2011 Quarterly Report
SEPTEMBER 30, 2011

Dear CoBank Customer-Owner:

We're pleased to report that CoBank achieved another period of strong financial performance in the third quarter of 2011. Quarterly net income rose 29 percent to $169.9 million, compared with $132.0 million in the third quarter of 2010. Net interest income for the quarter was $252.0 million, compared with $226.3 million a year ago. Average loan volume for the third quarter was $47.6 billion, compared to $44.5 billion for the same period in 2010.

For the first nine months of 2011, net income increased 25 percent to $562.7 million compared to $451.0 million during the same period in 2010. Net interest income increased 23 percent to $829.7 million, from $674.9 million for the same period in 2010. Total loan volume for the bank at September 30, 2011 was $45.0 billion.

Higher prices for grains and other agricultural commodities had a significant impact on the bank's financial results, as has been the case for several consecutive quarters. Many of our agribusiness customers finance their inventories and receivables, and they borrow more from CoBank when commodity prices are higher and more volatile. Throughout most of 2011, prices for corn, wheat, soybeans and other agricultural products have been higher than they were in 2010, increasing our loan volume. At the same time, loan growth with rural infrastructure customers and Farm Credit associations has been modest, consistent with slow growth in the broader U.S. economy. While we're pleased with our quarterly and year-to-date results, we also recognize that loan demand from agribusiness customers may moderate or even decline in the event of a commodity market slowdown.

Credit risk in CoBank's loan portfolio remains well within the bank's risk-bearing capacity. At quarter end, 1.46 percent of the bank's loans were classified as adverse assets, compared with 1.87 percent at June 30, 2011, and 1.71 percent at December 31, 2010. Nonaccrual loans decreased to $160.7 million, from $191.3 million at the end of the second quarter and $167.0 million at the end of the prior year. During the third quarter, the bank recorded a $12.5 million provision for loan losses, bringing the year-to-date provision to $50.0 million. The provision for loan losses in the first nine months of last year was $37.5 million. Net charge-offs for the first nine months of 2011 were $17.1 million compared to $38.2 million for the same period in 2010.

The bank's reserve for credit exposure totals $533.4 million at September 30, 2011, or 1.99 percent of non-guaranteed loans outstanding when loans to Farm Credit associations are excluded. We continue to build a strong reserve, which protects the bank's capital base in the event of credit losses in our loan portfolio.

Capital levels at the bank remain solid and well in excess of regulatory minimums. As of September 30, 2011, shareholders' equity totaled $4.9 billion, and the bank's permanent capital ratio was 15.7 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the bank's regulator.

At quarter end, CoBank held approximately $16.0 billion in cash and investments. The bank averaged 190 days of liquidity during the first nine months of the year, compared with the 90-day regulatory minimum set by the FCA. The bank recorded $2.0 million in impairment losses on investment securities during the third quarter, primarily due to continued weakness in the U.S. housing market and broader economy, and the related impact on certain mortgage- and asset-backed securities held by the bank. However, credit risk in this portfolio is limited given that approximately 97 percent of our investment securities carry an implied or explicit guarantee from the U.S. government. Through the first nine months of 2011, impairment losses have totaled $6.0 million, compared with $39.0 million during the same period last year.

U.S. AgBank Merger Update

As previously announced, CoBank has executed a letter of intent to merge with U.S. AgBank, another bank in the Farm Credit System. The combined bank is expected to have approximately $90 billion in assets and serve as a wholesale provider of financing to Farm Credit associations as well as a direct lender to farmer-owned agricultural cooperatives, infrastructure companies and other rural businesses. On a combined basis, the bank will provide credit and financial services to more than 70,000 farmers and ranchers in 23 states, and cooperative and other retail customers nationwide. The bank will do business under the CoBank name and remain headquartered in Colorado, with Bob Engel continuing in the role of chief executive officer.

On September 7, 2011, the merger received approval from the stockholders of both banks. Final approval from the FCA is expected during the fourth quarter, and the banks plan to formally close the merger January 1, 2012. We believe the merger will create a stronger, more durable financial services institution with an enhanced ability to fulfill its mission, both today and for future generations of rural borrowers.

We are focused on managing the bank for the long term, and on meeting the needs of all our customers in economic conditions that should remain volatile and challenging for the foreseeable future. As always, our board and associates are grateful for our relationship with our customer-owners and ever mindful of the enormous trust they place in CoBank. We thank you for your ongoing support and look forward to reporting to you on our future progress.

Everett Dobrinski
Chairman of the Board

Robert B. Engel
President and Chief Executive Officer

November 9, 2011

Financial Highlights
CoBank, ACB

($ in Thousands)

	September 30, 2011 (Unaudited)		December 31, 2010	
Total Loans	$	45,027,900	$	49,992,338
Less: Allowance for Loan Losses		390,813		400,744
Net Loans		44,637,087		49,591,594
Total Assets		62,335,829		65,825,890
Total Shareholders' Equity		4,855,255		4,406,197

For the Nine Months Ended September 30, (Unaudited)	2011			2010		
Net Interest Income	$	829,736		$	674,899	
Provision for Loan Losses		50,000			37,500	
Net Fee Income		82,556			71,389	
Net Income		562,706			450,989	
Net Interest Margin		1.72	%		1.61	%
Return on Average Assets		1.11			1.04	
Return on Average Common Shareholders' Equity		17.44			15.22	
Return on Average Total Shareholders' Equity		16.19			14.22	
Average Loans	$	51,510,670		$	44,131,147	
Average Earning Assets		64,655,056			55,885,037	
Average Assets		67,735,255			58,223,465	

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 five Banks of the Farm Credit System (System), a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. We are cooperatively owned by our U.S. customers, who consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions, including Agricultural Credit Associations (Associations), and other businesses that serve rural America. We provide a diversified range of financial services to vital industries through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes and with our 2010 Annual Report to Shareholders.

Consolidated Results of Operations

CoBank posted strong financial results for the first nine months of 2011. Net income increased 25 percent to $562.7 million for the nine months ended September 30, 2011, compared to $451.0 million during the same period in 2010. Our stronger earnings reflected a significant increase in net interest income, which resulted from greater seasonal loan growth in our Agribusiness operating segment. To a lesser extent, earnings also increased due to reduced impairment losses in our investment securities portfolio. Our provision for loan losses, operating expenses and provision for income taxes were all higher for the first nine months of 2011 and somewhat offset the increases in net interest income and noninterest income.

Net interest income increased 23 percent to $829.7 million for the nine months ended September 30, 2011, compared to $674.9 million for the same period in 2010. The sharp increase in net interest income primarily resulted from a $7.4 billion increase in average loan volume. The most substantial increases were in seasonal loans to our Agribusiness customers, as higher and continued volatile prices for grains and certain other agricultural commodities led to greater customer financing requirements. To a much lesser extent, we also experienced year-over-year loan growth in our Rural Infrastructure and Strategic Relationships operating segments. Rural Infrastructure loan growth was primarily the result of increased volume in the electric distribution division, while Strategic Relationships loan volume increased due to modest growth at our affiliated Associations. Notwithstanding growth in average loan volume in the 2011 period, period-end loans decreased to $45.0 billion at September 30, 2011 compared to $50.0 billion at December 31, 2010. The decrease in loan volume since year-end is primarily due to the typical seasonal decline in agribusiness loans; however, demand for financing in many of the other sectors we serve continues to be weak, consistent with slow growth in the broader U.S. economy.

Our overall net interest margin was 1.72 percent for the nine months ended September 30, 2011, compared to 1.61 percent for the same period in 2010, primarily reflecting a greater level of average agribusiness loan volume. Partially offsetting this net interest margin increase were lower returns on our invested capital due to declining intermediate-term interest rates. Additionally, increased competition from commercial banks and debt markets have placed downward pressure on the Bank's lending spreads in certain customer segments.

We recorded a $50.0 million provision for loan losses in the first nine months of 2011, compared to $37.5 million for the same period in 2010. The 2011 provision primarily relates to a higher level of commitments in our Agribusiness operating segment and credit challenges facing a small number of customers in our Agribusiness and Rural Infrastructure operating segments. The 2010 provision primarily related to our Rural Infrastructure operating segment, somewhat offset by a reversal in the reserve for credit exposure in our Agribusiness operating segment. Our overall credit quality improved modestly in the third quarter and is generally consistent with year-end 2010 levels. Adverse assets decreased to 1.46 percent of total loans and related accrued interest at September 30, 2011 compared to 1.71 percent at December 31, 2010. Nonaccrual loans decreased from $167.0 million at December 31, 2010 to $160.7 million at September 30, 2011. Net charge-offs for the first nine months of 2011 were $17.1 million compared to $38.2 million for the same period in 2010. Our loan quality is discussed in further detail beginning on page 9.

