



2012 Quarterly Report SEPTEMBER 30, 2012

Dear CoBank Customer-Owner:

As we approach the end of 2012, the level of uncertainty and downside risk in the global economy seems to grow higher every day. Around the world, political issues are at the forefront, exerting outsized influence over the pace and direction of economic growth.

In Europe, the financial integration achieved over the past decade is being tested by the sovereign debt crisis, with growing fragmentation along national boundaries. In Asia, a territorial dispute over islands in the East China Sea threatens to erode the trading relationship between China and Japan, the world's second- and third-largest economies. In the Middle East, the source of much of the global oil supply, democratic forces unleashed by the so-called "Arab Spring" continue to play out in unpredictable ways. Here in the U.S., much of the country has endured a drought for a large part of the year, and a long and divisive presidential campaign ended this month with huge public policy questions unresolved, including the approach of the fiscal cliff at the end of the year.

Against this tumultuous backdrop, CoBank continues to focus on its mission of delivering dependable credit to vital industries in rural America. As you'll see in the attached report, the bank experienced yet another period of strong financial performance in the third quarter of 2012, and we remain on track to record our 13th consecutive year of growth in net income on behalf of our customer-owners around the country.

CoBank's merger with U.S. AgBank, which closed at the beginning of the year, is delivering significant financial benefits for our business. Through the merger, the bank acquired approximately \$20 billion in wholesale loans to 25 Farm Credit associations, which has increased average loan volume as well as net interest income, net income and other key measures of financial performance.

Third-quarter net income rose 28 percent to \$217.7 million, compared with \$169.9 million in the same quarter last year. Net interest income for the quarter was \$305.1 million, compared with \$252.0 million a year ago. Average loan volume for the quarter was \$70.3 billion, compared to \$47.6 billion for the same period in 2011.

For the first nine months of 2012, net income increased 24 percent to \$700.5 million from \$562.7 million for the same period in 2011. Net interest income increased 12 percent to \$925.2 million. Total loan volume for the bank at quarter end was \$69.9 billion.

The performance of the bank's individual operating segments has varied considerably in 2012 due to the merger as well as external economic and market conditions. Despite gains in prices for agricultural commodities, our average agribusiness loan volume is down significantly from 2011 due to lower prices earlier in the year and changing farmer delivery patterns at agricultural cooperatives which reduced working capital financing needs at many of our grain cooperative customers. At the same time, the bank continues to experience solid growth in lending to rural infrastructure customers, particularly in the power supply and electric distribution industries. Loans to Farm Credit associations have increased significantly due to the merger, while organic growth in that segment of the business has been modest.

Credit quality in CoBank's loan portfolio remains strong. At quarter end, 1.03 percent of the bank's loans were classified as adverse assets, down from 1.25 percent at December 31, 2011. Nonaccrual loans increased during the third quarter to \$168.5 million from \$106.9 million at June 30, 2012, largely due to credit concerns involving a small number of communications and rural energy customers. During the third quarter, the bank recorded a \$10.0 million provision for loan losses, increasing the provision to \$20.0 million for the first nine months of the year. The provision for loan losses in the first nine months of 2011 was \$50.0 million. CoBank's overall credit quality has benefited this year from the addition of U.S. AgBank's portfolio of low-risk loans to Farm Credit association customers.

The bank's allowance for credit losses now totals \$549.5 million, or 1.79 percent of non-guaranteed loans outstanding excluding loans to Farm Credit associations. CoBank's strong allowance serves as an important source of protection for the bank against credit losses.

Capital and liquidity levels at CoBank remain strong and well above regulatory minimums. As of September 30, 2012, shareholders' equity totaled \$6.4 billion, and the bank's permanent capital ratio was 16.13 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the independent regulator for the Farm Credit System.

At quarter end, CoBank's cash and investments totaled \$18.8 billion and days liquidity totaled 193 days. The bank recorded \$2.0 million in impairment losses on investment securities during each of the three month periods ended September 30, 2012 and 2011.

Over the balance of the year, CoBank will continue to concentrate on fulfilling our mission and building the financial strength and flexibility of the bank. In a complex, volatile, and increasingly interconnected world, we recognize there is much beyond our control. We are focused on what we can control: knowing more and caring more about our customers than any other financial services provider, and delivering on our value proposition to customers every day.

Our board and associates are grateful for the business of 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, 2012

Financial Highlights⁽¹⁾

CoBank, ACB

(\$ in Thousands)

	September 30, 2012 (Unaudited)	December 31, 2011
Total Loans	\$ 69,945,628	\$ 46,285,142
Less: Allowance for Loan Losses	375,916	388,056
Net Loans	69,569,712	45,897,086
Total Assets	90,256,268	63,290,215
Total Shareholders' Equity	6,361,670	4,895,533

For the Nine Months Ended September 30,

(Unaudited)	2012	2011
Net Interest Income	\$ 925,238	\$ 829,736
Provision for Loan Losses	20,000	50,000
Net Fee Income	82,874	82,556
Net Income	700,541	562,706
Net Interest Margin	1.41 %	1.72 %
Return on Average Assets	1.04	1.11
Return on Average Common Shareholders' Equity	16.92	17.44
Return on Average Total Shareholders' Equity	15.56	16.19
Average Loans	\$ 69,718,192	\$ 51,510,670
Average Earning Assets	87,559,818	64,655,056
Average Assets	90,129,322	67,735,255

⁽¹⁾ On January 1, 2012, U.S. AgBank, FCB was merged into CoBank. The effects of the merger are included in the income statement, balance sheet, average balances and related metrics beginning in 2012.

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

CoBank, ACB

Business Overview

CoBank, ACB (CoBank or the Bank) is one of the four Banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions and related service organizations. The System was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act).

Our customers consist of agricultural cooperatives; farmer-owned financial institutions, including Agricultural Credit Associations and Federal Land Credit Associations (together, Associations); rural energy, communications and water companies; and other businesses that serve rural America. We provide a broad range of loans and other financial services 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 2011 Annual Report to Shareholders.

Merger with U.S. AgBank, FCB

On January 1, 2012, U.S. AgBank, FCB (AgBank) was merged into CoBank, FCB, a wholly-owned subsidiary of CoBank. Beginning in 2012, our income statement, balance sheet, average balances and related metrics include the effects of the merger with AgBank. Prior year results have not been restated to reflect the impact of the merger.

Upon the closing of the merger, total loans, investment securities, other assets, liabilities and shareholders' equity increased by \$20.2 billion, \$4.8 billion, \$0.5 billion, \$24.5 billion, and \$1.0 billion, respectively. These amounts include adjustments to fair value, as required by accounting standards for business combinations. Fair value adjustments related to business combinations may be refined for up to one year following the close of the merger as additional information relative to closing date fair value becomes available.

On the effective date of the merger, CoBank became the funding bank for the 25 Associations previously affiliated with AgBank. The substantial majority of the \$20.2 billion increase in loans resulting from the merger is included in our Strategic Relationships operating segment, as described on page 9. The merger is also discussed in Note 2 to the accompanying condensed consolidated financial statements.

Consolidated Results of Operations

Net income increased 24 percent to \$700.5 million for the nine months ended September 30, 2012, compared to \$562.7 million during the same period in 2011. Increased earnings were driven principally by greater net interest income, greater noninterest income and a lower provision for loan losses. The increase in net interest income primarily reflects the impact of the merger with AgBank, while the increase in noninterest income was largely due to refunds from the Farm Credit System Insurance Corporation (Insurance Corporation). These favorable items were partially offset by higher operating expenses, also primarily due to the merger.

Net interest income increased 12 percent to \$925.2 million for the nine months ended September 30, 2012, compared to \$829.7 million for the same period in 2011. The increase in net interest income includes the positive impact of the merger with AgBank, which increased our loan volume by \$20.2 billion and our investment securities by \$4.8 billion as of the merger date. In addition, net accretion of asset and liability fair value adjustments required by business combination accounting standards increased net interest income by \$68.0 million. The majority of the accretion of these fair value adjustments will be recognized in income in diminishing amounts in the first five years following the merger. The accounting for the merger is described in Note 2 to the accompanying condensed consolidated financial statements. Growth in lending to our Rural Infrastructure customers contributed \$24.0 million to the increase in net interest income. These factors were partially offset by a \$73.3 million decrease in net interest income in our Agribusiness operating segment due principally to a \$2.3 billion decrease in average Agribusiness loan volume. The decline in average Agribusiness loan volume reflected a decrease in seasonal lending earlier in the year, when lower grain commodity prices and changing farmer delivery patterns reduced working capital financing needs at many of our grain cooperative customers.

Our overall net interest margin declined to 1.41 percent for the nine months ended September 30, 2012, from 1.72 percent for the same period in 2011, largely reflecting the effects of the merger and the lower level of average Agribusiness loan volume. The substantial majority of the loan portfolio acquired in the merger with AgBank consisted of wholesale loans to Associations, which carry a lower spread as compared to the spreads on loans to retail customers, commensurate with a lower risk profile and lower regulatory capital requirements. In addition, increased competition from commercial banks and other lenders in many of the industries we serve continued to put pressure on our retail lending margins. A decline in the return on our invested capital due to lower intermediate-term interest rates also contributed to the lower overall net interest margin in the first nine months of 2012.

We recorded a \$20.0 million provision for loan losses in the first nine months of 2012, compared to \$50.0 million for the same period in 2011. The lower provision primarily reflects the decline in average loan volume in our Agribusiness operating segment. Total charge-offs, net of recoveries, were \$12.5 million during the first nine months of 2012 compared to \$17.1 million for the same period in the prior year. While overall credit quality in our loan portfolio remains strong, our nonaccrual loans increased to \$168.5 million at September 30, 2012 from \$134.9 million at year end 2011 and \$160.7 million at September 30, 2011, due largely to credit concerns regarding a limited number of communications and rural energy customers. Adversely classified assets decreased to 1.03 percent of total loans and related accrued interest at September 30, 2012 compared to 1.25 percent at December 31, 2011 and 1.46 percent at September 30, 2011. This improvement is largely reflective of the merger, as the loans acquired from AgBank improved the overall credit risk profile of our loan portfolio. The substantial majority of AgBank's loans were wholesale loans to Associations, all of which were classified as 'Acceptable' credit quality.

Noninterest income increased significantly to \$131.5 million for the nine months ended September 30, 2012, compared to \$92.5 million for the same period in 2011. Noninterest income is composed primarily of fee income, loan prepayment 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 largely from \$44.6 million in refunds from the Insurance Corporation related to the Farm Credit Insurance Fund (Insurance Fund). The refunds 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, 2012. As more fully explained in our 2011 Annual Report, when the Insurance Fund exceeds the statutory 2 percent secure base amount (SBA), the Insurance Corporation is required to reduce premiums and may refund excess amounts. The Insurance Fund ended 2011 above the SBA. In April 2012, the Insurance Corporation approved the distribution of the excess amounts and in May of 2012, such amounts were distributed to the System banks. Losses on early extinguishments of debt, net of prepayment income, increased \$4.1 million to \$14.2 million for the first nine months of 2012 compared to the 2011 period. This change resulted from increased debt buyback losses incurred to achieve a favorable mix of interest-bearing liabilities in a low interest rate environment. Fee income remained relatively flat at \$82.9 million in the first nine months of 2012 as compared to \$82.6 million in the 2011 period. As a result of

credit quality deterioration of certain investment securities, we recorded impairment losses of \$5.0 million in our investment portfolio in the first nine months of 2012. The 2011 period included impairment losses of \$6.0 million.

