
Federal Funds Sold and Other Overnight Funds	$	-	$	1,300	$	-	$	1,300
Investment Securities:								
Certificates of Deposit		-		975		-		975
U.S. Treasury Debt		-		15,268		-		15,268
U.S. Agency Debt		-		2,239		-		2,239
Residential MBS:								
Ginnie Mae		-		2,940		-		2,940
U.S. Agency		-		5,415		113		5,528
Non-Agency		-		13		-		13
Commercial MBS:								
U.S. Agency		-		2,867		-		2,867
Corporate Bonds		-		119		-		119
Asset-Backed and Other		-		1,331		12		1,343
Interest Rate Swaps and Other Financial Instruments		-		256		-		256
Assets Held in Trust (included in Other Assets)		81		-		-		81
Collateral Assets (included in Other Assets)		-		2		-		2
Total Assets	$	81	$	32,725	$	125	$	32,931
Liabilities								
Interest Rate Swaps and Other Financial Instruments	$	-	$	155	$	-	$	155
Collateral Liabilities (included in Bonds and Notes)		-		99		-		99
Standby Letters of Credit (included in Other Liabilities)		-		-		10		10
Total Liabilities	$	-	$	254	$	10	$	264

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**		**Farmer Mac Agricultural MBS[(1)]**		**FHA/VA Non-Wrapped Reperformer Residential MBS**		**Asset-Backed Securities and Other**		**Standby Letters of Credit**
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**
Balance at December 31, 2017	$	125	$	78	$	257	$	39	$	10
Total Gains or Losses (Realized/Unrealized):										
Included in Other Noninterest Expense		-		-		38		8		-
Included in Other Comprehensive Income		4		-		(22)		(8)		-
Sales		-		-		(262)		(19)		-
Issuances		-		-		-		2		6
Settlements		(13)		(13)		(13)		(8)		(6)
Accretion		1		-		2		1		-
Balance at September 30, 2018	$	117	$	65	$	-	$	15	$	10

(1) We sold all of our remaining Farmer Mac Agricultural MBS in 2018.

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, 2019 and December 31, 2018.

($ in Millions)

	September 30, 2019			December 31, 2018		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	**$ 101,277**	**$ 103,388**	**Level 3**	$ 103,872	$ 103,906	Level 3
Financial Liabilities:						
Bonds and Notes	**$ 123,687** (1)	**$ 125,665** (1)	**Level 3**	$ 127,632 (2)	$ 127,355 (2)	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (97)**	**Level 3**	$ -	$ (89)	Level 3

(1) Includes $1 million in Level 2 collateral liabilities carried at fair value as of September 30, 2019.

(2) Includes $99 million in Level 2 collateral liabilities carried at fair value as of December 31, 2018.

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 $3.3 million to our funded qualified defined benefit pension plans during the nine months ended September 30, 2019, and anticipate that we will contribute approximately $0.9 million more to such plans during the remainder of 2019. We expect to contribute a total of $0.3 million, net of collected retiree premiums, to our other postretirement benefit plans in 2019. We contributed $3.1 million to our trust funds related to our nonqualified retirement plans during the nine months ended September 30, 2019, and we anticipate that we will contribute approximately $1.3 million more to such plans during the remainder of 2019. 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, 2019, commitments to extend credit and commercial letters of credit were $33.8 billion and $75.5 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 $282.9 billion at September 30, 2019.

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, 2019, the aggregated assets of the Insurance Fund totaled $5.1 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 sheet as of September 30, 2019. 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 11 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		
As of September 30, 2019		
Right-of-Use Assets	$	77,383
Lease Liabilities		80,317
Nine Months Ended September 30, 2019		
Operating Lease Cost	$	10,618
Weighted Average Remaining Lease Term		11 years
Weighted Average Discount Rate		3.02%

Future minimum lease payments under non-cancellable operating leases as of September 30, 2019 were as follows:

Future Minimum Lease Payments		
Year Ending September 30,		
2020	$	9,683
2021		8,798
2022		8,822
2023		8,681
2024		8,344
Thereafter		49,927
Total future minimum lease payments	$	94,255
Less imputed interest		13,938
Lease liabilities reported as of September 30, 2019	$	80,317

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, as described in Note 2.

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 23 percent of these loans are guaranteed by the U.S. government.

For the nine-month periods ended September 30, 2019 and 2018, 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, 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

For the Three Months Ended September 30, 2018

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income[(1)]	$ 167,370	$ 66,874	$ 106,848	$ 341,092
(Loan Loss Reversal)/Provision for Loan Losses	(2,400)	-	5,400	3,000
Noninterest Income[(1)]	41,725	552	16,035	58,312
Operating Expenses[(1)]	50,730	11,449	26,412	88,591
Provision for Income Taxes[(1)]	10,576	-	5,935	16,511
Net Income	$ 150,189	$ 55,977	$ 85,136	$ 291,302

(1) Previous to 2019, certain corporate and other information to reconcile total reportable segments with total consolidated results were separately disclosed as "Corporate/Other". Such amounts are now allocated to operating segments, and prior-year amounts have been reclassified to conform to the current presentation.