Noninterest income increased to $92.5 million for the nine months ended September 30, 2011 from $78.4 million for the same period in 2010. Noninterest income is composed primarily of net fee income, loan prepayment fee income and miscellaneous gains and losses, reduced by losses on early extinguishments of debt and impairment losses on investment securities. The increase in noninterest income resulted primarily from a decrease in the level of impairment losses in our investment securities portfolio and higher fee income. We recorded impairment losses of $6.0 million in our investment portfolio in the first nine months of 2011 as compared to $39.0 million in the 2010 period. These impairment losses are described on page 10. Noninterest income for the nine months ended September 30, 2011 also included a $4.5 million gain on the sale of one of our previously impaired investment securities. Net fee income increased to $82.6 million for the nine months ended September 30, 2011 from $71.4 million for the same period in 2010 and was primarily driven by greater arrangement fees earned on transactions in our agribusiness and rural energy portfolios. Noninterest income in 2010 included $33.3 million in refunds of Farm Credit insurance fund premiums. These refunds were classified as miscellaneous gains and losses, which are included in ‘Other, Net’ within the ‘Noninterest Income/Expense’ section of the accompanying condensed consolidated statement of income for the nine months ended September 30, 2010. There were no insurance fund premium refunds during the first nine months of 2011. In addition, losses on early extinguishments of debt, net of prepayment income, increased $10.2 million for the first nine months of 2011 compared to the 2010 period. This change resulted from increased debt buyback losses incurred in an effort to achieve the desired mix of interest-bearing liabilities in a low interest rate environment.

Total operating expenses for the nine months ended September 30, 2011 increased to $165.5 million from $153.1 million for the same period in 2010. Employee compensation expense increased $14.1 million due to higher incentive compensation expense related to stronger financial performance and increased employee staffing levels. Insurance fund premium expense increased $6.4 million primarily due to an increase in insured debt obligations which funded the increase in average loan volume. In addition, premium rates for the nine months ended September 30, 2011 were six basis points of average outstanding adjusted insured debt obligations, compared to five basis points for 2010. For the nine months ended September 30, 2011, we recorded expenses of $12.9 million related to the proposed merger with U.S. AgBank. Merger expenses are primarily included in purchased services and general and administrative expenses. The proposed merger with U.S. AgBank is further discussed in “Recent Developments” on page 12. General and administrative expenses decreased $16.3 million in the 2011 period, as the prior-year period included costs related to the settlement of a business dispute in our Rural Infrastructure operating segment.

Our income tax expense increased to $143.9 million for the nine months ended September 30, 2011, compared to $111.7 million for the same prior-year period. Increased tax expense is a direct result of the improvement in our pre-tax earnings. Our effective tax rate was 20.4 percent and 19.9 percent for the nine months ended September 30, 2011 and 2010, respectively, reflecting increased earnings in the taxable portion of CoBank’s business activities.

Our annualized return on average common shareholders' equity, a reflection of our overall earnings, increased to 17.44 percent for the nine months ended September 30, 2011 from 15.22 percent for the same period in 2010. As a result of the growth in average agribusiness loans noted previously, our annualized return on average assets increased to 1.11 percent for the nine months ended September 30, 2011, compared to 1.04 percent for the same period in 2010.

For the three months ended September 30, 2011, net income rose 29 percent to $169.9 million from $132.0 million for the same prior-year period. The increase was primarily due to a $25.7 million increase in net interest income, reflective of an increase in average loan volume, as previously discussed. Additionally, noninterest income grew by $25.0 million primarily due to a $23.0 million decrease in impairment losses on investment securities and greater fee income, which more than offset higher losses on early extinguishments of debt. Our provision for loan losses decreased $8.5 million, as the 2010 period included provision related to credit challenges facing a small number of customers in our rural energy portfolio at that time. Partially offsetting these items was an increase of $12.8 million in operating expenses, largely due to merger costs and increased employee compensation, as explained above.

Operating Segment Financial Review

We provide financial services to farmer-owned cooperatives; farmer-owned financial institutions; providers of energy, communications and water services; and other businesses that serve rural America. We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

Loans outstanding and the allowance for loan losses by operating segment at September 30, 2011 and 2010 are reported in Notes 2 and 8 to the accompanying condensed consolidated financial statements. Net income by operating segment is summarized in the following table and is more fully detailed in Note 8 to the accompanying condensed consolidated financial statements.

Net interest income on investment securities and gains and losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated.

Net Income by Operating Segment ($ in Thousands)

For the Nine Months Ended September 30,	2011	2010
Operating Segment:		
Agribusiness	$ 353,795	$ 269,008
Strategic Relationships	63,411	60,504
Rural Infrastructure	150,199	127,323
Total Operating Segments	567,405	456,835
Corporate/Other	(4,699)	(5,846)
Total	$ 562,706	$ 450,989

Agribusiness

The Agribusiness operating segment includes loans and financial services provided to cooperatives and other businesses engaged in agricultural activities such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Our Agribusiness segment also includes our agricultural export finance division, which provides short-term and medium-term trade finance to support the export of U.S. agricultural products. As of September 30, 2011, we had $3.9 billion in loans financing agribusiness exports, 79 percent of which were guaranteed by the U.S. government. In addition, our Agribusiness segment includes Farm Credit Leasing Services Corporation (FCL), which provides lease-related financial services to Association partners, agribusinesses, agricultural producers and rural utilities. As of September 30, 2011, FCL had $1.8 billion in leases outstanding.

Agribusiness average loan volume increased 38 percent to $24.5 billion for the first nine months of 2011 from $17.7 billion for the same period of 2010. The significant increase in loan volume primarily resulted from sustained higher and continued volatile prices for grains and certain other agricultural commodities that drove increased seasonal borrowing by agribusiness customers, particularly those in the farm supply and grain marketing sectors. Generally, higher and volatile prices for agricultural commodities lead to increased financing requirements for many of these customers, which borrow to finance inventories and receivables. Agribusiness period-end loan volume decreased from $22.7 billion at December 31, 2010 to $17.9 billion at September 30, 2011. Agribusiness loan volume is generally at a seasonal low in late summer or early fall before harvest financing demands result in loan volume increases beginning in late fall of each year and peaking in late winter or early spring.

Agribusiness net income increased 32 percent in the first nine months of 2011 to $353.8 million from $269.0 million for the same period in 2010. This increase resulted primarily from a $163.7 million increase in net interest income due to the significant increase in loan volume partially offset by lower returns on invested capital, as previously described. Agribusiness recorded a provision for loan losses of $39.5 million during the first nine months of 2011, as compared to a reversal in the reserve for credit exposure of $7.0 million in the same prior-year period. The current period provision primarily reflects an overall higher level of Agribusiness commitments as well as credit challenges facing a small number of customers. Nonaccrual loans increased to $107.5 million at September 30, 2011 compared to $93.4 million at December 31, 2010, reflecting specific customer credit challenges. Agribusiness recorded net charge-offs of $6.6 million for the nine months ended September 30, 2011 compared to $18.7 million for the same period of 2010.

Agribusiness noninterest income increased to $62.7 million for the first nine months of 2011, as compared to $48.0 million in the same period of 2010, due to a decrease in the level of investment impairment losses and an increase in net fee income, which was driven primarily by greater arrangement fees. The 2011 period also included a gain on the sale of an investment security. As described on page 5, the 2010 period included refunds of a portion of insurance fund premiums paid in prior years. Operating expenses increased to $106.2 million for the first nine months of 2011 from $78.7 million in the 2010 period due to greater employee compensation expense, merger expenses and insurance fund premiums, as previously described. In addition, the prior-year period included a reversal of accrued legal settlement expenses. Income tax expense in the Agribusiness operating segment increased $19.7 million due to the growth in pre-tax earnings.

Strategic Relationships

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with our four affiliated Association customer-owners (Farm Credit East, Farm Credit of Maine, Northwest Farm Credit Services and Yankee Farm Credit) and our funding relationships with other System institutions. As of September 30, 2011, the Strategic Relationships portfolio included $11.2 billion in loans to our four affiliated Associations and $4.0 billion of participations in loans made by other System banks to certain of their affiliated Associations, including $3.4 billion of participations in loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume was $15.2 billion for the nine-month period ended September 30, 2011, as compared to $15.0 billion for the nine months ended September 30, 2010, due to modest growth at our affiliated Associations. Strategic Relationships net income increased slightly to $63.4 million for the first nine months of 2011, as compared to $60.5 million for the same prior-year period, due primarily to a $4.5 million increase in net interest income, partially offset by the impact of merger expenses.

The overall loan quality in our Strategic Relationships portfolio remains strong. As a wholesale lender to Association customers, we benefit from the diversification of the Association loan portfolios and our strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide us a buffer from losses in their respective loan portfolios. Lower margins in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. No provision for loan losses or reserve for credit exposure (RCE) has been recorded related to any Association loan. As discussed on page 9, the credit quality classification of a loan to a nonaffiliated Association was upgraded in the third quarter of 2011 from the 'Substandard' to the 'Special Mention' category.

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and financial services provided to companies in the energy, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, rural local exchange carriers, wireless providers, data transport networks, cable television systems, and water and waste water companies.

Rural Infrastructure average loan volume increased to $11.8 billion for the first nine months of 2011 from $11.4 billion for the same period in 2010. Growth in Rural Infrastructure average loan volume resulted from increased lending activity in the electric distribution division driven primarily by the refinancing of borrowings from other lenders. This growth was partially offset by a decline in loans to our communications customers, reflecting weak demand for debt capital and increased availability of government stimulus funding in certain sectors of the communications industry.

Rural Infrastructure net income increased 18 percent to $150.2 million for the first nine months of 2011 from $127.3 million for the same period in 2010, largely due to a $34.0 million decrease in the provision for loan losses and a $13.1 million decrease in operating expenses. Rural Infrastructure recorded a provision for loan losses of $10.5 million for the first nine months of 2011, as compared to $44.5 million for the same period in 2010. The decrease resulted from the resolution of a troubled loan in the communications division in 2011, as well as greater provisions in the 2010 period for specific customers in our rural energy portfolio. Nonaccrual loans in the Rural Infrastructure segment decreased to $53.2 million at September 30, 2011 from $73.6 million at December 31, 2010. Rural Infrastructure recorded net charge-offs of $10.5 million for the nine months ended September 30, 2011, as compared to $19.5 million for the same period of 2010.