Total operating expenses for the nine months ended September 30, 2012 increased to \$190.1 million from \$165.5 million for the same period in 2011. The increase was driven largely by higher employee compensation expense, which grew to \$107.5 million from \$85.4 million, primarily due to the addition of 72 former AgBank employees, other staffing increases and the impact of changes in the design of certain elements of our compensation program. These changes were made to ensure the Bank's incentive programs are in line with the market and include the appropriate balance of performance and risk while providing competitive total compensation. As of September 30, 2012, we had 864 employees, compared to 762 at December 31, 2011 and 750 at September 30, 2011. Increased general and administrative expenses, information services, occupancy and equipment and other expenses were also largely a result of the merger. Farm Credit System related expense increased by \$3.2 million, also related to the merger, as a greater share of such expense is now allocated to CoBank. Purchased services expense decreased by \$9.7 million in the first nine months of 2012, as the 2011 period included merger-related expenses for outside advisors and consultants. Insurance Fund premium expense decreased \$2.2 million largely due to a decrease in premium rates to five basis points of average outstanding adjusted insured debt obligations from six basis points for the 2011 period. The merger with AgBank did not significantly change the level of Insurance Fund premium expense as the substantial majority of the acquired loan portfolio were wholesale loans to Associations, where the Insurance Fund premiums are passed on to Associations.

Our income tax expense increased to \$146.1 million for the nine months ended September 30, 2012, compared to \$143.9 million for the same prior-year period due to the increase in pre-tax earnings. Our effective tax rate was 17.3 percent and 20.4 percent for the nine months ended September 30, 2012 and 2011, respectively. The decrease in our effective rate of income taxes resulted primarily from the impact of the merger, including the accretion of fair value adjustments, as the business activities previously conducted by AgBank are exempt from income taxes.

Our annualized return on average common shareholders' equity decreased to 16.92 percent for the nine months ended September 30, 2012 from 17.44 percent for the same period in 2011, and our annualized return on average assets decreased to 1.04 percent for the nine months ended September 30, 2012, compared to 1.11 percent for the same period in 2011. These decreases primarily reflect the increase in lower-spread, lower-risk loans to Associations, and the increased capital resulting from the merger with AgBank, as well as the decline in loan volume in our Agribusiness operating segment.

For the three months ended September 30, 2012, net income increased 28 percent to \$217.7 million and net interest income increased 21 percent to \$305.1 million, as compared to the same period of the prior year. These increases reflect the favorable effects of the merger. In addition, our provision for loan losses decreased \$2.5 million. Partially offsetting these items was an increase of \$10.0 million in operating expenses also primarily due to the merger.

Subsequent Events

In October 2012, we completed a series of transactions that lowered our dividend costs and enhanced the quality of our regulatory capital. On October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock totaling \$363.3 million. On October 4, 2012, we issued \$400.0 million of Series F non-cumulative perpetual preferred stock. These transactions are more fully discussed on page 14 and in Note 11 to the accompanying condensed consolidated financial statements.

Operating Segment Financial Review

We provide financial services to farmer-owned cooperatives; farmer-owned financial institutions; providers of rural 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, 2012 and 2011 are reported in Notes 4 and 10 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, which we hold as a liquidity reserve to support our lending operations, as well as 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 is summarized in the following table and is more fully detailed in Note 10 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment (\$ in Thousands)		
For the Nine Months Ended September 30,	2012	2011
Operating Segment:		
Agribusiness	\$ 347,916	\$ 353,795
Strategic Relationships	197,587	63,411
Rural Infrastructure	162,061	150,199
Total Operating Segments	707,564	567,405
Corporate/Other	(7,023)	(4,699)
Total	\$ 700,541	\$ 562,706

Agribusiness

The Agribusiness operating segment includes loans and other financial services provided to cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Agribusiness loans outstanding totaled \$20.8 billion at September 30, 2012, compared to \$18.9 billion at December 31, 2011. The Agribusiness segment 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, 2012, the Agricultural Export Finance Division had \$4.3 billion in loans outstanding, 78 percent of which were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease-related products and financial services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of September 30, 2012, FCL had \$1.9 billion in leases outstanding.

Agribusiness loan volume was positively impacted in the third quarter of 2012 as a result of higher commodity prices due to the drought conditions in many parts of the United States; however, Agribusiness average loan volume decreased 9 percent to \$22.2 billion for the first nine months of 2012 from \$24.5 billion for the same period of 2011. The decline in average loan volume reflected a decrease in seasonal lending earlier in the year, when lower grain commodity prices and changing farmer delivery patterns reduced working capital financing needs at many of our grain cooperative customers. Generally, lower prices for agricultural commodities, reduced grain contracting, and delayed delivery of inventory from farmers lead to a reduction in financing requirements for many Agribusiness customers, particularly those in the farm supply and grain marketing sectors who borrow to finance inventory purchases and receivables. Notwithstanding the overall decline in average Agribusiness loan volume, average loan volume within the Agricultural Export Finance Division increased \$407.7 million to \$4.3 billion during the first nine months of 2012 as compared to the same period of 2011, due primarily to global market volatility and a higher level of import/export demand.

Agribusiness net income decreased 2 percent in the first nine months of 2012 to \$347.9 million from \$353.8 million for the same period in 2011. This decrease resulted primarily from lower net interest income partially offset by a favorable change in the provision for loan losses and higher noninterest income. Net interest income declined \$73.3 million due to the significant decrease in average loan volume and lower returns on invested capital. In addition, lending spreads declined as a result of improved asset quality and increased competition from commercial banks and other lenders. Agribusiness recorded a reversal in the allowance for credit losses of \$19.5 million during the first nine months of 2012, largely due to lower average loan volume. A provision for loan losses of \$39.5 million was recorded in the same prior-year period, reflecting an overall higher level of loan volume as well as credit challenges related to a small number of customers in the 2011 period. Nonaccrual loans decreased to \$72.4 million at September 30, 2012, as compared to \$80.3 million at December 31, 2011, due in part to the sale of an Agribusiness nonaccrual loan, and the return to accruing status of an Agribusiness customer whose financial performance had improved. Partially offsetting the decline in nonaccrual loan volume was the movement of a limited number of Agribusiness loans to nonaccrual status due to credit concerns. Net charge-offs recorded for the nine months ended September 30, 2012 of \$11.9 million also contributed to the decline in nonaccrual loans. Agribusiness net charge-offs were \$6.6 million for the nine months ended September 30, 2011.

Agribusiness noninterest income increased to \$78.6 million for the first nine months of 2012, as compared to \$62.7 million in the same period of 2011, largely due to the refunds from the Insurance Corporation.

Agribusiness operating expenses increased to \$110.0 million for the first nine months of 2012 from \$106.2 million in the 2011 period due to higher employee compensation expense resulting from changes in the design of certain elements of our compensation program. Partially offsetting this increase were lower Insurance Fund premiums and the absence of merger-related expenses in the 2012 period.

Strategic Relationships

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with affiliated Association customer-owners and our funding relationships with other System institutions. As a result of the merger with AgBank, the number of our affiliated Associations increased from four to 29 on January 1, 2012, and now includes Associations in 23 states serving the Plains states, the Southwest, California, the Northwest and the Northeast. The merger resulted in a \$19.5 billion increase in Strategic Relationships loan volume as of January 1, 2012, including \$18.9 billion in loans outstanding and \$530.9 million in fair value adjustments recorded pursuant to business combination accounting standards. As of September 30, 2012, the Strategic Relationships portfolio totaled \$35.9 billion, including \$32.3 billion in wholesale loans to our affiliated Associations and \$3.6 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, \$3.4 billion of which are participations in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume was \$34.6 billion for the nine-month period ended September 30, 2012, compared to \$15.2 billion for the nine months ended September 30, 2011. The significant increase was the direct result of the merger with AgBank. Excluding the impact of the merger, average loan volume increased modestly. Strategic Relationships net income increased to \$197.6 million for the first nine months of 2012, as compared to \$63.4 million for the same prior-year period, due primarily to a \$145.7 million increase in net interest income related to the merger. The merger-related increase in net interest income includes spread earned on the acquired Association loan volume and an allocated portion of the acquired investment securities, as well as \$64.2 million due to the accretion of asset and liability fair value adjustments resulting from the merger. Operating expenses increased to \$23.1 million in the 2012 period from \$11.5 million in the 2011 period also primarily due to the merger.

The overall loan quality in our Strategic Relationships portfolio is strong. As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a 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 allowance for credit losses has been recorded related to any Association loan. Strategic Relationships current period operating results did not benefit from the previously mentioned Insurance Corporation refunds because these amounts were passed on directly to our Association customers.

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, investor-owned utilities, rural local exchange carriers, wireless providers, data transport networks, cable television systems, data centers, and rural water and waste water companies. Rural Infrastructure loans outstanding totaled \$13.3 billion at September 30, 2012, compared to \$12.2 billion at December 31, 2011.

Rural Infrastructure average loan volume increased 9 percent to \$12.9 billion for the first nine months of 2012 from \$11.8 billion for the same period in 2011. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the power supply industry and market penetration in the electric distribution industry. The merger with AgBank did not have a significant impact on loan volume in Rural Infrastructure.

Rural Infrastructure net income increased 8 percent to \$162.1 million for the first nine months of 2012 from \$150.2 million for the same period in 2011. The increase was due to a \$24.0 million increase in net interest income driven by the growth in loan volume as well as increased lending spreads in our communications portfolio, and a \$22.6 million increase in noninterest income, which primarily resulted from the refunds from the Insurance Corporation. Partially offsetting these favorable items were a higher provision for loan losses and increased operating expenses. Rural Infrastructure recorded a provision for loan losses of \$39.5 million for the first nine months of 2012 compared to \$10.5 million for the same period in 2011. The 2012 provision for loan losses reflects an overall higher level of average Rural Infrastructure commitments as well as specific credit challenges facing a small number of communications and rural energy customers. Nonaccrual loans in the Rural Infrastructure segment increased to \$96.1 million at September 30, 2012 from \$54.5 million at December 31, 2011, also largely due to credit concerns surrounding a small number of our communications and rural energy customers. As a result, overall loan quality in our Rural Infrastructure operating segment deteriorated modestly from the prior year end. However, overall credit quality remains strong in our Rural Infrastructure operating segment. Rural Infrastructure recorded net charge-offs of \$0.6 million for the nine months ended September 30, 2012, compared to \$10.5 million for the same period of 2011.