Segment Financial Information

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	**106,003**	**3,641**	**59,208**	**168,852**
Operating Expenses	**172,338**	**31,790**	**86,931**	**291,059**
Provision for Income Taxes	**52,798**	**-**	**44,328**	**97,126**
Net Income	**$ 403,804**	**$ 165,319**	**$ 231,782**	**$ 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**

For the Nine Months Ended September 30, 2018

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income(1)	$ 556,829	$ 206,916	$ 320,938	$ 1,084,683
Provision for Loan Losses	36,600	-	6,400	43,000
Noninterest Income(1)	121,520	35,325	76,965	233,810
Operating Expenses(1)	151,233	33,414	76,617	261,264
Provision for Income Taxes(1)	35,144	-	41,955	77,099
Net Income	$ 455,372	$ 208,827	$ 272,931	$ 937,130
Selected Financial Information at September 30, 2018 ($ in Millions):				
Loans	$ 28,370	$ 49,179	$ 20,786	$ 98,335
Less: Allowance for Loan Losses	(410)	-	(176)	(586)
Net Loans	$ 27,960	$ 49,179	$ 20,610	$ 97,749
Accrued Interest Receivable and Other Assets	359	177	196	732
Total Segment Assets	$ 28,319	$ 49,356	$ 20,806	$ 98,481
Federal Funds Sold and Other Overnight Funds				426
Investment Securities				28,324
Other Assets				773
Total Assets	$ 28,319	$ 49,356	$ 20,806	$ 128,004

(1) Previous to 2019, certain corporate and other information to reconcile total reportable segments with total consolidated results were separately disclosed as "Corporate/Other". Such amounts are now allocated to operating segments, and prior-year amounts have been reclassified to conform to the current presentation.

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, 2019, 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.

Effective February 14, 2019, the boards of directors of American AgCredit, ACA and Farm Credit Services of Hawaii, ACA approved the terms of an Agreement and Plan of Combination, which provided for the sale of the net assets of Farm Credit Services of Hawaii, ACA to American AgCredit, ACA. The Agreement and Plan of Combination was approved by the stockholders of Farm Credit Services of Hawaii, ACA on June 25, 2019. The transaction closed on July 1, 2019.

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 2018 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 2018 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 2019 Quarterly Report Reference
Scope of Application	Corporate entity and consolidated subsidiaries	Page 52
Capital Structure	Regulatory capital components	Pages 52 through 53
Capital Adequacy	Risk-weighted assets	Page 54 through 55
	Regulatory capital ratios	Page 12
Capital Buffers	Quantitative disclosures	Pages 12, 54
Credit Risk	Summary of exposures	Page 55
	Geographic distribution	Page 56 through 57
	Industry distribution	Page 57
	Contractual maturity	Page 58
	Impaired loans and allowance for credit losses	Note 3
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Note 6, Page 58
Credit Risk Mitigation	Exposures with reduced capital requirements	Pages 6 through 7, 9 through 10, 58 through 59
Securitization	Securitization exposures	Notes 4 and 7, Pages 11, 59 through 60
Equities	General description	Page 60
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Note 6, Page 60 through 61

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, 2019.

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, 2019		**Average Balance**
Common Equity Tier 1 Capital (CET1)		
Common Cooperative Equities:		
Statutory Minimum Purchased Borrower Stock	$	2,461
Other Required Member Purchased Stock		794,719
Allocated Equities:		
Qualified Allocated Equities Subject to Retirement		2,574,502
Nonqualified Allocated Equities Subject to Retirement		-
Nonqualified Allocated Equities Not Subject to Retirement		2,746,032
Unallocated Retained Earnings		2,818,552
Paid-In Capital		-
Regulatory Adjustments and Deductions Made to CET1		(76,288)
Total CET1	$	8,859,978
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	$	10,359,978
Tier 2 Capital		
Common Cooperative Equities Not Included in CET1	$	-
Tier 2 Capital Elements:		
Allowance for Credit Losses		722,982
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Tier 2 Capital	$	722,982
Total Capital	$	11,082,960