Operating expenses decreased to $48.0 million for the first nine months of 2011, as compared to $61.1 million in the same prior-year period. The decrease resulted primarily from costs related to the settlement of a business dispute that were recorded in the 2010 period. Excluding such prior-period costs, operating expenses in 2011 increased primarily due to greater employee compensation and merger costs, and to a lesser extent, increased insurance fund premium expenses, as previously described.

Rural Infrastructure net interest income decreased to $222.8 million for the first nine months of 2011 from $234.9 million for the same period in 2010 primarily due to lower returns on our invested capital, as previously described, partially offset by an increase in average loan volume. Noninterest income increased slightly to $30.8 million for the first nine months of 2011, as compared to $30.3 million in the same period of 2010 due to a decrease in the level of investment impairment losses, the gain on the sale of an investment security and increased fee income. The 2010 period included refunds of a portion of insurance fund premiums paid in prior years, as previously described on page 5. Rural Infrastructure income tax expense increased $12.6 million due to the growth in its pre-tax earnings.

Credit Quality, Liquidity, Capital Resources and Other

Loan Quality

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

Loan Quality Ratios

	September 30, 2011		December 31, 2010	
Acceptable	94.46	%	94.76	%
Special Mention	4.08		3.53	
Substandard	1.40		1.62	
Doubtful	0.06		0.09	
Loss	-		-	
Total	100.00	%	100.00	%

Our overall credit quality improved modestly in the third quarter and is generally consistent with year-end 2010 levels. Adversely classified loans ('Substandard' and 'Doubtful') decreased to 1.46 percent of total loans and related accrued interest at September 30, 2011 compared to 1.71 percent at December 31, 2010 while the level of 'Special Mention' loans increased to 4.08 percent at September 30, 2011 from 3.53 percent at December 31, 2010. These changes were driven primarily by an upgrade in the credit quality classification of a $150.0 million loan to a nonaffiliated Association from the 'Substandard' to the 'Special Mention' category.

Total nonaccrual loans decreased to $160.7 million at September 30, 2011, as compared to $167.0 million at December 31, 2010. We recorded a $50.0 million provision for loan losses for the nine months ended September 30, 2011, primarily due to a higher level of commitments in our Agribusiness operating segment and credit challenges facing a small number of customers in our Agribusiness and Rural Infrastructure operating segments. Net charge-offs for the first nine months of 2011 totaled $17.1 million compared to $38.2 million in the 2010 period. Our total reserve for credit exposure was $533.4 million at September 30, 2011, compared to $500.5 million at December 31, 2010. RCE as a percent of total loans was 1.18 percent at September 30, 2011, compared to 1.00 percent at December 31, 2010. RCE as a percent of non-guaranteed loans outstanding (excluding loans to Associations) was 1.99 percent and 1.60 percent at September 30, 2011 and December 31, 2010, respectively.

Liquidity and Investments

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

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and liquidating investments. During the first nine months of 2011, we averaged 190 days liquidity, compared to the regulatory minimum of 90 days. At September 30, 2011, our liquidity was 244 days, compared to 198 days at December 31, 2010.

We hold cash and investment securities to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled $13.2 billion at September 30, 2011 compared to $12.6 billion at December 31, 2010. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities ($ in Millions)						
	As of September 30, 2011			As of December 31, 2010		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury and Agency Debt	$ 3,789	$ 3,876	$ 87	$ 3,311	$ 3,358	$ 47
U.S. Agency Mortgage-Backed	8,777	9,016	239	8,673	8,739	66
Non-Agency Mortgage-Backed	297	279	(18)	424	402	(22)
Asset-Backed	83	66	(17)	143	118	(25)
Total	$ 12,946	$ 13,237	$ 291	$ 12,551	$ 12,617	$ 66

We do not intend to sell the securities in unrealized loss positions and we believe it is unlikely that we will be required to sell such securities for regulatory, liquidity or other purposes before an anticipated recovery of our cost basis occurs. Therefore, with the exception of certain securities discussed below, we do not consider these investments to be other-than-temporarily impaired at September 30, 2011. We regularly perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions and expected cash flows of these securities. Subsequent changes in market and credit conditions or expected cash flows could change these evaluations.

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 $225.4 million ($139.8 million net of tax) for the first nine months of 2011, compared to $160.4 million ($99.5 million net of tax) for the same prior-year period. The unrealized gains in both periods primarily relate to the impact of interest rate changes on the values of certain fixed-rate securities.

Credit risk in our investment portfolio is primarily limited to the 3 percent of investment securities that do not include either an implied or explicit guarantee of the U.S. government, consisting of non-agency mortgage-backed securities (non-agency MBS) and asset-backed securities (ABS). During the first nine months of 2011, we recorded $6.0 million in impairment losses related to four non-agency MBS and two ABS. We sold one of our ABS that was previously impaired and recorded a gain on disposition of $4.5 million during the nine months ended September 30, 2011. We recorded $39.0 million in impairment losses in the first nine months of 2010 related to three non-agency MBS and seven ABS. In the third quarter of 2010, we determined we could no longer rely on a bond insurer to fulfill its obligations related to certain ABS it insures, which resulted in $23.0 million of the $39.0 million of impairment losses recorded in the 2010 period. Increasing levels of defaults and foreclosures on residential mortgages, continued high unemployment, and weak economic conditions may result in further downward adjustments to the fair value of our non-agency MBS and ABS and the need to record additional impairment losses in earnings.

Pursuant to Farm Credit Administration (FCA) regulations, non-agency MBS and ABS that are no longer rated triple-A by at least one major rating agency must be excluded from our liquidity reserve. In addition, such securities must be disposed of within six months of being downgraded unless approval to continue to hold these securities is obtained from the FCA. The total amortized cost and fair value of non-agency MBS and ABS no longer rated triple-A by at least one major rating agency was $315.7 million and $282.3 million, respectively, as of September 30, 2011. These securities are not included in our liquidity reserve. With the exception of three securities pending approval, the FCA has granted us approval to continue to hold all such securities.

In August 2011, the FCA published for comment a proposed rule to revise investment management regulations for System institutions. The System is developing a response to the proposed rule. We do not currently believe that any contemplated changes will significantly impact our results of operations or financial condition.

Capital Resources

We are primarily capitalized by holders of our common and preferred stock and by unallocated retained earnings. At September 30, 2011, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2010 Annual Report.

Capital Ratios

	Regulatory Minumums	September 30, 2011	December 31, 2010
Permanent Capital Ratio	7.00 %	15.72 %	14.30 %
Total Surplus Ratio	7.00	15.37	13.96
Core Surplus Ratio	3.50	9.56	8.42
Net Collateral Ratio	104.00 *	109.03	108.03

* The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have Series A preferred stock or subordinated debt outstanding.

Pursuant to FCA guidance, beginning July 1, 2011, our Series A Cumulative Perpetual Preferred Stock, which totaled $163.3 million at September 30, 2011, began losing equity treatment for regulatory capital purposes due to a dividend step-up feature in its structure. As a result, the Series A preferred stock is being phased out of our permanent capital, total surplus and net collateral ratios at a rate of 20 percent per annum. The impact to each of these regulatory capital and collateral ratios is expected to be less than 0.1 percent during the remainder of 2011.

The FCA has issued Advance Notices of Proposed Rulemaking on capital adequacy which could ultimately lead to significant changes in the System's regulatory capital rules.

Interest Rate Risk Management

Interest rate risk is primarily managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various strategies and through the execution of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). Derivatives are recorded at fair value as assets or liabilities on the consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items recorded in the consolidated statements of income totaled gains of $8.4 million and $0.4 million in the first nine months of 2011 and 2010, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled losses of $1.8 million ($1.1 million net of tax), and $8.2 million ($5.1 million net of tax), in the first nine months of 2011 and 2010, respectively.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued guidance clarifying when a loan modification or restructuring is considered a troubled debt restructuring. The FASB's guidance provides criteria that a lender should evaluate in determining whether a borrower is experiencing financial difficulties and when a restructuring constitutes a concession. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. Early adoption is permitted. The adoption of these provisions is not expected to have a material effect on our consolidated financial position, results of operations or cash flows, but may impact certain loan disclosures.

In May 2011, the FASB issued guidance clarifying certain aspects of fair value measurement and disclosure requirements. The guidance is effective prospectively for reporting periods (including interim periods) beginning after December 15, 2011. Early adoption is not permitted. The adoption of these provisions is not expected to have a material effect on our consolidated financial position, results of operations or cash flows, but is expected to result in additional fair value disclosures surrounding our Level 3 inputs, which are discussed in Note 5 to the accompanying condensed consolidated financial statements.

In June 2011, the FASB issued guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income; or (2) two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of these provisions will not impact our consolidated financial position, results of operations or cash flows; however, it will result in changes to the presentation of comprehensive income.