Rural Infrastructure operating expenses increased to \$55.7 million for the first nine months of 2012, compared to \$48.0 million for the same prior-year period, due primarily to an increase in employee compensation expense resulting from an increase in staffing and changes in the design of certain elements of our compensation program. These increases were partially offset by lower Insurance Fund premiums and the absence of merger-related expenses in the 2012 period.

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.

	September 30, 2012			December 31, 2011		
	Wholesale Loans ⁽¹⁾	Retail Loans ⁽²⁾	Total Bank	Wholesale Loans ⁽¹⁾	Retail Loans ⁽²⁾	Total Bank
Acceptable	100.00 %	94.86 %	97.49 %	100.00 %	95.07 %	96.68 %
Special Mention	-	3.03	1.48	-	3.07	2.07
Substandard	-	1.95	0.95	-	1.79	1.20
Doubtful	-	0.16	0.08	-	0.07	0.05
Loss	-	-	-	-	-	-
Total	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

⁽¹⁾ Represents loans in our Strategic Relationships operating segment

⁽²⁾ Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures improved in the first nine months of 2012 largely due to the merger, as the substantial majority of the acquired loan portfolio were wholesale loans to Associations, all of which were classified as ‘Acceptable’ credit quality. Included in the acquired retail loans were \$113.3 million of loans classified as ‘Special Mention.’ None of the loans acquired were adversely classified loans (‘Substandard’ and ‘Doubtful’) or in nonaccrual status. The total amount of adversely classified loans and related accrued interest increased to \$722.8 million at September 30, 2012 compared to \$581.4 million at December 31, 2011, primarily due to downgrades of a limited number of Rural Infrastructure customers. While credit quality in the loan portfolio remains strong overall, we anticipate some deterioration in the credit quality of our Agribusiness loans as higher prices for grains and oilseeds, due in large part to drought conditions, further weaken the livestock and dairy sectors. In addition, continued global economic weakness and uncertainty will create greater risk for deterioration in our overall asset quality. Total nonaccrual loans increased to \$168.5 million at September 30, 2012 from \$134.9 million at year end 2011 and \$160.7 million at September 30, 2011, due largely to credit concerns surrounding a limited number of communications and rural energy customers. The increase in nonaccrual loans was partially offset by the return to accruing status of certain communications and agribusiness customers whose financial performance improved, the sale of a limited number of agribusiness and communications nonaccrual loans and charge-offs related primarily to a limited number of agribusiness customers.

We recorded a \$20.0 million provision for loan losses for the nine months ended September 30, 2012, due largely to credit challenges facing a small number of customers in our Rural Infrastructure operating segment. Total net charge-offs for the first nine months of 2012 were \$12.5 million compared to \$17.1 million in the 2011 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was \$549.5 million at September 30, 2012, compared to \$542.0 million at December 31, 2011. ACL as a percent of total loans declined to 0.79 percent at September 30, 2012, compared to 1.17 percent at December 31, 2011 largely due to the merger. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.79 percent at September 30, 2012 compared to 1.92 percent at December 31, 2011.

Liquidity and Investments

Our liquidity management objectives are to meet maturing debt obligations, provide a reliable source of funding to borrowers, ensure additional liquidity if market conditions deteriorate and fund operations on a cost-effective basis. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets via the Federal Farm Credit Banks Funding Corporation, the volatility of our loan volume may cause 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, liquidating investments, or by borrowing against investments used as collateral. System banks are required by regulation to maintain a minimum of 90 days liquidity. However, as a result of the merger with AgBank, we maintain a higher minimum of 130 days liquidity. Additionally, through December 31, 2014, if days liquidity falls below 150 days for five consecutive days, the Bank must notify our regulator, the Farm Credit Administration (FCA), and submit to them a written plan to restore and maintain the 150 days level. At September 30, 2012, our liquidity was 193 days, compared to 234 days at December 31, 2011. During the first nine months of 2012, we averaged 190 days liquidity. Our days liquidity declined between year-end 2011 and September 30, 2012 as we have managed our liquidity closer to our target range of 180 to 200 days.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled \$670.0 million and \$720.9 million for the first nine months of 2012 and 2011, respectively. Further, investments in the Insurance Fund would be used to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), to the extent available, if no other sources existed to repay such debt.

We hold cash and investment securities primarily to maintain a liquidity reserve and to manage short-term surplus funds. Our investment securities totaled \$17.8 billion at September 30, 2012, an increase from \$13.0 billion at December 31, 2011 primarily due to investment securities acquired in the merger with AgBank.

Investment securities acquired in the merger with AgBank totaled \$4.8 billion (fair value) on January 1, 2012, and consisted of U.S. Treasury and agency debt securities of \$643.9 million, U.S. agency mortgage-backed securities (MBS) of \$3.2 billion, non-agency MBS of \$132.7 million, Federal Agricultural Mortgage Corporation (Farmer Mac) MBS of \$252.9 million, FHA/VA non-wrapped 'reperformer' MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default) of \$554.1 million, and asset-backed securities (ABS) of \$58.5 million. Included within the acquired U.S. agency MBS portfolio of \$3.2 billion were \$296.7 million of certain FHA/VA reperformer MBS where the underlying loans are approximately 90 percent government guaranteed or insured, and which are further supported by guarantees from either the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). The \$554.1 million of FHA/VA non-wrapped reperformer MBS noted above are MBS where the underlying loans are also approximately 90 percent government guaranteed or insured but which have no guarantees from Fannie Mae or Freddie Mac. These securities carry unique credit risks, as explained in the next paragraph. As part of business combination accounting, the fair value of all acquired investment securities became the carrying value as of the merger date. We do not expect to collect the full contractual amounts due on certain FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS acquired in the merger. For these securities, differences between the contractual amounts due and merger date fair value are classified into two categories: amounts expected to be collected ('accretable yield') and amounts not expected to be collected ('non-accretable amounts'). Accretable yield, which totaled \$261.1 million for all acquired investment securities as of the merger date, is being recognized in income over the remaining life of the securities. Non-accretable amounts of \$102.5 million as of the merger date are related to \$739.7 million (fair value) of the acquired investment securities.

The most significant credit risk in our investment portfolio relates to FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS, which collectively total \$965.5 million (fair value) or 5 percent of our investment securities as of September 30, 2012. The acquired portfolio of FHA/VA non-wrapped reperformer MBS includes risks stemming from potential deficiencies in documentation or lack of compliance with servicing requirements on underlying loans that could make such loans ineligible for guarantees or insurance.

Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us. With the exception of Farmer Mac, all of our private sector investment counterparties are rated by a Nationally Recognized Statistical Rating Organization.

During the first nine months of 2012, we recorded \$5.0 million in credit-related impairment losses on five non-agency MBS and one ABS, compared to \$6.0 million in impairment losses in the same period in 2011 related to four non-agency MBS and two ABS. Four of the securities impaired in the current period were among those identified as credit-impaired investment securities acquired as part of the AgBank merger, which are discussed further in Note 2 to the accompanying condensed consolidated financial statements. Increasing levels of defaults and foreclosures on residential mortgages, continued high unemployment, a decline in home prices or continued weak economic conditions may result in further downward adjustments to the fair value of certain investment securities and the need to record future impairment losses against earnings.

The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities (\$ in Millions)						
	September 30, 2012			December 31, 2011		
	Amortized Cost	Fair Value	Unrealized Gains (Losses)	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury and Agency Debt	\$ 5,384	\$ 5,497	\$ 113	\$ 3,549	\$ 3,638	\$ 89
Mortgage-Backed:						
U.S. Agency	11,006	11,130	124	8,899	9,061	162
Farmer Mac	224	223	(1)	-	-	-
FHA/VA Non-Wrapped Reperformer	517	526	9	-	-	-
Non-Agency	300	318	18	265	242	(23)
Asset-Backed	116	121	5	78	54	(24)
Total	\$ 17,547	\$ 17,815	\$ 268	\$ 12,791	\$ 12,995	\$ 204

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 \$63.8 million for the first nine months of 2012, compared to \$225.4 million for the same prior-year period. The unrealized gains in the 2012 period were primarily due to improved pricing on non-agency MBS and ABS. The unrealized gains in the 2011 period related to the impact of interest rate changes on the value of certain fixed-rate securities.

Pursuant to FCA regulations, certain investment securities, including FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS that are no longer rated triple-A by at least one major rating agency, as well as Farmer Mac securities, are excluded from our liquidity reserve. The total fair value of investment securities not included in our liquidity reserve was \$1.1 billion as of September 30, 2012.

Capital Resources

We believe that a sound capital position is critical to our long-term financial success and future growth. We are primarily capitalized by common and preferred stock and by unallocated retained earnings. As a result of the merger with AgBank, our shareholders’ equity increased by \$1.0 billion on January 1, 2012. This change primarily included the issuance of \$878.3 million in common stock and \$225.0 million of preferred stock in exchange for all of the equity interests of AgBank.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such calls, repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors. The amounts involved and any resulting short-term gains or losses may be material.

As previously discussed under "Subsequent Events" on page 6, on October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock totaling \$363.3 million. We used cash on hand to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. On October 4, 2012, we issued \$400.0 million of Series F non-cumulative perpetual preferred stock. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, our Series F preferred stock is included in permanent capital, total surplus and core surplus, whereas our Series A and Series B preferred stock were only included in permanent capital and total surplus. Further, our Series A preferred stock was not fully includable in our permanent capital and total surplus due to its dividend step-up feature. These preferred stock transactions also lowered our dividend costs. Dividends on Series F preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2022. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.557 percent. These preferred stock transactions are also discussed in Note 11 to the accompanying condensed consolidated financial statements.

At September 30, 2012, our permanent capital, total surplus, core surplus and net collateral ratios exceeded regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2011 Annual Report. The fair value adjustments recorded as a result of the merger with AgBank had an initial unfavorable effect on our capital ratios. This effect will diminish over time as the acquired assets and liabilities are repaid and the fair value adjustments accrete into income. The pro forma column in the following table reflects our capital ratios excluding the effects of the fair value adjustments resulting from the merger.

	Regulatory Minimums		Pro Forma					
			September 30, 2012	September 30, 2012	December 31, 2011			
Permanent Capital Ratio	7.00	%	16.13	%	16.90	%	16.37	%
Total Surplus Ratio	7.00		15.20		15.96		16.01	
Core Surplus Ratio	3.50		9.20		9.95		10.02	
Net Collateral Ratio ⁽¹⁾⁽²⁾	104.00		107.14		107.83		109.05	

⁽¹⁾ 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. Our Series A preferred stock was retired on October 1, 2012

⁽²⁾ As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent

Pursuant to FCA guidance, a portion of our common stock is currently included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until the earlier of December 31, 2012 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of September 30, 2012, our core surplus ratio excluding common stock was 7.43 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level.