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, 2019		Average Balance
On-Balance Sheet Assets:		
Exposures to Sovereign Entities	$	-
Exposures to Supranational Entities and Multilateral Development Banks		147,247
Exposures to Government-Sponsored Enterprises		12,360,840 (1)
Exposures to Depository Institutions, Foreign Banks, and Credit Unions		3,342,517 (2)
Exposures to Public Sector Entities		57,721
Corporate Exposures, including Borrower Loans and Leases		40,142,694
Residential Mortgage Exposures		-
Past Due and Nonaccrual Exposures		471,620
Securitization Exposures		1,326,163
Equity Investment Exposures		33,309
Other Assets		819,000
Off-Balance Sheet:		
Commitments		8,484,453
Over-the-Counter Derivatives		426,453
Cleared Derivative Transactions		1,248
Letters of Credit		1,050,298
Unsettled Transactions		-
Total Risk-Weighted Assets Before Additions (Deductions)	$	68,663,563
Additions:		
Intra-System Equity Investments	$	76,288
Deductions:		
Regulatory Adjustments and Deductions Made to CET1		(76,288)
Regulatory Adjustments and Deductions Made to Additional Tier 1 Capital		-
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Risk-Weighted Assets	$	68,663,563 (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, 2019 was $68.0 billion.

As shown on page 12 of this quarterly report, the Bank exceeded all capital requirements as of September 30, 2019 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 $525.7 million as of September 30, 2019.

Credit Risk

The following table summarizes credit exposures related to loans, unfunded loan commitments, investment securities and letters of credit. 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 and As of September 30, 2019	Average Balance	End of Period
Loans Outstanding	$ 102,386,386	$ 101,898,341
Unfunded Loan Commitments	33,326,656	33,829,141
Investment Securities	32,352,989	31,447,271
Letters of Credit	1,285,325	1,264,523

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, 2019	Average Balance		End of Period	
	Notional Amount	Gross Positive Value	Notional Amount	Gross Positive Value
Over-the-Counter Derivatives:				
Interest Rate Contracts	$ 23,000,696	$ 382,360	$ 22,782,975	$ 396,805
Foreign Exchange Contracts	115,923	784	176,046	814
Total Over-the-Counter Derivatives	23,116,619	383,144	22,959,021	397,619
Cleared Derivatives:				
Interest Rate Contracts	14,562,374	93,079	14,552,798	102,733
Total Derivatives	$ 37,678,993	$ 476,223	$ 37,511,819	$ 500,352

The following table illustrates the geographic distribution of our total loan commitments as of September 30, 2019.

Total Lending Portfolio - Geographic Distribution

As of September 30, 2019	Wholesale Loans[1]	Commercial Loans
California	42 %	7 %
Illinois	-	6
Texas	5 [2]	6
Iowa	-	5
Kansas	6	5
Minnesota	-	5
Asia	-	3
Colorado	3	3
Florida	-	3
Georgia	-	3
Latin America	-	3
Missouri	-	3
Nebraska	-	3
New York	-	3
Ohio	-	3
Arkansas	-	2
Indiana	-	2
Mississippi	1 [2]	2
North Carolina	-	2
North Dakota	-	2
Oklahoma	4	2
South Dakota	-	2
Virginia	-	2
Washington	18	2
Wisconsin	-	2
Arizona	-	1
Connecticut	11 [2]	1
Louisiana	-	1
Massachusetts	-	1
Michigan	-	1
New Jersey	-	1
Pennsylvania	2 [2]	1
South Carolina	-	1
Tennessee	-	1
Europe, Middle East and Africa	-	-
New Mexico	2	-
Utah	2	-
Vermont	1	-
Other	3 [2]	10
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, 2019.

Impaired Loans - Geographic Distribution	
As of September 30, 2019	**Share[(1)]**
Colorado	24 %
Oregon	22
Michigan	10
Arkansas	9
Wyoming	6
Oklahoma	5
Illinois	4
Ohio	4
Washington	3
Wisconsin	3
New Jersey	2
Arizona	2
Texas	1
Other	5
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, 2019.

Total Lending Portfolio - Distribution by Primary Business/Commodity	
As of September 30, 2019	**Share**
Affliated Associations	40 %
Farm Supply and Grain Marketing	12
Electric Distribution	8
Nonaffliated Entities	4
Agricultural Export Finance	4
Generation and Transmission	4
Fruits, Nuts, Vegetables	3
Fish, Livestock, Poultry	3
Lease Financing (through FCL)	3
Regulated Utility	3
Forest Products	2
Dairy	2
Independent Power Producers	2
Water and Wastewater	2
Local Exchange Carriers	1
Sugar and Related Products	1
Wireless	1
Competitive Local Telephone Exchange Carriers	1
Cable	1
Other	3
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, 2019.