Recent Developments

Proposed Merger with U.S. AgBank, FCB

As discussed in our 2010 Annual Report, in December 2010 the Boards of Directors of CoBank and U.S. AgBank, FCB unanimously approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the Boards, a merger application was submitted to the FCA, and on June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 7, 2011, CoBank and U.S. AgBank stockholders approved the merger transaction. Final approval from the FCA is expected during the fourth quarter of 2011, and the banks plan to formally merge on January 1, 2012.

The merged bank will continue to do business under the CoBank name and be headquartered in Colorado, but it will maintain U.S. AgBank's existing presence and operations in Wichita, Kansas, and Sacramento, California. Robert B. Engel, CoBank's president and chief executive officer, will be the chief executive of the combined entity. U.S. AgBank had total assets of $24.5 billion and capital of $1.3 billion at September 30, 2011.

We believe the merger will create significant benefits for the combined bank and its customer-owners. Full details about the transaction were provided in disclosure materials sent to stockholders in July 2011. Information and announcements about the merger are also available at the CoBank website or at www.usagbankcobankmerger.com.

Downgrade of the Long-Term U.S. Sovereign Credit Rating and the System's Long-Term Debt Rating

The System is a government sponsored enterprise, and CoBank, as a member of the System, has historically benefited from the highly liquid, competitively priced debt funding available to us through the issuance of Systemwide debt securities. In August 2011, Standard & Poor's Ratings Services (S&P) downgraded the long-term sovereign credit rating of the U.S. from AAA to AA+ with a negative outlook. The credit ratings of government sponsored enterprises, including the System, are influenced by the sovereign credit rating of the U.S. As a result, S&P also lowered its long-term debt rating of the System from AAA to AA+. The ratings of individual System Banks rated by S&P, including CoBank, were not affected. The other two major rating agencies, Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), have affirmed the AAA sovereign credit rating of the U.S. and the AAA rating of the System. However, Moody's has assigned a negative outlook to the U.S. rating. Notwithstanding these actions, to date we have continued to access the funding necessary to support our lending and business operations. However, such actions and any future downgrades could negatively impact funding costs, earnings and funding flexibility for CoBank and other System institutions.

Business Outlook

Our Board of Directors and management are committed to continuing our strong financial and operating performance and to fulfilling our mission to serve as a dependable provider of credit and other financial services to vital industries across rural America.

Our continued success will be achieved by delivering on our value proposition, creating opportunities to partner with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

Slow global economic growth is a concern for CoBank and its customers. Customers in certain of the industries we serve continue to feel the impact of unpredictable and volatile agricultural commodity prices, a continued weak housing market, and regulatory and political uncertainty. These challenges could reduce the credit quality and level of loan demand in certain sectors of our lending portfolio. Continued weakness in the housing market and/or persistently high unemployment could also lead to further losses on our non-agency investment securities. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending continues to increase competition across many of the sectors we serve. In addition, the lower level of medium-term interest rates negatively impacts the return on our invested capital.

Despite these and other challenges, we are well capitalized and our liquidity position remains strong. We will continue our disciplined approach to managing risk and will closely monitor asset quality while emphasizing effective enterprise-wide risk management. We will also continue to enhance our financial condition through prudent expense discipline and the retention of a portion of our earnings.

We believe CoBank continues to experience significant opportunities across all the industries we serve. Under the guidance of our Board of Directors and through the focus of a proven executive management team, we look forward to continuing to deliver on our value proposition on behalf of our customers and to fulfilling our mission as a dependable and strategic source of credit and financial services to the nation's rural economy.

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

- Potential deterioration in the agricultural, energy, communications, water, and leasing sectors;
- Weak U.S. and global economic conditions;
- Legislative and regulatory actions;
- Government policies and developments in the U.S. and other countries in which we make loans;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines;
- Environmental-related conditions or laws impacting our lending activities;
- Changes in the U.S. government's support of the agriculture industry;
- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage fiscal policy;
- Actions taken by the Federal Reserve to manage the monetary policy of the U.S.;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Farm Credit System debt securities;
- The level of interest rates;
- Relationships between various interest rate indices;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the reserve for credit exposure;
- Credit performance of the loan portfolios, portfolio growth and seasonal factors;
- 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;
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Nonperformance by counterparties to our derivative positions; and
- Our ability to successfully complete, integrate and profitably operate any business combinations or strategic alliances, including the proposed merger discussed on page 12.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Condensed Consolidated Statements of Income

CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income				
Loans	$ 360,342	$ 344,114	$ 1,169,303	$ 1,016,546
Investment Securities	67,213	63,334	204,479	196,271
Total Interest Income	427,555	407,448	1,373,782	1,212,817
Interest Expense	175,560	181,172	544,046	537,918
Net Interest Income	251,995	226,276	829,736	674,899
Provision for Loan Losses	12,500	21,000	50,000	37,500
Net Interest Income After Provision for Loan Losses	239,495	205,276	779,736	637,399
Noninterest Income/ Expense				
Net Fee Income	32,689	24,902	82,556	71,389
Prepayment Income	5,360	5,033	16,851	8,877
Losses on Early Extinguishments of Debt	(18,147)	(4,979)	(26,923)	(8,746)
Total Other-Than-Temporary Impairment Losses	-	(45,052)	(2,847)	(49,851)
Portion of Loss Recognized in Other Comprehensive Loss	(2,000)	20,052	(3,153)	10,851
Net Other-Than-Temporary Impairment Losses Included in Earnings	(2,000)	(25,000)	(6,000)	(39,000)
Other, Net	10,360	3,352	25,966	45,906
Total Noninterest Income	28,262	3,308	92,450	78,426
Operating Expenses				
Employee Compensation	28,655	24,481	85,426	71,355
Insurance Fund Premium	4,721	3,225	15,753	9,351
Information Services	4,077	3,957	11,924	11,290
General and Administrative	7,121	4,009	18,164	34,477
Occupancy and Equipment	1,779	1,594	5,044	4,788
Farm Credit System Related	1,801	1,833	5,472	5,370
Purchased Services	4,827	1,625	14,132	8,249
Other	3,153	2,563	9,620	8,231
Total Operating Expenses	56,134	43,287	165,535	153,111
Income Before Income Taxes	211,623	165,297	706,651	562,714
Provision for Income Taxes	41,706	33,339	143,945	111,725
Net Income	$ 169,917	$ 131,958	$ 562,706	$ 450,989

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

Condensed Consolidated Balance Sheets
CoBank, ACB

($ in Thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Total Loans	$ 45,027,900	$ 49,992,338
Less: Allowance for Loan Losses	390,813	400,744
Net Loans	44,637,087	49,591,594
Cash	2,778,396	1,922,586
Investment Securities	13,237,173	12,616,696
Interest Rate Swaps and Other Financial Instruments	1,114,987	1,001,365
Accrued Interest Receivable and Other Assets	568,186	693,649
Total Assets	$ 62,335,829	$ 65,825,890
Liabilities		
Bonds and Notes	$ 55,294,927	$ 59,324,313
Subordinated Debt	1,000,000	1,000,000
Interest Rate Swaps and Other Financial Instruments	130,242	92,580
Reserve for Unfunded Commitments	142,591	99,799
Accrued Interest Payable and Other Liabilities	912,814	903,001
Total Liabilities	57,480,574	61,419,693
Commitments and Contingent Liabilities (Note 7)		
Shareholders' Equity		
Preferred Stock	700,000	700,000
Common Stock	1,623,225	1,568,989
Unallocated Retained Earnings	2,392,015	2,137,394
Accumulated Other Comprehensive Income (Loss)	140,015	(186)
Total Shareholders' Equity	4,855,255	4,406,197
Total Liabilities and Shareholders' Equity	$ 62,335,829	$ 65,825,890

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,	2011	2010
Cash Flows Provided by Operating Activities		
Net Income	$ 562,706	$ 450,989
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	50,000	37,500
Deferred Income Taxes	(17,337)	(22,620)
Depreciation and Amortization/Accretion, Net	8,167	2,509
Losses on Impairment of Available-for-Sale Investments	6,000	39,000
Net Gain on Sale of Investment Securities	(4,451)	-
Decrease (Increase) in Accrued Interest Receivable and Other Assets	133,745	(52,558)
Decrease in Accrued Interest Payable and Other Liabilities	(37,753)	(100,855)
Net (Gains) Losses on Interest Rate Swaps and Other Financial Instruments	(6,641)	400
Proceeds from Termination of Interest Rate Swaps	28,205	-
Other	(1,787)	(7,316)
Net Cash Provided by Operating Activities	720,854	347,049
Cash Flows Provided by (Used in) Investing Activities		
Net Decrease (Increase) in Loans	4,935,387	(2,324,398)
Net (Increase) Decrease in Investment Securities	(396,653)	1,387,835
Net Cash Provided by (Used in) Investing Activities	4,538,734	(936,563)
Cash Flows Provided by (Used in) Financing Activities		
Net (Retirements) Issuances of Bonds and Notes	(4,131,376)	993,537
Net Retirements of Common Stock	(29,833)	(43,890)
Cash Patronage Distribution Paid	(194,720)	(185,940)
Preferred Stock Dividends Paid	(47,849)	(47,849)
Net Cash Provided by (Used in) Financing Activities	(4,403,778)	715,858
Net Increase in Cash	855,810	126,344
Cash at Beginning of Period	1,922,586	923,083
Cash at End of Period	$ 2,778,396	$ 1,049,427
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ -	$ (542,920)
Net Change in Unrealized Losses/Gains on Investment Securities, Before Taxes	225,434	160,465
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	(1,776)	(8,207)
Patronage in Common Stock	84,069	65,228

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,	2011	2010
Balance at Beginning of Period	$ 4,406,197	$ 4,057,629
Comprehensive Income:		
Net Income	562,706	450,989
Other Comprehensive Income, Net of Taxes:		
Net Change in Unrealized Losses/Gains on Investment Securities Not Other-Than-Temporarily Impaired	135,472	106,147
Other-Than-Temporarily Impaired Investment Securities	4,297	(6,659)
Net Change in Unrealized Losses/Gains on Interest Rate Swaps and Other Financial Instruments	(1,101)	(5,088)
Net Pension Adjustment	1,533	753
Comprehensive Income	702,907	546,142
Preferred Stock Dividends	(47,849)	(47,849)
Common Stock Issued	67	90
Common Stock Retired	(29,900)	(43,980)
Cash Patronage Accrued	(176,167)	(140,656)
Balance at End of Period	$ 4,855,255	$ 4,371,376

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

Notes to Condensed Consolidated Financial Statements

CoBank, ACB

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

The accompanying condensed consolidated financial statements include the accounts of CoBank, ACB and its wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. All material inter-company accounts and transactions have been eliminated. In our opinion, all adjustments considered necessary for a fair presentation of the interim financial condition, results of operations and cash flows have been made. 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. Our results of operations for the nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the entire fiscal year.