The FCA issued Advance Notices of Proposed Rulemaking on capital adequacy in 2007 and 2010 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). We do not use derivatives for speculative or trading purposes. 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 \$7.4 million and \$8.4 million in the first nine months of 2012 and 2011, respectively. Changes in the fair value of derivatives recorded in other comprehensive income (loss) totaled losses of \$4.0 million and \$1.8 million in the first nine months of 2012 and 2011, respectively.

Business Outlook

The January 1, 2012 merger with AgBank has created opportunities to increase market share in the geographic regions covered by our new 25 affiliated Associations and has significantly enhanced the geographic and industry diversification of our loan portfolio. It also provides us with the opportunity to strengthen business operations and enhance market opportunities for CoBank's products and services. We believe the merger has created a stronger, more durable financial institution with an enhanced ability to fulfill its mission, both today and for future generations of rural borrowers.

We continue to face challenges that could make the lending and earnings environment less favorable for CoBank. Growth conditions remain weak in the broader U.S. and global economies. Organic loan demand in our Strategic Relationships segment has been modest due to the strong liquidity positions of many farmers and ranchers. Customers in certain of the industries we serve are impacted by unpredictable and volatile agricultural commodity prices, a continued weak housing market, and regulatory and political uncertainty. The Food, Conservation, and Energy Act of 2008 (commonly referred to as the 2008 Farm Bill) expired at the end of September 2012. Although certain provisions of the expired legislation continue through the remainder of 2012, there is considerable uncertainty as to the content and timing of the next farm bill. Additionally, the full impact of the continuing U.S. drought is likely to unfold in 2013. Grain and farm supply cooperatives in drought-affected regions may be impacted by lower inventory levels and declining revenue from ancillary services provided to farmers. In addition, borrowers in the livestock, dairy and biofuels sectors may be negatively impacted by higher input prices. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio. Continued weakness in the housing market and/or persistently high unemployment could also lead to further losses on certain of our investment securities. Greater liquidity in debt funding markets and a renewed focus by banks and other lenders on commercial lending continues to increase competition across many of the industries we serve. In addition, the continued low interest rate environment negatively impacts the return on our invested capital.

We are focused on preserving the strength of our balance sheet, completing the integration of the former AgBank operations and enhancing our enterprise risk management capabilities. We believe that our strong capital, liquidity and earnings will continue to provide the capacity to serve customers in volatile market conditions, to provide a competitive cost of borrowing, and to provide value to eligible customers through consistent and reliable patronage payments. We continue our disciplined approach to managing risk and closely monitor asset quality. We also continue to enhance our financial condition through appropriate expense discipline while retaining a significant portion of our earnings. Nevertheless, we will seek opportunities to invest in people, processes, systems and activities that enhance our value proposition and allow us to better fulfill our mission in 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.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, we look forward 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 of 1995. 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 industries;
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income, including the impact of drought in many parts of the United States which may negatively affect certain customer sectors;
- Credit performance of the loan portfolio;
- Loan portfolio growth and seasonal factors;
- Weak U.S. and global economic conditions;
- Government policies and developments in the United States and other countries in which we make loans;
- The European sovereign debt crisis and its potential impact on funding markets;
- Legislative actions and the effect of banking and financial services reforms;
- Regulatory actions, including possible amendments to, and interpretations of, risk-based capital guidelines;
- Changes in the U.S. government’s support of the agriculture industry and agricultural exports;
- 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 United States;
- 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 allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties to our derivative positions; and
- Our ability to successfully execute and integrate any future business combinations or strategic alliances.

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

Condensed Consolidated Statements of Income

CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Interest Income				
Loans	\$ 421,921	\$ 360,342	\$ 1,278,781	\$ 1,169,303
Investment Securities	79,818	67,213	244,375	204,479
Total Interest Income	501,739	427,555	1,523,156	1,373,782
Interest Expense	196,657	175,560	597,918	544,046
Net Interest Income	305,082	251,995	925,238	829,736
Provision for Loan Losses	10,000	12,500	20,000	50,000
Net Interest Income After Provision for Loan Losses	295,082	239,495	905,238	779,736
Noninterest Income/Expense				
Net Fee Income	27,356	32,689	82,874	82,556
Prepayment Income	12,981	5,360	37,021	16,851
Losses on Early Extinguishments of Debt	(21,578)	(18,147)	(51,232)	(26,923)
Total Other-Than-Temporary Impairment Losses	(529)	-	(972)	(2,847)
Portion Recognized in Other Comprehensive Loss	(1,471)	(2,000)	(4,028)	(3,153)
Net Other-Than-Temporary Impairment Losses				
Included in Earnings	(2,000)	(2,000)	(5,000)	(6,000)
Other, Net	7,840	10,360	67,835	25,966
Total Noninterest Income	24,599	28,262	131,498	92,450
Operating Expenses				
Employee Compensation	36,098	28,655	107,456	85,426
Insurance Fund Premium	4,562	4,721	13,600	15,753
Information Services	4,854	4,077	13,886	11,924
General and Administrative	9,441	7,121	22,461	18,164
Occupancy and Equipment	2,284	1,779	6,688	5,044
Farm Credit System Related	2,819	1,801	8,678	5,472
Purchased Services	1,897	4,827	4,397	14,132
Other	4,147	3,153	12,904	9,620
Total Operating Expenses	66,102	56,134	190,070	165,535
Income Before Income Taxes	253,579	211,623	846,666	706,651
Provision for Income Taxes	35,925	41,706	146,125	143,945
Net Income	\$ 217,654	\$ 169,917	\$ 700,541	\$ 562,706

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

Condensed Consolidated Statements of Comprehensive Income

CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Net Income	\$ 217,654	\$ 169,917	\$ 700,541	\$ 562,706
Other Comprehensive Income (Loss), Net of Tax (Note 3):				
Net Change in Unrealized Losses/Gains on Investment				
Securities Not Other-Than-Temporarily Impaired	31,523	64,168	16,421	135,472
Net Change in Unrealized Losses/Gains on				
Other-Than-Temporarily Impaired Investment Securities	12,473	(2,565)	29,730	4,297
Net Change in Unrealized Losses/Gains on Interest Rate				
Swaps and Other Financial Instruments	60	(1,102)	(3,859)	(1,101)
Net Pension Adjustment	703	511	3,617	1,533
Other Comprehensive Income	44,759	61,012	45,909	140,201
Comprehensive Income	\$ 262,413	\$ 230,929	\$ 746,450	\$ 702,907

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

Condensed Consolidated Balance Sheets

CoBank, ACB

(\$ in Thousands)

	September 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Total Loans	\$ 69,945,628	\$ 46,285,142
Less: Allowance for Loan Losses	375,916	388,056
Net Loans	69,569,712	45,897,086
Cash	1,019,992	2,771,842
Investment Securities	17,814,606	12,995,458
Interest Rate Swaps and Other Financial Instruments	1,091,088	1,048,629
Accrued Interest Receivable and Other Assets	760,870	577,200
Total Assets	\$ 90,256,268	\$ 63,290,215
Liabilities		
Bonds and Notes	\$ 81,420,050	\$ 56,104,486
Subordinated Debt	1,000,000	1,000,000
Interest Rate Swaps and Other Financial Instruments	174,151	136,945
Reserve for Unfunded Commitments	173,540	153,919
Accrued Interest Payable and Other Liabilities	1,126,857	999,332
Total Liabilities	\$ 83,894,598	\$ 58,394,682
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity		
Preferred Stock	925,000	700,000
Common Stock	2,576,145	1,654,314
Unallocated Retained Earnings	2,712,928	2,439,531
Accumulated Other Comprehensive Income	147,597	101,688
Total Shareholders' Equity	\$ 6,361,670	\$ 4,895,533
Total Liabilities and Shareholders' Equity	\$ 90,256,268	\$ 63,290,215

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,	2012	2011
Cash Flows Provided by Operating Activities		
Net Income	\$ 700,541	\$ 562,706
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	20,000	50,000
Deferred Income Taxes	(9,503)	(17,337)
Depreciation and Amortization/Accretion, Net	25,863	8,167
Losses on Impairment of Available-for-Sale Investments	5,000	6,000
Net Gain on Sale of Investment Securities	-	(4,451)
Decrease in Accrued Interest Receivable and Other Assets	54,008	133,745
Decrease in Accrued Interest Payable and Other Liabilities	(112,523)	(37,753)
Net Gains on Interest Rate Swaps and Other Financial Instruments	(3,947)	(6,641)
Proceeds from Termination of Interest Rate Swaps	-	28,205
Other	(9,488)	(1,787)
Net Cash Provided by Operating Activities	669,951	720,854
Cash Flows (Used in) Provided by Investing Activities		
Net (Increase) Decrease in Loans	(3,466,012)	4,935,387
Net Decrease (Increase) in Investment Securities	95,175	(396,653)
Net Cash Acquired in Business Combination (Note 2)	225,859	-
Net Cash (Used in) Provided by Investing Activities	(3,144,978)	4,538,734
Cash Flows Provided by (Used in) Financing Activities		
Net Issuances (Retirements) of Bonds and Notes	1,042,200	(4,131,376)
Net Retirements of Common Stock	(34,056)	(29,833)
Cash Patronage Distribution Paid	(229,900)	(194,720)
Preferred Stock Dividends Paid	(55,067)	(47,849)
Net Cash Provided by (Used in) Financing Activities	723,177	(4,403,778)
Net (Decrease) Increase in Cash	(1,751,850)	855,810
Cash at Beginning of Period	2,771,842	1,922,586
Cash at End of Period	\$ 1,019,992	\$ 2,778,396
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	\$ (25,000)	\$ -
Net Change in Unrealized Losses/Gains on Investment Securities, Before Taxes	63,828	255,434
Net Change in Unrealized Losses/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	(3,955)	(1,776)
Patronage in Common Stock	77,627	84,069
Issuance of Preferred Stock Related to Merger (Note 2)	225,000	-
Issuance of Common Stock Related to Merger (Note 2)	878,260	-

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,	2012	2011
Balance at Beginning of Period	\$ 4,895,533	\$ 4,406,197
Comprehensive Income (Note 3)	746,450	702,907
Preferred Stock Dividends	(55,896)	(47,849)
Preferred Stock Issued in Merger (Note 2)	225,000	-
Common Stock Issued	68	67
Common Stock Issued in Merger (Note 2)	878,260	-
Common Stock Retired	(34,124)	(29,900)
Cash Patronage Accrued	(232,061)	(176,167)
Net Fair Value Adjustments Related to Merger (Note 2)	(61,560)	-
Balance at End of Period	\$ 6,361,670	\$ 4,855,255

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

Notes to Condensed Consolidated Financial Statements

CoBank, ACB

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

The accompanying condensed consolidated financial statements include the accounts of CoBank, ACB and its wholly-owned subsidiaries, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. All material inter-company accounts and transactions have been eliminated. In our opinion, all adjustments considered necessary for a fair presentation of the interim financial condition, results of operations and cash flows have been made. These adjustments are of a normal recurring nature, unless otherwise disclosed. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Our results of operations for the nine months ended September 30, 2012 are not necessarily indicative of results to be expected for the entire fiscal year.