($ in Millions)

Contractual Maturity As of September 30, 2019	In One Year or Less	One to Five Years	After Five Years	Total
Loans Outstanding	$ 55,607	$ 15,129	$ 31,162	$ 101,898
Unfunded Loan Commitments	19,131	7,371	7,327	33,829
Investment Securities	4,073	13,110	14,264	31,447
Letters of Credit	380	594	291	1,265
Derivatives (Notional Amounts)	3,972	21,470	12,070	37,512

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 6 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

We minimize credit risk in our investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency). At September 30, 2019, 61 percent of our $31.4 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities (MBS) issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States securities and U.S. Treasury and other debt securities, including securities backed by guaranteed portions of Small Business Administration loans. Approximately 34 percent of our investment portfolio consisted of securities issued by a U.S. Agency, including MBS and U.S. Agency debt issued by the Federal National

Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Bank (FHLB).

An additional 1 percent of our investment portfolio consists of short-term certificates of deposit with commercial banks that carry the highest short-term credit rating. The remaining 4 percent of our investments primarily relates to a portfolio composed of corporate bonds and asset-backed securities (ABS). 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, 2019	Average Exposure Amount	Risk Weighted Exposures
Guaranteed Loans under the GSM program	$ 1,198,553	$ -
Loans to Farm Credit System entities	51,561,374	10,312,275
Investment Securities Issued or Guaranteed by U.S. Government	20,421,176	-
Investment Securities Issued or Guaranteed by a U.S. Agency	10,242,823	2,048,565
Total	$ 83,423,926	$ 12,360,840

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, 2019, we held financial collateral totaling $0.8 million that offset derivative exposure for purposes of calculating risk-weighted assets. Total risk-weighted assets for our over-the-counter derivatives and cleared derivative transactions amounted to $426.5 million and $1.2 million, respectively, for the three-month period ended September 30, 2019.

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, 2019, 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 $1.2 billion for the three-month period ended September 30, 2019.

Below is a summary of our securitization exposures held during the three months ended September 30, 2019 by exposure type and categorized by risk-weight band.

Securitization Exposures

Three Months Ended September 30, 2019	Average Exposure Amount	Risk Weighted Asset (Under Gross Up Approach)
Asset-Backed Securities	$ 1,201,873	$ 1,326,163
Total	$ 1,201,873	$ 1,326,163

Securitization Risk-Weight Bands

Three Months Ended September 30, 2019	Average Exposure Amount	Risk Weighted Asset
Gross-Up Risk-Weight Bands:		
100% - 125%	$ 926,949	$ 934,806
>125% and <1,250%	274,924	391,357
1,250%	-	-
Total	$ 1,201,873	$ 1,326,163

For the three-month period ended September 30, 2019, 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. Refer to page 11 for additional information related to sales of securitization exposures. 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 does not have significant exposure to equity investments. We are a limited partner in certain Rural Business Investment Companies (RBICs). These RBICs focus on small and middle market companies that create jobs and prosperity 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, 2019.

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 three-month Treasury rate is below

4 percent, as it was for the period presented, we perform a shock equal to one-half the three-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	
September 30, 2019	
Scenario:	
- 300 bp shock	n/a
- 200 bp shock	n/a
- 100 bp shock	1.2 %
- 91 bp shock	1.1
+ 100 bp shock	(0.5)
+ 200 bp shock	(0.7)
+ 300 bp shock	(1.1)

Market Value of Equity at Risk	
September 30, 2019	
Scenario:	
- 300 bp shock	n/a
- 200 bp shock	n/a
- 100 bp shock	2.9 %
- 91 bp shock	2.7
+ 100 bp shock	(4.2)
+ 200 bp shock	(9.0)
+ 300 bp shock	(13.8)

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 8th day of November, 2019.

/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 registered public accounting firm 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 8, 2019

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 registered public accounting firm and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):

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

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: November 8, 2019

Office Locations
CoBank, ACB

CoBank National Office
6340 S. Fiddlers Green Circle
Greenwood Village, CO 80111
Denver, CO 80217
(303) 740-4000
(800) 542-8072

Farm Credit Leasing Services Corporation
1665 Utica Avenue South, Suite 400
Minneapolis, MN 55416
(952) 417-7800
(800) 444-2929

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

U.S. Regional Offices

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

Atlanta Banking Center *
2300 Windy Ridge Parkway, Suite 370S
Atlanta, GA 30339
(770) 618-3200
(800) 255-7429
FCL: (770) 618-3226

Austin Banking Center
4801 Plaza on the Lake Drive
Austin, TX 78746
(855) 738-6606

Enfield Banking Center *
240B South Road
Enfield, CT 06082-4451
(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

Florida Farm Credit Leasing Office **
3594 Maribella Dr.
New Smyrna Beach, FL 32168
(678) 592-5394

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

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 2019 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 10, 2019, August 9, 2019, November 8, 2019, and February 28, 2020 (Annual Report).