The accompanying condensed consolidated financial statements exclude financial information of Northwest Farm Credit Services, ACA (Northwest) as well as the Farm Credit System (System) Associations in the Northeastern region of the United States (Northeast Associations), which are collectively referred to as our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." The supplemental information on pages 40 and 41 includes certain combined financial information of our affiliated Associations and the District.

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

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2010 Annual Report, which includes a description of our organization and lending authority. Also included in the 2010 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 the prior period to conform to the current period presentation.

We have evaluated subsequent events through November 9, 2011, which is the date the financial statements were issued.

Note 2 – Loans, Loan Quality and Reserve for Credit Exposure

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

	September 30, 2011	December 31, 2010
Agribusiness	$ 17,876	$ 22,676
Strategic Relationships	15,193	15,392
Rural Infrastructure	11,959	11,924
Total	$ 45,028	$ 49,992

Reserve for Credit Exposure

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

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
September 30, 2011				
Allowance for Loan Losses				
Beginning Balance	$ 284,217	$ -	$ 116,527	$ 400,744
Charge-offs	(9,088)	-	(10,772)	(19,860)
Recoveries	2,454	-	267	2,721
Provision for Loan Losses	39,500	-	10,500	50,000
Transfers to Reserve for Unfunded Commitments	(36,126)	-	(6,666)	(42,792)
Ending Balance	280,957	-	109,856	390,813
Reserve for Unfunded Commitments				
Beginning Balance	68,599	-	31,200	99,799
Transfers from Allowance for Loan Losses	36,126	-	6,666	42,792
Ending Balance	104,725	-	37,866	142,591
Reserve for Credit Exposure	$ 385,682	$ -	$ 147,722	$ 533,404
Reserve for Credit Exposure				
Ending Balance, Reserve for Credit Exposure Related to Loans:				
Individually Evaluated for Impairment	$ 19,754	$ -	$ 9,643	$ 29,397
Collectively Evaluated for Impairment	365,928	-	138,079	504,007
Acquired with Deteriorated Credit Quality	-	-	-	-
Total	$ 385,682	$ -	$ 147,722	$ 533,404
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 107,535	$ 15,235,633	$ 53,213	$ 15,396,381
Collectively Evaluated for Impairment	17,824,722	-	11,969,145	29,793,867
Acquired with Deteriorated Credit Quality	-	-	-	-
Total	$ 17,932,257	$ 15,235,633	$ 12,022,358	$ 45,190,248

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
September 30, 2010				
Allowance for Loan Losses				
Beginning Balance	$ 264,540	$ -	$ 105,277	$ 369,817
Charge-offs	(21,779)	-	(31,650)	(53,429)
Recoveries	3,055	-	12,182	15,237
Provision (Reversal) for Loan Losses	(7,000)	-	44,500	37,500
Transfers to Reserve for Unfunded Commitments	(2,250)	-	(986)	(3,236)
Ending Balance	236,566	-	129,323	365,889
Reserve for Unfunded Commitments				
Beginning Balance	102,768	-	25,605	128,373
Transfers from Allowance for Loan Losses	2,250	-	986	3,236
Ending Balance	105,018	-	26,591	131,609
Reserve for Credit Exposure	$ 341,584	$ -	$ 155,914	$ 497,498
Reserve for Credit Exposure				
Ending Balance, Reserve for Credit Exposure Related to Loans:				
Individually Evaluated for Impairment	$ 17,805	$ -	$ 37,500	$ 55,305
Collectively Evaluated for Impairment	323,779	-	118,414	442,193
Acquired with Deteriorated Credit Quality	-	-	-	-
Total	$ 341,584	$ -	$ 155,914	$ 497,498
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 186,169	$ 15,337,378	$ 54,248	$ 15,577,795
Collectively Evaluated for Impairment	19,312,201	-	11,753,931	31,066,132
Acquired with Deteriorated Credit Quality	-	-	-	-
Total	$ 19,498,370	$ 15,337,378	$ 11,808,179	$ 46,643,927

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

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

Credit Quality

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

September 30, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 13,190,052	$ 3,046,545	$ 14,685,300	$ 11,763,910	$ 42,685,807
Special Mention	1,133,135	40	550,333	158,064	1,841,572
Substandard	542,954	-	-	90,813	633,767
Doubtful	19,531	-	-	9,571	29,102
Loss	-	-	-	-	-
Total	$ 14,885,672	$ 3,046,585	$ 15,235,633	$ 12,022,358	$ 45,190,248
December 31, 2010					
Acceptable	$ 17,577,545	$ 3,385,473	$ 14,885,307	$ 11,688,197	$ 47,536,522
Special Mention	1,192,436	208	399,787	177,407	1,769,838
Substandard	564,926	266	150,100	99,416	814,708
Doubtful	16,813	-	-	25,920	42,733
Loss	-	-	-	-	-
Total	$ 19,351,720	$ 3,385,947	$ 15,435,194	$ 11,990,940	$ 50,163,801

Aging Analysis

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

September 30, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 22,646	$ -	$ -	$ 2,071	$ 24,717
90 Days Past Due	25,097	-	-	-	25,097
Total Past Due	$ 47,743	$ -	$ -	$ 2,071	$ 49,814
Current	14,837,929	3,046,585	15,235,633	12,020,287	45,140,434
Total	$ 14,885,672	$ 3,046,585	$ 15,235,633	$ 12,022,358	$ 45,190,248
Accruing Loans 90 Days or More Past Due	$ 114	$ -	$ -	$ -	$ 114
December 31, 2010					
30-89 Days Past Due	$ 8,606	$ -	$ -	$ -	$ 8,606
90 Days Past Due	5,664	-	-	33,716	39,380
Total Past Due	$ 14,270	$ -	$ -	$ 33,716	$ 47,986
Current	19,337,450	3,385,947	15,435,194	11,957,224	50,115,815
Total	$ 19,351,720	$ 3,385,947	$ 15,435,194	$ 11,990,940	$ 50,163,801
Accruing Loans 90 Days or More Past Due	$ 681	$ -	$ -	$ -	$ 681

Impaired Loans

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

September 30, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Strategic Relationships[(1)]	Rural Infrastructure	Total
Nonaccrual Loans	$ 107,536	$ -	$ -	$ 53,213	$ 160,749
Accruing Loans 90 Days or More Past Due	114	-	-	-	114
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 107,650	$ -	$ -	$ 53,213	$ 160,863
December 31, 2010					
Nonaccrual Loans	$ 93,373	$ -	$ -	$ 73,600	$ 166,973
Accruing Loans 90 Days or More Past Due	681	-	-	-	681
Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 94,054	$ -	$ -	$ 73,600	$ 167,654

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

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

September 30, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 31,176	$ -	$ -	$ 34,466	$ 65,642
Unpaid Principal	42,402	-	-	48,243	90,645
Average Balance	35,315	-	-	43,998	79,313
Interest Income Recognized	4,233	-	-	93	4,326
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	76,474	-	-	18,747	95,221
Unpaid Principal	96,576	-	-	20,304	116,880
Allowance for Loan Losses	19,754	-	-	9,643	29,397
Average Balance	74,425	-	-	18,675	93,100
Interest Income Recognized	208	-	-	-	208
Total Impaired Loans					
Carrying Amount	107,650	-	-	53,213	160,863
Unpaid Principal	138,978	-	-	68,547	207,525
Allowance for Loan Losses	19,754	-	-	9,643	29,397
Average Balance	109,740	-	-	62,673	172,413
Interest Income Recognized	4,441	-	-	93	4,534

December 31, 2010	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 34,866	$ -	$ -	$ 20,952	$ 55,818
Unpaid Principal	47,004	-	-	39,939	86,943
Average Balance	106,480	-	-	28,357	134,837
Interest Income Recognized	4,405	-	-	1,059	5,464
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	59,188	-	-	52,648	111,836
Unpaid Principal	76,519	-	-	65,223	141,742
Allowance for Loan Losses	16,918	-	-	23,200	40,118
Average Balance	65,001	-	-	61,777	126,778
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	94,054	-	-	73,600	167,654
Unpaid Principal	123,523	-	-	105,162	228,685
Allowance for Loan Losses	16,918	-	-	23,200	40,118
Average Balance	171,481	-	-	90,134	261,615
Interest Income Recognized	4,405	-	-	1,059	5,464

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

There were $12.8 million in commitments to extend additional credit to borrowers whose loans were classified as impaired at September 30, 2011.