CoBank is a member of the Farm Credit System (System). In addition to providing loans and other financial services to agricultural cooperatives; rural energy, water and communications companies; and other businesses that serve rural America, CoBank is the funding bank for 29 Farm Credit System Associations, which are collectively referred to as our “affiliated Associations.” The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the “District.” The supplemental information beginning on page 49 includes certain combined financial information of our affiliated Associations and the District.

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2011 Annual Report to Shareholders, which includes a description of our organization and lending authority. Also included in the 2011 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.

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

Note 2 – Merger with U.S. AgBank, FCB

As discussed in our 2011 Annual Report, U.S. AgBank, FCB (AgBank) was merged into CoBank effective January 1, 2012. As a result of the merger with AgBank, the number of our affiliated Associations increased by 25 and now includes Associations in 23 states serving the Plains states, the Southwest, California, the Northwest and the Northeast. The merger with AgBank diversifies CoBank’s loan portfolio, builds our capital base and enhances our overall lending capacity. The effects of the merger are included in our results of operations, balance sheet, average balances and related metrics beginning in 2012.

On January 1, 2012, in connection with the merger, each share of outstanding common stock of AgBank (Class A Common Stock, \$5 par value, 177,162,554 shares outstanding; Class B Common Stock, \$5 par value, 200 shares outstanding; Class C Common Stock, \$5 par value, 200 shares outstanding) was exchanged for one-twentieth of a share of common stock of CoBank (\$100 par value, 8,858,148 shares outstanding). In addition, AgBank's \$225 million of preferred stock (\$1,000 par value, 225,000 shares outstanding) was exchanged for \$225 million of a new series (Series E) of CoBank preferred stock (\$1,000 par value, 225,000 shares outstanding) with substantially the same terms and conditions.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805). Pursuant to these rules, CoBank acquired the assets and assumed the liabilities of AgBank at their acquisition-date fair value. The fair value of the net identifiable assets acquired (\$1.04 billion) was substantially equal to the fair value of the equity interests exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. Fair value adjustments related to business combinations may be refined for up to one year following the close of the merger as additional information relative to closing date fair value becomes available. A net decrease of \$61.6 million was recorded in retained earnings related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to AgBank's net assets as of the acquisition date.

(\$ in Millions)

Preliminary Condensed Statement of Net Assets Acquired	January 1, 2012
Assets	
Net Loans	\$ 20,200
Cash	226
Investment Securities	4,832
Accrued Interest Receivable	113
Interest Rate Swaps and Other Financial Instruments	85
Other Assets	100
Total Assets	\$ 25,556
Liabilities	
Bonds and Notes	\$ 24,306
Accrued Interest Payable	81
Other Liabilities	127
Total Liabilities	\$ 24,514
Fair Value of Net Assets Acquired	\$ 1,042

Fair value adjustments to AgBank's assets and liabilities included a \$553.0 million increase to loans and a \$700.4 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts over the next five years. We expect to collect the substantial majority of the contractual amounts of the acquired loans, which totaled \$19.7 billion at January 1, 2012.

In connection with the AgBank merger, we acquired investment securities with a contractual outstanding principal and interest balance of \$5.2 billion. We recorded these investments on our consolidated balance sheet at an estimated fair value of \$4.8 billion, consisting of U.S. Treasury and agency debt securities of \$643.9 million, U.S. agency mortgage-backed securities (MBS) of \$3.2 billion, non-agency MBS of \$132.7 million, Federal Agricultural Mortgage Corporation (Farmer Mac) MBS of \$252.9 million, FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default) of \$554.1 million, and asset-backed securities (ABS) of \$58.5 million.

We have determined that certain of the acquired FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS have evidence of credit quality deterioration such that it is probable that we will be unable to collect all contractually required payments. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a 'non-accretable difference.' This difference is neither accreted into income nor recorded on our consolidated balance sheet. The excess of cash flows expected to be collected over fair value is referred to as 'accretable yield' and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts over the next five years. The following table displays information related to the acquired credit-impaired investment securities.

Information for Acquired Credit-Impaired Investment Securities as of January 1, 2012	(\$ in Millions)
Contractually Required Payments Including Interest	\$ 1,104
Non-accretable Difference	(103)
Cash Flows Expected to be Collected*	1,001
Accretable Yield	(261)
Fair Value of Acquired Credit-Impaired Investment Securities	\$ 740

* Represents the undiscounted expected principal and interest cash flows

At each reporting period we are required to evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized in earnings. During the first nine months of 2012, we recorded \$4.0 million in impairment losses related to four non-agency MBS that were among those identified as credit-impaired investment securities acquired as part of the AgBank merger.

Changes in Accretable Yield of Acquired Credit-Impaired Investment Securities	(\$ in Millions)
Balance at January 1, 2012	\$ (261)
Interest Recognized in Earnings	33
Reclassifications from Nonaccretable Difference for Investments with Improvements in Expected Cash Flows	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	4
Balance at September 30, 2012	\$ (224)

The carrying amount of acquired credit-impaired investment securities was \$702.7 million at September 30, 2012.

Note 3 – Recently Issued or Adopted Accounting Pronouncements

In June and December 2011, the Financial Accounting Standards Board (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 a continuous statement of comprehensive income or two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income. These provisions were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The new guidance must be applied retrospectively, with early adoption permitted. We adopted the new requirements in the first quarter of 2012. The adoption did not impact our consolidated financial position, results of operations or cash flows; however, it did result in changes to the presentation of comprehensive income, which is now displayed in two separate but consecutive statements on pages 18 and 19.

In December 2011, the FASB issued guidance creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with retrospective application required. We will adopt these provisions in 2013. The adoption will not impact our consolidated financial position, results of operations or cash flows, but will expand our disclosure associated with certain financial instruments.

Note 4 – Loans, Loan Quality and Allowance for Credit Losses

Loans Outstanding

Loans outstanding by operating segment are shown below.

(\$ in Millions)

	September 30, 2012	December 31, 2011
Agribusiness	\$ 20,773	\$ 18,869
Strategic Relationships	35,857	15,236
Rural Infrastructure	13,316	12,180
Total	\$ 69,946	\$ 46,285

Allowance for Credit Losses

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

	Strategic		Rural		
	Agribusiness	Relationships ⁽¹⁾	Infrastructure		Total
September 30, 2012					
Allowance for Loan Losses					
Beginning Balance at January 1, 2012	\$ 269,317	\$ -	\$ 118,739	\$	388,056
Charge-offs	(13,750)	-	(1,555)		(15,305)
Recoveries	1,860	-	926		2,786
Provision (Reversal) for Loan Losses	(19,450)	-	39,450		20,000
Transfers to Reserve for Unfunded Commitments ⁽²⁾	(1,858)	-	(17,763)		(19,621)
Ending Balance at September 30, 2012	236,119	-	139,797		375,916
Reserve for Unfunded Commitments					
Beginning Balance at January 1, 2012	116,467	-	37,452		153,919
Transfers from Allowance for Loan Losses ⁽²⁾	1,858	-	17,763		19,621
Ending Balance at September 30, 2012	118,325	-	55,215		173,540
Allowance for Credit Losses	\$ 354,444	\$ -	\$ 195,012	\$	549,456
Allowance for Credit Losses					
Ending Balance, Allowance for Credit Losses Related to Loans:					
Individually Evaluated for Impairment	\$ 7,999	\$ -	\$ 47,800	\$	55,799
Collectively Evaluated for Impairment	346,445	-	147,212		493,657
Acquired with Deteriorated Credit Quality	-	-	-		-
Total	\$ 354,444	\$ -	\$ 195,012	\$	549,456
Loans					
Ending Balance for Loans and Related Accrued Interest:					
Individually Evaluated for Impairment	\$ 72,379	\$ 35,978,624	\$ 96,137	\$	36,147,140
Collectively Evaluated for Impairment	20,765,859	-	13,297,045		34,062,904
Acquired with Deteriorated Credit Quality	-	-	-		-
Total	\$ 20,838,238	\$ 35,978,624	\$ 13,393,182	\$	70,210,044

	Strategic		Rural		
	Agribusiness	Relationships ⁽¹⁾	Infrastructure		Total
September 30, 2011					
Allowance for Loan Losses					
Beginning Balance at January 1, 2011	\$ 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 ⁽²⁾	(36,126)	-	(6,666)		(42,792)
Ending Balance at September 30, 2011	280,957	-	109,856		390,813
Reserve for Unfunded Commitments					
Beginning Balance at January 1, 2011	68,599	-	31,200		99,799
Transfers from Allowance for Loan Losses ⁽²⁾	36,126	-	6,666		42,792
Ending Balance at September 30, 2011	104,725	-	37,866		142,591
Allowance for Credit Losses	\$ 385,682	\$ -	\$ 147,722	\$	533,404
Allowance for Credit Losses					
Ending Balance, Allowance for Credit Losses Related to Loans:					
Individually Evaluated for Impairment	\$ 19,754	\$ -	\$ 9,643	\$	29,397
Collectively Evaluated for Impairment	365,928	-	138,079		504,007
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
Total	\$ 17,932,257	\$ 15,235,633	\$ 12,022,358	\$	45,190,248

⁽¹⁾ As a result of a 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 allowance for credit losses is recorded in our Strategic Relationships operating segment

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

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

Credit Quality

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

	Agribusiness		Strategic		Rural		
	Non-Guaranteed	Guaranteed	Relationships	Infrastructure			Total
September 30, 2012							
Acceptable	\$ 16,073,494	\$ 3,399,950	\$ 35,978,624	\$ 12,997,285	\$		68,449,353
Special Mention	830,786	53	-	207,034			1,037,873
Substandard	519,804	-	-	149,337			669,141
Doubtful	14,151	-	-	39,526			53,677
Loss	-	-	-	-			-
Total	\$ 17,438,235	\$ 3,400,003	\$ 35,978,624	\$ 13,393,182	\$		70,210,044
December 31, 2011							
Acceptable	\$ 14,753,661	\$ 2,850,689	\$ 15,275,708	\$ 12,019,166	\$		44,899,224
Special Mention	824,133	43	-	135,331			959,507
Substandard	473,432	-	-	84,452			557,884
Doubtful	16,047	-	-	7,500			23,547
Loss	-	-	-	-			-
Total	\$ 16,067,273	\$ 2,850,732	\$ 15,275,708	\$ 12,246,449	\$		46,440,162