Note 3 – Investment Securities

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

($ in Millions)

September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 3,789	$ 87	$ -	$ 3,876
Mortgage-Backed:				
U.S. Agency	8,777	243	(4)	9,016
Non-Agency	297	2	(20)	279
Asset-Backed	83	-	(17)	66
Total	$ 12,946	$ 332	$ (41)	$ 13,237

($ in Millions)

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	$ 3,311	$ 47	$ -	$ 3,358
Mortgage-Backed:				
U.S. Agency	8,673	124	(58)	8,739
Non-Agency	424	2	(24)	402
Asset-Backed	143	-	(25)	118
Total	$ 12,551	$ 173	$ (107)	$ 12,617

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2011 is as follows:

U.S. Treasury and Agency Debt Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 2,033	$ 2,036	0.72 %
One to Five Years	1,256	1,265	1.30
Five to Ten Years	500	575	4.11
After Ten Years	-	-	-
Total	$ 3,789	$ 3,876	1.30

U.S. Agency Mortgage-Backed Securities

($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	96	96	2.12
Five to Ten Years	501	514	3.44
After Ten Years	8,180	8,406	2.19
Total	$ 8,777	$ 9,016	2.26

Non-Agency Mortgage-Backed Securities			
($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	23	22	0.70
After Ten Years	274	257	3.75
Total	$ 297	$ 279	3.53

Asset-Backed Securities			
($ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	83	66	4.24
Total	$ 83	$ 66	4.24

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

The following tables show the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at September 30, 2011 and December 31, 2010. The continuous loss position is based on the date the impairment first occurred. Unrealized loss positions related to these securities, including those impaired for longer than 12 months, resulted primarily from widened credit spreads and decreased liquidity in the broader financial markets.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011				
U.S. Treasury and Agency Debt	$ -	$ -	$ -	$ -
Mortgage-Backed:				
U.S. Agency	749	(2)	561	(2)
Non-Agency	28	(1)	182	(19)
Asset-Backed	-	-	67	(17)
Total	$ 777	$ (3)	$ 810	$ (38)
December 31, 2010				
U.S. Treasury and Agency Debt	$ -	$ -	$ -	$ -
Mortgage-Backed:				
U.S. Agency	3,188	(56)	641	(2)
Non-Agency	-	-	315	(24)
Asset-Backed	-	-	115	(25)
Total	$ 3,188	$ (56)	$ 1,071	$ (51)

As of September 30, 2011, with the exception of our other-than-temporary impaired (OTTI) securities discussed below, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, and it is not 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.

During the nine months ended September 30, 2011, we recorded $6.0 million in impairment losses in earnings related to six securities compared to $39.0 million in impairment losses related to 10 securities in the same period of 2010. As of September 30, 2011, we had 10 OTTI investment securities with a total fair value of $150.0 million, compared to 10 OTTI investment securities with a total fair value of $184.3 million at December 31, 2010. During the nine months ended September 30, 2011, we sold one OTTI investment security for proceeds of $41.3 million and recorded a gain on disposition of $4.5 million.

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

Credit Losses on Impaired Investments		($ in Millions)
Balance at December 31, 2010	$	59
Additional Credit Impairments Related to Securities Impaired as of December 31, 2010		4
Initial Credit Impairments Related to Securities Not Previously Impaired		2
Sales of Investments with Credit Impairments [1]		(20)
Maturity of Investments with Credit Impairments		(1)
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected		1
Balance at September 30, 2011	$	45

[1] During the nine months ended September 30, 2011, we sold one security for proceeds of $41.3 million and recorded a gain on disposition of $4.5 million. We had previously recorded impairment losses of $20.2 million on this security.

For impaired investment securities, we estimate the component of unrealized losses attributable to credit losses using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults, and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. For prepayment assumptions, we use the lower of the three- or six-month historical voluntary prepayment rate. Prepayment rates used ranged from 3 percent to 16 percent for impaired investment securities at September 30, 2011. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 9 percent to 37 percent for impaired investment securities at September 30, 2011. Loss severity assumptions are based on actual performance, where available, or are obtained from an independent third-party. Loss severity ranged from 28 percent to 100 percent for impaired investment securities at September 30, 2011.

Note 4 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts of derivatives at September 30, 2011 and related activity for the first nine months of 2011 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2010	$ 28,699	$ 2,056	$ 199	$ 30,954
Additions /Accretion	4,418	-	4,616	9,034
Maturities /Amortization	(7,202)	(38)	(4,489)	(11,729)
Terminations	(1,373)	(19)	-	(1,392)
September 30, 2011	$ 24,542	$ 1,999	$ 326	$ 26,867

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

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

Fair Value Hedges

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

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At September 30, 2011, we expect that $1.8 million of expense will be reclassified from other comprehensive income into the income statement 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 six years.

Derivatives Not Designated as Hedges

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

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore assume no performance risk.

To minimize the risk of credit losses, all derivative transactions are governed by master swap agreements, which 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. The master swap agreements also 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 dealer counterparties. However, we are exposed to intra-day credit risk with these counterparties. Derivative transactions with our customers are secured through our loan agreements. We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. As of September 30, 2011, our counterparties had posted a net $903.6 million in cash and $79.7 million in securities as collateral with us. At September 30, 2011, a parallel increase of 2.0 percentage points in the USD LIBOR/swap curve would have required us to return substantially all of the collateral currently posted with us by our counterparties. The maximum amount of losses we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $5.4 million at September 30, 2011.

Hedge Terminations

During the nine months ended September 30, 2011, we terminated approximately $1.2 billion in notional value of interest rate swaps for asset-liability management purposes. These swaps had been accounted for as fair value hedges. We received proceeds of $28.2 million as a result of the hedge contract terminations, which are reflected under operating activities in the condensed consolidated statement of cash flows. The previous fair value adjustments to the fixed rate debt that was hedged by these contracts will be amortized over the remaining life of the debt. During the nine months ended September 30, 2011, we also terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $0.2 billion. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheets as of September 30, 2011 and December 31, 2010 is shown below.

Fair Value of Derivative Financial Instruments

As of September 30, 2011	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 954,102	$ -
Foreign Exchange Contracts	12,652	1
Total Derivatives Designated as Hedging Instruments	$ 966,754	$ 1
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 145,332	$ 127,539
Foreign Exchange Contracts	2,901	2,702
Total Derivatives Not Designated as Hedging Instruments	$ 148,233	$ 130,241
Total Derivatives	$ 1,114,987	$ 130,242

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments” assets in the condensed consolidated balance sheet at September 30, 2011

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at September 30, 2011

Fair Value of Derivative Financial Instruments

As of December 31, 2010	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 917,346	$ 19,017
Foreign Exchange Contracts	566	1,838
Total Derivatives Designated as Hedging Instruments	$ 917,912	$ 20,855
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 80,433	$ 68,913
Foreign Exchange Contracts	3,020	2,812
Total Derivatives Not Designated as Hedging Instruments	$ 83,453	$ 71,725
Total Derivatives	$ 1,001,365	$ 92,580

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments” assets in the condensed consolidated balance sheet at December 31, 2010

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at December 31, 2010

A summary of the impact of derivative financial instruments on our consolidated income statements for the nine months ended September 30, 2011 and 2010 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item [1]	
Nine Months Ended September 30,	2011	2010
Interest Rate Contracts	$ 2,115	$ 1,177
Total	$ 2,115	$ 1,177

[1] Located in Interest Expense in the condensed consolidated income statements for the nine months ended September 30, 2011 and 2010

Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2011	Amount of Gain or (Loss) Recognized in OCI on Derivative[1]	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (3,737)	$ (1,737) [3]	$ -
Foreign Exchange Contracts	13,924	13,700 [4] [5]	(1,848) [4]
Total	$ 10,187	$ 11,963	$ (1,848)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the condensed consolidated income statement for the nine months ended September 30, 2011

[4] Located in Interest Income – Loans in the condensed consolidated income statement for the nine months ended September 30, 2011

[5] Fully offset by a $13,700 loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated income statement for the nine months ended September 30, 2011

Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2010	Amount of Gain or (Loss) Recognized in OCI on Derivative[1]	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (9,024)	$ (920) [3]	$ -
Foreign Exchange Contracts	(6,256)	(6,154) [4] [5]	(210) [4]
Total	$ (15,280)	$ (7,074)	$ (210)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the condensed consolidated income statement for the nine months ended September 30, 2010

[4] Located in Interest Income – Loans in the condensed consolidated income statement for the nine months ended September 30, 2010

[5] Fully offset by a $6,154 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated income statement for the nine months ended September 30, 2010

Derivative Financial Instruments not Designated as Hedging Relationships		
	Net Amount of Gain or (Loss) Recognized in Income On Derivative[1]	
Nine Months Ended September 30,	2011	2010
Interest Rate Contracts	$ 6,272	$ (744)
Foreign Exchange Contracts	(9)	(12)
Total	$ 6,263	$ (756)

[1] Located in Other Noninterest Income / Expense in the condensed consolidated income statements for the nine months ended September 30, 2011 and 2010

Note 5 – Fair Value Measurements

The fair values of financial instruments represent 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 Financial Accounting Standards Board (FASB) has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability.