Aging Analysis

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

September 30, 2012	Agribusiness		Strategic		Rural		Total
	Non-Guaranteed	Guaranteed	Relationships	Infrastructure			
30-89 Days Past Due	\$ 8,215	\$ -	\$ -	\$ -	\$ -	\$ -	8,215
90 Days Past Due	13,576	-	-	5,492	-	-	19,068
Total Past Due	\$ 21,791	\$ -	\$ -	\$ 5,492	\$ -	\$ -	27,283
Current	17,416,444	3,400,003	35,978,624	13,387,690	-	-	70,182,761
Total	\$ 17,438,235	\$ 3,400,003	\$ 35,978,624	\$ 13,393,182	\$ -	\$ -	70,210,044
Accruing Loans 90 Days or More Past Due							
	\$ 208	\$ -	\$ -	\$ -	\$ -	\$ -	208
December 31, 2011							
30-89 Days Past Due	\$ 68,847	\$ -	\$ -	\$ -	\$ -	\$ -	68,847
90 Days Past Due	20,126	-	-	-	-	-	20,126
Total Past Due	\$ 88,973	\$ -	\$ -	\$ -	\$ -	\$ -	88,973
Current	15,978,300	2,850,732	15,275,708	12,246,449	-	-	46,351,189
Total	\$ 16,067,273	\$ 2,850,732	\$ 15,275,708	\$ 12,246,449	\$ -	\$ -	46,440,162
Accruing Loans 90 Days or More Past Due							
	\$ 114	\$ -	\$ -	\$ -	\$ -	\$ -	114

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, 2012	Agribusiness		Strategic		Rural		Total
	Non-Guaranteed	Guaranteed ⁽¹⁾	Relationships ⁽¹⁾	Infrastructure			
Nonaccrual Loans ⁽²⁾	\$ 72,379	\$ -	\$ -	\$ 96,137	\$ -	\$ -	168,516
Accruing Loans 90 Days or More Past Due	208	-	-	-	-	-	208
Restructured Loans	-	-	-	-	-	-	-
Total Impaired Loans	\$ 72,587	\$ -	\$ -	\$ 96,137	\$ -	\$ -	168,724
December 31, 2011							
Nonaccrual Loans ⁽²⁾	\$ 80,350	\$ -	\$ -	\$ 54,512	\$ -	\$ -	134,862
Accruing Loans 90 Days or More Past Due	114	-	-	-	-	-	114
Restructured Loans	-	-	-	-	-	-	-
Total Impaired Loans	\$ 80,464	\$ -	\$ -	\$ 54,512	\$ -	\$ -	134,976

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

⁽²⁾ Included in nonaccrual loans at September 30, 2012 and December 31, 2011 are \$4.7 million and \$17.3 million, respectively, of loans that qualify as troubled debt restructurings

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

September 30, 2012	Agribusiness Non-Guaranteed	Agribusiness Guaranteed⁽¹⁾	Strategic Relationships⁽¹⁾	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	\$ 40,934	\$ -	\$ -	\$ -	\$ 40,934
Unpaid Principal	75,423	-	-	7,937	83,360
Average Balance	60,093	-	-	8,999	69,092
Interest Income Recognized	2,294	-	-	1,017	3,311
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	31,653	-	-	96,137	127,790
Unpaid Principal	33,775	-	-	101,729	135,504
Allowance for Loan Losses	7,999	-	-	47,800	55,799
Average Balance	9,641	-	-	42,752	52,393
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	72,587	-	-	96,137	168,724
Unpaid Principal	109,198	-	-	109,666	218,864
Allowance for Loan Losses	7,999	-	-	47,800	55,799
Average Balance	69,734	-	-	51,751	121,485
Interest Income Recognized	2,294	-	-	1,017	3,311

December 31, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed⁽¹⁾	Strategic Relationships⁽¹⁾	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	\$ 25,589	\$ -	\$ -	\$ 39,328	\$ 64,917
Unpaid Principal	37,584	-	-	50,344	87,928
Average Balance	39,996	-	-	42,547	82,543
Interest Income Recognized	4,888	-	-	32	4,920
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	54,875	-	-	15,184	70,059
Unpaid Principal	75,761	-	-	16,893	92,654
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	65,783	-	-	17,450	83,233
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	80,464	-	-	54,512	134,976
Unpaid Principal	113,345	-	-	67,237	180,582
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	105,779	-	-	59,997	165,776
Interest Income Recognized	4,888	-	-	32	4,920

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

Commitments on Impaired Loans

There were \$43.4 million in commitments available to be drawn by borrowers whose loans were classified as impaired at September 30, 2012.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of September 30, 2012, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other nonaccrual loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2011 Annual Report. During the nine months ended September 30, 2012, there were no modifications that qualified as TDRs. During the nine months ended September 30, 2011, we modified two loans to customers that qualified as TDRs. These loans totaled \$11.6 million before and after modification. Subsequent to their restructuring, there have been no payment defaults on our TDR-classified loans.

Note 5 – Investment Securities

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

(\$ in Millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
U.S. Treasury and Agency Debt	\$ 5,384	\$ 113	\$ -	\$ 5,497
Mortgage-Backed:				
U.S. Agency	11,006	136	(12)	11,130
Farmer Mac	224	-	(1)	223
FHA/VA Non-Wrapped Reperformer	517	11	(2)	526
Non-Agency	300	24	(6)	318
Asset-Backed	116	12	(7)	121
Total	\$ 17,547	\$ 296	\$ (28)	\$ 17,815

(\$ in Millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
U.S. Treasury and Agency Debt	\$ 3,549	\$ 89	\$ -	\$ 3,638
Mortgage-Backed:				
U.S. Agency	8,899	166	(4)	9,061
Non-Agency	265	-	(23)	242
Asset-Backed	78	-	(24)	54
Total	\$ 12,791	\$ 255	\$ (51)	\$ 12,995

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2012 is as follows:

U.S. Treasury and Agency Debt Securities

(\$ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 2,052	\$ 2,055	0.43 %
One to Five Years	1,869	1,886	0.99
Five to Ten Years	813	900	2.94
After Ten Years	650	656	1.83
Total	\$ 5,384	\$ 5,497	1.17

U.S. Agency Mortgage-Backed Securities

(\$ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	150	145	2.60
Five to Ten Years	324	330	2.57
After Ten Years	10,532	10,655	1.67
Total	\$ 11,006	\$ 11,130	1.71

Farmer Mac 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	-	-	-
After Ten Years	224	223	2.19
Total	\$ 224	\$ 223	2.19

FHA/VA Non-Wrapped Reperformer 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	-	-	-
After Ten Years	517	526	6.07
Total	\$ 517	\$ 526	6.07

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	14	13	0.68
After Ten Years	286	305	4.11
Total	\$ 300	\$ 318	3.95

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	116	121	7.23
Total	\$ 116	\$ 121	7.23

While the substantial majority of our MBS and all of our ABS 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, 2012 and December 31, 2011. 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.

(\$ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2012				
U.S. Treasury and Agency Debt	\$ 149	\$ -	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	932	(12)	28	-
Farmer Mac	223	(1)	-	-
FHA/VA Non-Wrapped Reperformer	136	(2)	-	-
Non-Agency	10	(1)	86	(5)
Asset-Backed	-	-	36	(7)
Total	\$ 1,450	\$ (16)	\$ 150	\$ (12)
December 31, 2011				
U.S. Treasury and Agency Debt	\$ -	\$ -	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	1,297	(3)	275	(1)
Non-Agency	57	(1)	143	(22)
Asset-Backed	-	-	54	(24)
Total	\$ 1,354	\$ (4)	\$ 472	\$ (47)

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.

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, 2011	\$ 48
Additional Credit Impairments Related to Securities Impaired as of December 31, 2011	-
Initial Credit Impairments Related to Securities Not Previously Impaired	5
Subsequent Amortization (Accretion) for Increases in Cash Flows Expected to be Collected	(1)
Balance at September 30, 2012	\$ 52

For these 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 5 percent to 21 percent (CPR) for impaired investment securities at September 30, 2012. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 4 percent to 26 percent for impaired investment securities at September 30, 2012. Loss severity assumptions are based on actual performance, where available, or are obtained from an independent third-party. Loss severity ranged from 39 percent to 100 percent for impaired investment securities at September 30, 2012.

Note 6 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a 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, 2012 and related activity for the first nine months of 2012 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, 2011	\$ 23,255	\$ 1,999	\$ 299	\$ 25,553	
Acquired Related to Merger	1,280	1,465	-	2,745	
Additions /Accretion	4,062	20	1,911	5,993	
Maturities /Amortization	(4,584)	(1,030)	(1,955)	(7,569)	
Terminations	(36)	(105)	-	(141)	
September 30, 2012	\$ 23,977	\$ 2,349	\$ 255	\$ 26,581	

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 statement of comprehensive income by changes in the hedged item's fair value attributable to the risk being hedged. For cash-flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate 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, 2012, we expect that \$1.4 million of expense will be reclassified from other comprehensive income into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately nine 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 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. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to 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, 2012, our counterparties had posted a net \$584.0 million in cash and \$217.8 million in securities as collateral with us. At September 30, 2012, 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. We estimate that the maximum amount of losses related to derivatives we could be exposed to in the event of nonperformance by

dealer counterparties to our derivative positions, net of collateral held by us, was \$12.2 million at September 30, 2012.

Hedge Terminations

During the nine months ended September 30, 2012, we terminated interest rate caps of \$105.0 million in notional value to reduce our credit exposure to a counterparty. These caps had been accounted for as cash flow hedges. We also terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of \$36.0 million. 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, 2012 and December 31, 2011 is shown below.

Fair Value of Derivative Financial Instruments		
	Fair Value of Derivative Assets⁽¹⁾	Fair Value of Derivative Liabilities⁽²⁾
As of September 30, 2012		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 884,656	\$ -
Foreign Exchange Contracts	290	3,067
Total Derivatives Designated as Hedging Instruments	\$ 884,946	\$ 3,067
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 203,353	\$ 168,404
Foreign Exchange Contracts	2,789	2,680
Total Derivatives Not Designated as Hedging Instruments	\$ 206,142	\$ 171,084
Total Derivatives	\$ 1,091,088	\$ 174,151

⁽¹⁾ These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at September 30, 2012

⁽²⁾ These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at September 30, 2012

Fair Value of Derivative Financial Instruments		
	Fair Value of Derivative Assets⁽¹⁾	Fair Value of Derivative Liabilities⁽²⁾
As of December 31, 2011		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 884,219	\$ 14
Foreign Exchange Contracts	3,980	180
Total Derivatives Designated as Hedging Instruments	\$ 888,199	\$ 194
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 157,052	\$ 133,602
Foreign Exchange Contracts	3,378	3,149
Total Derivatives Not Designated as Hedging Instruments	\$ 160,430	\$ 136,751
Total Derivatives	\$ 1,048,629	\$ 136,945

⁽¹⁾ These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet at December 31, 2011

⁽²⁾ These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet at December 31, 2011

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2012 and 2011 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

Nine Months Ended September 30,	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item ⁽¹⁾	
	2012	2011
Interest Rate Contracts	\$ 2,937	\$ 2,115
Total	\$ 2,937	\$ 2,115

⁽¹⁾ Located in Interest Expense in the condensed consolidated statement of income for the nine months ended September 30, 2012 and 2011

Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2012	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	\$ (5,100)	\$ (1,091) ⁽³⁾
Foreign Exchange Contracts	(6,577)	(6,631) ⁽⁴⁾⁽⁵⁾	(188) ⁽⁴⁾
Total	\$ (11,677)	\$ (7,722)	\$ (188)

⁽¹⁾ Effective portion

⁽²⁾ Ineffective portion and amount excluded from effectiveness assessment

⁽³⁾ Located in Interest Expense in the condensed consolidated statement of income for the nine months ended September 30, 2012

⁽⁴⁾ Located in Interest Income – Loans in the condensed consolidated statement of income for the nine months ended September 30, 2012

⁽⁵⁾ Fully offset by a \$6,631 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2012

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 statement of income for the nine months ended September 30, 2011

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

Derivative Financial Instruments Not Designated as Hedging Relationships

Nine Months Ended September 30,	Net Amount of Gain or (Loss) Recognized in Income On Derivative⁽¹⁾	
	2012	2011
Interest Rate Contracts	\$ 4,615	\$ 6,272
Foreign Exchange Contracts	(120)	(9)
Total	\$ 4,495	\$ 6,263

⁽¹⁾ Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the nine months ended September 30, 2012 and 2011

Note 7 – Fair Value Measurements

The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability.

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, 2012 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at September 30, 2012 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, and the substantial majority of agency MBS.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves (primarily the 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 our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding 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 value of investment securities also appears in Note 5.

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

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

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at September 30, 2012 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, ABS and a small portion of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for all Farmer Mac MBS and FHA/VA non-wrapped reperformer MBS is calculated internally using third-party models. Market value for ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs.

Level 3 assets at September 30, 2012 also include \$51.5 million of loans originally measured at cost, which were written down to fair value as a result of impairment. 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, 2012 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.

The following table presents quantitative information about Level 3 fair value measurements as of September 30, 2012.

Quantitative Information About Valuation Techniques and Inputs to Level 3 Fair Value Measurements				
(\$ in Millions)	Fair Value	Valuation Technique	Unobservable Input	Range
Assets				
Investment Securities:				
U.S. Agency Mortgage-Backed	\$ 80	Third-Party Pricing Service	Prepayment Rate	*
Farmer Mac Mortgage-Backed	223	Discounted Cash Flow	Prepayment Rate	7-15 percent
			Mark-to-Market Spread	1 percent
FHAVA Non-Wrapped Reperformer Mortgage-Backed	526	Discounted Cash Flow	Prepayment Rate	6-10 percent
			Lifetime Default Rate	1-21 percent
			Loss Severity	16-18 percent
Asset-Backed	121	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Impaired Loans	51	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	\$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent
* Excludes ranges for Level 3 U.S. Agency MBS and all ABS, which are determined by a third-party pricing service				
** Range of inputs are unique to each collateral property				

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
September 30, 2012				
(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury and Agency Debt	\$ -	\$ 5,497	\$ -	\$ 5,497
U.S. Agency Mortgage-Backed	-	11,050	80	11,130
Farmer Mac Mortgage-Backed	-	-	223	223
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	-	-	526	526
Non-Agency Mortgage-Backed	-	318	-	318
Asset-Backed	-	-	121	121
Interest Rate Swaps and Other Financial Instruments	-	1,091	-	1,091
Assets Held in Trust (included in Other Assets)	49	-	-	49
Collateral Assets (included in Other Assets)	-	19	-	19
Total Assets	\$ 49	\$ 17,975	\$ 950	\$ 18,974
Liabilities				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 174	\$ -	\$ 174
Collateral Liabilities (included in Bonds and Notes)	-	603	-	603
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	\$ -	\$ 777	\$ 10	\$ 787

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2011				
(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury and Agency Debt	\$ -	\$ 3,638	\$ -	\$ 3,638
U.S. Agency Mortgage-Backed	-	9,061	-	9,061
Non-Agency Mortgage-Backed	-	242	-	242
Asset-Backed	-	-	54	54
Interest Rate Swaps and Other Financial Instruments	-	1,049	-	1,049
Assets Held in Trust (included in Other Assets)	36	-	-	36
Collateral Assets (included in Other Assets)	-	15	-	15
Total Assets	\$ 36	\$ 14,005	\$ 54	\$ 14,095
Liabilities				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 137	\$ -	\$ 137
Collateral Liabilities (included in Bonds and Notes)	-	792	-	792
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	\$ -	\$ 929	\$ 10	\$ 939

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)	FHAVA Non-Wrapped				
	Agency Mortgage- Backed Securities	Farmer Mac Mortgage- Backed Securities	Reperformer Mortgage- Backed Securities	Asset- Backed Securities	Standby Letters of Credit
Balance at December 31, 2011	\$ -	\$ -	\$ -	\$ 54	\$ 10
Level 3 Assets Acquired in Merger	89	253	554	59	-
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	-	-
Included in Other Comprehensive Income	(2)	(1)	8	10	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Issuances	-	-	-	-	6
Settlements	(8)	(28)	(59)	(4)	(6)
Accretion	1	(1)	23	2	-
Balance at September 30, 2012	\$ 80	\$ 223	\$ 526	\$ 121	\$ 10
Balance at December 31, 2010	\$ -	\$ -	\$ -	\$ 118	\$ 11
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	2	-
Included in Other Comprehensive Income	-	-	-	8	-
Purchases	-	-	-	-	-
Sales	-	-	-	(41)	-
Issuances	-	-	-	-	5
Settlements	-	-	-	(21)	(6)
Balance at September 30, 2011	\$ -	\$ -	\$ -	\$ 66	\$ 10

Estimated Fair Value of Other Financial Instruments

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of September 30, 2012 and December 31, 2011.

Estimated Fair Value of Financial Instruments						
(\$ in Millions)	September 30, 2012			December 31, 2011		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	\$ 69,570	\$ 71,826	Level 3	\$ 45,897	\$ 47,647	Level 3
Financial Liabilities:						
Bonds and Notes	\$ 81,420	\$ 83,181	Level 3	\$ 56,104	\$ 57,678	Level 3
Subordinated Debt	1,000	1,040	Level 3	1,000	955	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	\$ -	\$ (92)	Level 3	\$ -	\$ (102)	Level 3

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 traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new Government Sponsored Enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

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.

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

Information About Valuation Techniques and Inputs to Other Fair Value Measurements		
	Valuation Technique	Input
Loans	Discounted Cash Flow	Prepayment Rate Mark-to-Market Spread Benchmark Yield Curve Probability of Default Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve Farm Credit Spread
Subordinated Debt	Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

Note 8 – Employee Benefit Plans

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. We also have a noncontributory, unfunded nonqualified supplemental executive retirement plan covering senior officers and specified other senior managers, as well as a noncontributory, unfunded nonqualified executive retirement plan 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.

Retirement-eligible employees may also be 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.

Pursuant to the terms of the merger agreement, assets and obligations related to bank participants in AgBank's legacy defined benefit pension plans were transferred into CoBank's defined benefit pension plan as of the merger date. The merger agreement also required AgBank to make a \$17.2 million funding contribution effective with the transfer of the participants into the CoBank plan. In addition, we assumed certain nonqualified retirement plans as a result of the merger.

We contributed \$4.9 million (exclusive of the merger-related contribution described above) to our funded qualified defined benefit pension plans during the nine months ended September 30, 2012, and anticipate that we will contribute approximately \$1.0 million more to such plans during the remainder of 2012. We expect to contribute a total of \$0.4 million, net of collected retiree premiums, to our other postretirement benefit plans in 2012. We contributed \$3.5 million to our trust funds related to our nonqualified retirement plans during the nine months ended September 30, 2012, and anticipate that we will contribute approximately \$1.3 million more to such plans during the remainder of 2012. Our actual contributions could differ from the estimates noted above.

Note 9 – Commitments and Contingent Liabilities

Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices and farmer delivery patterns, we provide a significant amount of revolving loan commitments. At September 30, 2012, commitments to extend credit and commercial letters of credit were \$29.8 billion and \$279.8 million, respectively.

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide debt securities issued by CoBank. Additionally, we are contingently liable for the outstanding Systemwide debt securities issued by the other System banks. Total Systemwide debt securities of the System were \$192.5 billion at September 30, 2012.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required 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. In addition, the Farm Credit Insurance Fund (Insurance Fund) is a statutorily created insurance fund which assists 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, 2012, the aggregated assets of the Insurance Fund totaled \$3.3 billion. Finally, System banks must maintain certain financial criteria in order to participate in System debt issuances. If these criteria are not met, a troubled System bank's access to and participation in System debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of September 30, 2012 and the liabilities arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

Note 10 – 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 three and nine-month periods ended September 30, 2012 and 2011, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended September 30, 2012

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):						
Net Interest Income	\$ 150,569	\$ 74,259	\$ 85,713	\$ 310,541	\$ (5,459)	\$ 305,082
(Reversal) Provision for Loan Losses	(14,000)	-	24,000	10,000	-	10,000
Noninterest Income	14,354	268	10,459	25,081	(482)	24,599
Operating Expenses	37,310	7,984	20,235	65,529	573	66,102
Provision for Income Taxes	26,893	-	9,122	36,015	(90)	35,925
Net Income	\$ 114,720	\$ 66,543	\$ 42,815	\$ 224,078	\$ (6,424)	\$ 217,654

For the Three Months Ended September 30, 2011

Results of Operations (\$ in Thousands):						
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

Segment Financial Information**For the Nine Months Ended September 30, 2012**

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations (\$ in Thousands):						
Net Interest Income	\$ 463,989	\$ 220,019	\$ 246,738	\$ 930,746	\$ (5,508)	\$ 925,238
(Reversal) Provision for Loan Losses	(19,450)	-	39,450	20,000	-	20,000
Noninterest Income	78,630	686	53,412	132,728	(1,230)	131,498
Operating Expenses	110,002	23,118	55,652	188,772	1,298	190,070
Provision for Income Taxes	104,151	-	42,987	147,138	(1,013)	146,125
Net Income	\$ 347,916	\$ 197,587	\$ 162,061	\$ 707,564	\$ (7,023)	\$ 700,541

Selected Financial Information at September 30, 2012 (\$ in Millions):

Loans	\$ 20,773	\$ 35,857	\$ 13,316	\$ 69,946	\$ -	\$ 69,946
Less: Allowance for Loan Losses	(236)	-	(140)	(376)	-	(376)
Net Loans	\$ 20,537	\$ 35,857	\$ 13,176	\$ 69,570	\$ -	\$ 69,570
Total Assets	\$ 20,905	\$ 35,989	\$ 13,250	\$ 70,144	\$ 20,112 *	\$ 90,256

*Other assets are comprised of:

Investment Securities					\$	17,815
Other Assets						2,297

For the Nine Months Ended September 30, 2011**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

Note 11 – Subsequent Events

We have evaluated subsequent events through November 9, 2012, which is the date the financial statements were issued.