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at September 30, 2011 consist of assets held in a trust fund related to deferred compensation, our supplemental executive retirement plan and our executive retirement plan. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs 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, 2011 include our derivative contracts, collateral balances related to derivative contracts and investment securities, excluding asset-backed securities.

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

The fair value of the majority of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant. The estimated fair values of investment securities also appear in Note 3.

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at September 30, 2011 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading volume and an orderly market for our asset-backed securities, we classified this portfolio as Level 3. Market values for such asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of third-party pricing service results. Inputs into these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs.

Level 3 assets at September 30, 2011 also include $56.7 million of loans originally measured at cost, which were written down to fair value as a result of impairment, and $0.5 million of other property owned. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the following tables because they are not measured on a recurring basis.

Our Level 3 liabilities at September 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

September 30, 2011

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 1,514	$ -	$ 1,514
U.S. Agency Debt	-	2,362	-	2,362
U.S. Agency Mortgage-Backed	-	9,016	-	9,016
Non-Agency Mortgage-Backed	-	279	-	279
Asset-Backed	-	-	66	66
Interest Rate Swaps and Other Financial Instruments	-	1,115	-	1,115
Assets Held in Trust (included in Other Assets)	35	-	-	35
Collateral Assets (included in Other Assets)	-	15	-	15
Total Assets	$ 35	$ 14,301	$ 66	$ 14,402
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 130	$ -	$ 130
Collateral Liabilities (included in Bonds and Notes)	-	919	-	919
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 1,049	$ 10	$ 1,059

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2010

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 854	$ -	$ 854
U.S. Agency Debt	-	2,504	-	2,504
U.S. Agency Mortgage-Backed	-	8,739	-	8,739
Non-Agency Mortgage-Backed	-	402	-	402
Asset-Backed	-	-	118	118
Interest Rate Swaps and Other Financial Instruments	-	1,001	-	1,001
Assets Held in Trust (included in Other Assets)	34	-	-	34
Collateral Assets (included in Other Assets)	-	7	-	7
Total Assets	$ 34	$ 13,507	$ 118	$ 13,659
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 93	$ -	$ 93
Collateral Liabilities (included in Bonds and Notes)	-	891	-	891
Standby Letters of Credit (included in Other Liabilities)	-	-	11	11
Total Liabilities	$ -	$ 984	$ 11	$ 995

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)	Asset-Backed Investment Securities	Standby Letters of Credit
Balance at December 31, 2010	$ 118	$ 11
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	2	-
Included in Other Comprehensive Loss	8	-
Purchases	-	-
Sales	(41)	-
Issuances	-	5
Settlements	(21)	(6)
Balance at September 30, 2011	$ 66	$ 10
Balance at December 31, 2009	$ 173	$ 10
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(35)	-
Included in Other Comprehensive Loss	20	-
Purchases	-	-
Sales	-	-
Issuances	-	3
Settlements	(28)	(3)
Balance at September 30, 2010	$ 130	$ 10

Estimated Fair Value of Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of September 30, 2011 and December 31, 2010.

Estimated Fair Value of Financial Instruments				
	September 30, 2011		December 31, 2010	
($ in Millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Net Loans	$ 44,637	$ 46,441	$ 49,592	$ 50,613
Financial Liabilities:				
Bonds and Notes	$ 55,295	$ 56,780	$ 59,324	$ 60,094
Subordinated Debt	1,000	930	1,000	953
Off-Balance Sheet Financial Instruments:				
Commitments to Extend Credit	$ -	$ (94)	$ -	$ (80)

Net Loans

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

Bonds and Notes

Bonds and notes are not all regularly traded in the secondary market and those that are traded may not have readily available quoted market prices. To the extent that quoted market prices are not readily available, the fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity U.S. Treasury notes, assuming a constant estimated yield spread relationship between Systemwide bonds and notes and comparable U.S. Treasury notes.

Subordinated Debt

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

Commitments to Extend Credit

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

Note 6 – Employee Benefit Plans

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

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

We contributed $2.4 million to our funded qualified defined benefit pension plans during the nine months ended September 30, 2011, and anticipate that we will contribute approximately $1.1 million more to such plans during the remainder of 2011. We expect to contribute a total of $0.1 million, net of collected retiree premiums, to our other postretirement benefit plans in 2011. We contributed $1.0 million to our trust funds related to our SERP and ERP during the nine months ended September 30, 2011, and anticipate that we will contribute approximately $0.6 million more to such plans during the remainder of 2011. Our actual contributions could differ from the estimates noted above.

Note 7 – Commitments and Contingent Liabilities

At September 30, 2011, various lawsuits were pending or threatened against the Bank, in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on our consolidated results of operations or financial position.

Under the Farm Credit Act of 1971, as amended, CoBank is primarily liable for its portion of Systemwide debt securities. Additionally, we are contingently liable for the Systemwide debt securities of the other System banks. Total Systemwide debt securities of the System were $183.4 billion at September 30, 2011.

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

- The statutory requirement for System banks to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable;
- The Farm Credit Insurance Fund (Insurance Fund), a statutorily created insurance fund to assist in the timely payment of principal and interest on Systemwide debt securities in the event of a default by a System bank to the extent that net assets are available in the Insurance Fund. At September 30, 2011, the assets of the Insurance Fund aggregated $3.4 billion; and
- Maintenance of certain financial criteria by agreements which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances.

Note 8 – Segment Financial Information

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

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

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

For the nine-month period ended September 30, 2011, no customer made up 10 percent or more of our gross or net interest income. For the nine-month period ended September 30, 2010, interest earned from an affiliated Association, Northwest, represented 10 percent of our gross interest income and less than 10 percent of our net interest income. No other customer made up 10 percent or more of our gross or net interest income for the nine-month period ended September 30, 2010.

Segment Financial Information

For the Three Months Ended September 30, 2011

Results of Operations ($ in Thousands):	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Net Interest Income	$ 155,369	$ 21,676	$ 76,644	$ 253,689	$ (1,694)	$ 251,995
Provision for Loan Losses	10,500	-	2,000	12,500	-	12,500
Noninterest Income	21,311	204	7,419	28,934	(672)	28,262
Operating Expenses	35,761	3,885	16,558	56,204	(70)	56,134
Provision for Income Taxes	27,023	-	15,235	42,258	(552)	41,706
Net Income	$ 103,396	$ 17,995	$ 50,270	$ 171,661	$ (1,744)	$ 169,917

For the Three Months Ended September 30, 2010

Results of Operations ($ in Thousands):	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Net Interest Income	$ 129,122	$ 18,685	$ 79,733	$ 227,540	$ (1,264)	$ 226,276
Provision (Reversal) for Loan Losses	(1,500)	-	22,500	21,000	-	21,000
Noninterest Income	1,603	258	1,784	3,645	(337)	3,308
Operating Expenses	27,332	3,368	11,949	42,649	638	43,287
Provision for Income Taxes	25,808	-	7,982	33,790	(451)	33,339
Net Income	$ 79,085	$ 15,575	$ 39,086	$ 133,746	$ (1,788)	$ 131,958

Segment Financial Information

For the Nine Months Ended September 30, 2011

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 537,325	$ 74,366	$ 222,779	$ 834,470	$ (4,734)	$ 829,736
Provision for Loan Losses	39,500	-	10,500	50,000	-	50,000
Noninterest Income	62,738	565	30,801	94,104	(1,654)	92,450
Operating Expenses	106,161	11,520	47,973	165,654	(119)	165,535
Provision for Income Taxes	100,607	-	44,908	145,515	(1,570)	143,945
Net Income	$ 353,795	$ 63,411	$ 150,199	$ 567,405	$ (4,699)	$ 562,706
Selected Financial Information at September 30, 2011 ($ in Millions):						
Loans	$ 17,876	$ 15,193	$ 11,959	$ 45,028	$ -	$ 45,028
Less: Allowance for Loan Losses	(281)	-	(110)	(391)	-	(391)
Net Loans	$ 17,595	$ 15,193	$ 11,849	$ 44,637	$ -	$ 44,637
Total Assets	$ 17,707	$ 15,239	$ 11,909	$ 44,855	$ 17,481 *	$ 62,336
*Other assets are comprised of:						
Investment Securities						$ 13,237
Other Assets						4,244

For the Nine Months Ended September 30, 2010

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 373,583	$ 69,888	$ 234,882	$ 678,353	$ (3,454)	$ 674,899
Provision (Reversal) for Loan Losses	(7,000)	-	44,500	37,500	-	37,500
Noninterest Income	48,012	624	30,295	78,931	(505)	78,426
Operating Expenses	78,681	10,008	61,087	149,776	3,335	153,111
Provision for Income Taxes	80,906	-	32,267	113,173	(1,448)	111,725
Net Income	$ 269,008	$ 60,504	$ 127,323	$ 456,835	$ (5,846)	$ 450,989
Selected Financial Information at September 30, 2010 ($ in Millions):						
Loans	$ 19,440	$ 15,290	$ 11,737	$ 46,467	$ -	$ 46,467
Less: Allowance for Loan Losses	(237)	-	(129)	(366)	-	(366)
Net Loans	$ 19,203	$ 15,290	$ 11,608	$ 46,101	$ -	$ 46,101
Total Assets	$ 19,329	$ 15,339	$ 11,672	$ 46,340	$ 13,955 *	$ 60,295
*Other assets are comprised of:						
Investment Securities						$ 11,090
Other Assets						2,865

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

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

The Combining Balance Sheets and Income Statements, ratios and other financial information on pages 40 and 41 present condensed combined financial information of CoBank and its affiliated Associations, which are collectively referred to as the District. As part of the combining process, all significant transactions between CoBank and its affiliated Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

District Results of Operations and Financial Condition

District net income increased to $728 million for the nine months ended September 30, 2011 compared to $612 million during the same period in 2010. The combined net income of the Associations increased to $213 million for the nine months ended September 30, 2011 compared to $204 million during the same period of 2010. The increase in combined Association net income was primarily the result of improved net interest income and a decrease in the provision for loan losses, offset in part by lower noninterest income. Association net interest income increased by $20 million due to increased lending spreads, primarily due to lower funding costs, and, to a lesser extent, an increase in average loan volume. The combined Associations' provision for loan losses decreased to $49 million in the first nine months of 2011 compared to $59 million in the 2010 period. Notwithstanding the lower provision for loan losses in 2011, credit challenges in the dairy, timber and nursery industries could lead to a decline in the credit quality of the Associations' retail loan portfolio and an increase in their provisions for loan losses. Association noninterest income decreased by $13 million largely due to refunds of Farm Credit insurance fund premiums received in the 2010 period.

As of September 30, 2011, the combined Associations' shareholders' equity was $2.4 billion and capital levels at all individual Associations were well in excess of minimum regulatory capital requirements.

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Combining Balance Sheets (Condensed)

($ in Millions) (Unaudited)

As of September 30, 2011	CoBank	Combined Affiliated Associations	Eliminations	Combined District
Investments	$ 13,237	$ -	$ -	$ 13,237
Loans	45,028	13,215	(11,164)	47,079
Less: Allowance for Loan Losses	(391)	(195)	-	(586)
Net Loans	44,637	13,020	(11,164)	46,493
Other Assets	4,462	791	(567)	4,686
Total Assets	$ 62,336	$ 13,811	$ (11,731)	$ 64,416
Bonds and Notes	$ 56,295	$ 11,304	$ (11,199)	$ 56,400
Reserve for Unfunded Commitments	143	13	-	156
Other Liabilities	1,043	131	(54)	1,120
Total Liabilities	57,481	11,448	(11,253)	57,676
Total Shareholders' Equity	4,855	2,363	(478)	6,740
Total Liabilities and Shareholders' Equity	$ 62,336	$ 13,811	$ (11,731)	$ 64,416
As of December 31, 2010				
Investments	$ 12,617	$ -	$ -	$ 12,617
Loans	49,992	13,149	(11,327)	51,814
Less: Allowance for Loan Losses	(400)	(176)	-	(576)
Net Loans	49,592	12,973	(11,327)	51,238
Other Assets	3,617	810	(582)	3,845
Total Assets	$ 65,826	$ 13,783	$ (11,909)	$ 67,700
Bonds and Notes	$ 60,324	$ 11,403	$ (11,364)	$ 60,363
Reserve for Unfunded Commitments	100	7	-	107
Other Liabilities	996	148	(68)	1,076
Total Liabilities	61,420	11,558	(11,432)	61,546
Total Shareholders' Equity	4,406	2,225	(477)	6,154
Total Liabilities and Shareholders' Equity	$ 65,826	$ 13,783	$ (11,909)	$ 67,700

Supplemental District Financial Information
CoBank, ACB and Affiliated Associations

Combining Statements of Income (Condensed)

($ in Millions) (Unaudited)

For the Nine Months Ended September 30,	CoBank	Combined Affiliated Associations	Eliminations	Combined District
2011				
Net Interest Income	$ 830	$ 318	$ -	$ 1,148
Provision for Loan Losses	50	49	-	99
Noninterest Income	92	81	(48)	125
Operating Expenses	165	131	-	296
Provision for Income Taxes	144	6	-	150
Net Income	$ 563	$ 213	$ (48)	$ 728
2010				
Net Interest Income	$ 675	$ 298	$ -	$ 973
Provision for Loan Losses	38	59	-	97
Noninterest Income	78	94	(43)	129
Operating Expenses	153	125	-	278
Provision for Income Taxes	111	4	-	115
Net Income	$ 451	$ 204	$ (43)	$ 612

Key Financial Ratios – Combined CoBank District

(Unaudited)

For the Nine Months Ended September 30,	2011	2010
Return on Average Assets	1.38 %	1.36 %
Return on Average Capital	13.97	13.83
Net Interest Margin	2.30	2.25
Operating Expenses as a Percent of Net Interest Income and Noninterest Income	23.17	25.28
Net Charge-offs as a Percent of Average Loans	0.10	0.24
	September 30, 2011	**December 31, 2010**
Reserve for Credit Exposure as a Percent of Loans	1.57 %	1.32 %
Capital as a Percent of Total Assets	10.46	9.09
Risk Funds as a Percent of Loans	15.89	13.19
Debt to Capital (:1)	8.56	10.00

Loan Quality Ratios – Combined CoBank District

(Unaudited)

	September 30, 2011	December 31, 2010
Acceptable	91.31 %	91.48 %
Special Mention	5.48	5.13
Substandard	3.06	3.24
Doubtful	0.15	0.15
Loss	-	-
Total	100.00 %	100.00 %

Controls and Procedures

CoBank, ACB

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

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

Certification Required by Farm Credit Administration Regulations

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

Signed this 9th day of November, 2011.

/s/ EVERETT DOBRINSKI

Everett Dobrinski
Chairman of the Board

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

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

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

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

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

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

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

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

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

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: November 9, 2011

CERTIFICATION

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

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

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

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

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

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

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

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

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

Dated: November 9, 2011

Leadership
CoBank, ACB

Robert B. Engel, President and Chief Executive Officer

Mary E. McBride, Chief Banking Officer
Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group*
Robert E. Egerton, Agribusiness Division – East
Michael W. Hechtner, Agribusiness Division – Central
Mark C. Nonnenmacher, Agribusiness Division – West
Lynn M. Scherler, Agribusiness Division – South
Jonathan B. Logan, Corporate Agribusiness Banking Group
Leili Ghazi, Agricultural Export Finance

Rural Infrastructure
Paul A. Narduzzo, Rural Infrastructure Banking Group
Brett A. Challenger, Energy and Water Services Banking Division
Candace A. Roper, Electric Distribution Banking Division
Todd E. Telesz, Power Supply Banking Division
Robert F. West, Communications Banking Division

Banking Services
Antony M. Bahr, Banking Services Group
Brian J. Klatt, Capital Markets Division
Russell D. Nelson, Farm Credit Leasing Services Corporation**
Leonard G. Sahling, Knowledge Exchange Division
Richard A. Scholz, Non-Credit Services Division

Ann E. Trakimas, Chief Operating Officer
Finance
David P. Burlage, Chief Financial Officer
Timothy D. Steidle, Treasury Division
Michael R. Vestal, Controller Division

Business Support Services
John Svisco, Chief Administrative Officer
James R. Bernsten, Chief Information Officer
Arthur C. Hodges, Jr., Corporate Communications Division
Robert L. O'Toole, Human Resources Division
Todd E. Wilson, Operations Division

Regulatory, Legislative and Compliance
Andrew D. Jacob, Regulatory, Legislative and Compliance
L. Todd VanHoose, Government Affairs

Legal
Gregory J. Buehne, General Counsel
Andrew J. Romanow, Deputy General Counsel

Douglas E. Wilhelm, Chief Risk Officer
Rodney A. Brown, Asset Review Division
Gary M. Fitzgerald, Internal Audit Division

Lori L. O'Flaherty, Chief Credit Officer
Daniel L. Key, Credit Approval Division
Ronald P. Seigley, Special Assets Division

* The Strategic Relationships operating segment is included within the Regional Agribusiness Banking Group.
** Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

Office Locations
CoBank, ACB

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Farm Credit Leasing Services Corporation
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(952) 417-7800
(800) 444-2929

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

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(800) 255-7429
FCL: (770) 618-3226

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4801 Plaza on the Lake Drive
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2345 East Earhart Avenue
Stockton, CA 95206
P.O. Box 31990
Stockton, CA 95213
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Enfield Banking Center **
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Enfield, CT 06082-4451
(860) 814-4043
(800) 876-3227
FCL: (860) 814-4049

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

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

Lubbock Banking Center **
5715 West 50th
Lubbock, TX 79414
P.O. Box 6770
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(877) 610-6987
FCL: (806) 788-3705

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Minneapolis, MN 55426
(952) 417-7900
(800) 282-4150
FCL: (800) 444-2929

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Statesville, NC 28625
(443) 452-8666

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

Spokane Banking Center
1700 South Assembly Street, Suite 103
Spokane, WA 99224-2121
P.O. Box 2720
Spokane, WA 99220-2720
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Sterling Banking Center
229 South 3rd Street
Sterling, CO 80751
(970) 521-2774

St. Louis Banking Center **
1650 Des Peres Road, Suite 120
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(314) 835-4200
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245 North Waco, Suite 230
Wichita, KS 67202
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FCL: (800) 322-6558

International

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(65) 6534-5261

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

CoBank's 2011 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 9, 2011, August 9, 2011, November 9, 2011, and March 1, 2012 (Annual Report).