On October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock, totaling \$363.3 million. We used cash on hand to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. On October 4, 2012, we issued \$400.0 million of Series F non-cumulative perpetual preferred stock, representing four million shares at \$100 per share par value. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series F preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears beginning on January 1, 2013 and will accrue at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2022. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.557 percent. The Series F preferred stock is not mandatorily redeemable at any time. However, the Series F preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on October 1, 2022. In addition, the Series F preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. The Series F preferred stock ranks equally, both as to dividends and upon liquidation, to our Series C, D and E preferred stock, and senior to all of our outstanding common stock.

Supplemental District Information

CoBank, ACB and Affiliated Associations

District Overview

CoBank is chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide debt securities. Therefore, we are the primary funding source for our affiliated Associations. As a result of the merger with AgBank, on January 1, 2012, the number of our affiliated Associations increased from four to 29 and now includes Associations in 23 states serving the Plains states, the Southwest, California, the Northwest and the Northeast.

The Associations primarily originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural purposes. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

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

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

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets on pages 60 to 61 present unaudited combined financial information and related analysis 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 the 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.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Financial Highlights⁽¹⁾

(\$ in Thousands)

	September 30, 2012	December 31, 2011
Total Loans	\$ 76,972,984	\$ 48,336,198
Less: Allowance for Loan Losses	691,178	588,879
Net Loans	76,281,806	47,747,319
Total Assets	98,014,257	65,376,682
Total Shareholders' Equity	12,946,760	6,790,284

For the Nine Months Ended September 30,	2012	2011
Net Interest Income	\$ 1,755,996	\$ 1,147,441
Provision for Loan Losses	69,964	99,354
Net Fee Income	107,071	91,463
Net Income	1,215,234	727,739
Net Interest Margin	2.47 %	2.30 %
Return on Average Assets	1.66	1.38
Return on Average Total Shareholders' Equity	13.02	13.97
Average Loans	\$ 76,586,658	\$ 53,467,909
Average Earning Assets	94,748,959	66,621,376
Average Assets	97,647,965	70,211,712

⁽¹⁾ On January 1, 2012, AgBank was merged into CoBank and CoBank became the funding bank for the 25 Farm Credit Associations previously affiliated with AgBank. The effects of the merger are included in the District's condensed combined statement of income, balance sheet, average balances and related metrics beginning in 2012.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

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

The following discussion summarizes the combined results of operations and financial position of the CoBank District (District) as of and for the nine months ended September 30, 2012. Comparisons with prior-year periods are included. Affiliated Agricultural Credit Associations and Federal Land Credit Associations are together referred to as "affiliated Associations."

Merger with AgBank

On January 1, 2012, AgBank was merged into CoBank, and CoBank became the funding bank for the 25 Associations formerly affiliated with AgBank. Beginning in 2012, the District's statement of income, balance sheet, average balances and related metrics include the effects of the merger with AgBank. Prior year results have not been restated to reflect the impact of the merger.

Upon the closing of the merger, the District's total loans, investment securities, other assets, liabilities and shareholders' equity increased by \$24.9 billion, \$5.2 billion, \$0.9 billion, \$25.8 billion, and \$5.2 billion, respectively. These amounts include adjustments to fair value, as required by accounting standards for business combinations. Fair value adjustments related to business combinations may be refined for up to one year following the close of the merger as additional information relative to closing date fair value becomes available.

Also on January 1, 2012, Mountain Plains Farm Credit Services merged with American AgCredit, both of which are former AgBank affiliated Associations.

Combined Results of Operations

District net income increased 67 percent to \$1.2 billion for the nine months ended September 30, 2012 compared to \$727.7 million for the same period of 2011, and included the impact of the merger and \$86.2 million in refunds from the Farm Credit System Insurance Corporation (Insurance Corporation). Stronger earnings primarily reflect an increase in net interest income and noninterest income, partially offset by an increase in operating expenses.

Net interest income increased 53 percent to \$1.8 billion for the nine months ended September 30, 2012 from \$1.1 billion for the same period in 2011. The significant increase in net interest income was due to the merger-related addition of 25 affiliated Associations to the District. The merger drove an increase in average loan volume in the District, which grew to \$76.6 billion in the first nine months of 2012 compared to \$53.5 billion for the same period of 2011. The merger impact was somewhat offset by lower average agribusiness loan volume in the Bank's retail portfolio. Excluding the impact of the merger, average loan volume at the Associations increased modestly.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

The District's overall net interest margin increased to 2.47 percent for the first nine months of 2012 as compared to 2.30 percent for the same period in 2011. The merger with AgBank increased the District's overall net interest margin due to the resulting shift in the mix of total District loans. The significant majority of the loan portfolios of the 25 new affiliated Associations consist of long-term real estate mortgage loans and production and intermediate-term loans, which generally carry higher margins than portions of CoBank's retail loan portfolio, including guaranteed agricultural export finance loans and most rural energy loans. Lower spreads on guaranteed agricultural export finance loans and most rural energy loans are commensurate with their lower risk and lower regulatory capital requirements. In addition, CoBank's loans to non-affiliated Associations also carry lower margins, consistent with their lower risk and capital profile.

The District's combined provision for loan losses was \$70.0 million for the nine months ended September 30, 2012, compared to \$99.4 million for the same period of 2011. The Associations' combined provision was \$50.0 million for the first nine months of 2012, compared to \$49.4 million in the prior-year period. The District's loan quality is discussed beginning on page 54.

Noninterest income increased significantly to \$258.9 million for the nine months ended September 30, 2012 from \$125.5 million for the same period in 2011, driven primarily by refunds from the Insurance Corporation. CoBank and its affiliated Association customers received refunds of \$86.2 million, with \$44.6 million related to CoBank and \$41.6 million related to affiliated Associations. The increase in noninterest income also included a higher level of fee income at the Bank, as well as the addition of fee income generated from the 25 new affiliated Associations.

Total District operating expenses were also significantly impacted by the merger, increasing 94 percent to \$572.8 million for the nine-month period ended September 30, 2012 from \$295.9 million for the same period of 2011. Employee compensation increased to \$358.7 million from \$161.9 million for the first nine months of 2011. The total number of employees in the District more than doubled to approximately 3,500 as a result of the merger, which was the largest contributing factor to the increase in employee compensation expense. In addition, as discussed on page 45, assets and obligations related to bank participants in AgBank's legacy defined benefit pension plans were transferred into CoBank's defined benefit pension plan effective with the merger. This transfer resulted in a \$14.1 million one-time expense to the plans from which these assets and obligations were transferred, which was recognized in the District financial statements. The increases in substantially all other operating expense categories, including information services, general and administrative, occupancy and equipment, Farm Credit System related and other expenses, were also primarily the result of the merger with the addition of 25 Associations. Purchased services expenses were \$26.5 million for the nine-month period ended September 30, 2012 compared to \$26.2 million for the same period in 2011. The 2011 period reflected merger-related costs at the bank, while current period expenses include costs resulting from the addition of expenses incurred by the 25 newly affiliated Associations following the merger.

Income tax expense increased to \$156.9 million from \$149.9 million. Because the substantial majority of the business activities at Associations, including those Associations previously affiliated with AgBank, are exempt from federal income tax, the income tax expense at the District predominantly relates to CoBank. The change in income tax expense at CoBank is explained on page 6.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

(\$ in Thousands)

District Loans by Loan Type		September 30, 2012	December 31, 2011
Real Estate Mortgage	\$	22,755,225	\$ 6,451,948
Non-affiliated Associations		3,596,920	4,047,861
Production and Intermediate-term		12,541,554	6,746,375
Agribusiness Loans to:			
Cooperatives		11,511,069	10,095,904
Processing and Marketing Operations		3,588,599	1,503,068
Farm Related Businesses		1,407,481	732,585
Communications		2,917,623	2,640,289
Power		10,044,347	8,695,046
Water		1,087,563	986,082
Agricultural Export Finance		4,397,675	3,757,667
Rural Residential Real Estate		865,748	784,887
Lease Receivables		2,203,978	1,873,321
Other		55,202	21,165
Total	\$	76,972,984	\$ 48,336,198

District loan volume at September 30, 2012 was \$77.0 billion compared to \$48.3 billion at December 31, 2011. The significant increase resulted from the merger with AgBank. In particular, real estate mortgage, production and intermediate-term, and agribusiness processing and marketing loans increased significantly due to the addition of the 25 Associations formerly affiliated with AgBank. The increase in period-end agribusiness loans to cooperatives was primarily due to the merger and seasonal borrowing by agricultural cooperatives largely in the farm supply and grain marketing sectors. The increase in power loans included growth in CoBank's retail portfolio and the addition, via the merger, of loan participations purchased by certain Associations. The increase in agricultural export finance loans relates to CoBank's retail portfolio and resulted from global market volatility and a higher level of import/export demand.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Loan Quality

The following table presents loans and related accrued interest receivable, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

District Loan Quality		
	September 30, 2012	December 31, 2011
Acceptable	94.17 %	93.82 %
Special Mention	2.83	3.23
Substandard	2.87	2.81
Doubtful	0.13	0.14
Loss	-	-
Total	100.00 %	100.00 %

Loan quality within the District is very favorable, with over 94 percent of all loans and related accrued interest in the highest category of credit quality. While the merger with AgBank did not significantly change the loan quality measures at the District level, it did enhance industry and geographic diversification within the CoBank District. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Plains states, the Southwest, California, the Northwest and the Northeast. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, dairy, and electric distribution sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled \$926.3 million as of September 30, 2012 compared to \$500.2 million at December 31, 2011, and increased primarily as a result of the additional Associations included due to the merger. Nonperforming assets represented 1.20 percent of total District loan volume and other property owned at September 30, 2012 compared to 1.03 percent at December 31, 2011. Nonaccrual loan volume, the largest component of nonperforming assets, was 1.02 percent of total loans at September 30, 2012 compared to 0.89 percent at December 31, 2011. Changes in the level of nonaccrual loans in CoBank's retail loan portfolio are discussed on page 11. Other property owned increased to \$60.6 million at September 30, 2012 from \$10.0 million at December 31, 2011. The addition of other property owned by Associations in the former AgBank district primarily drove the increase. The properties in other property owned are primarily related to the cattle, dairy and nursery industries.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

The following table displays the District's nonperforming assets for the periods presented.

(\$ in Thousands)

Nonperforming Assets	September 30, 2012	December 31, 2011
Nonaccrual Loans:		
Real Estate Mortgage	\$ 356,045	\$ 128,719
Production and Intermediate-term	267,197	183,141
Agribusiness	43,248	41,154
Communications	88,789	54,512
Power	9,278	201
Rural Residential Real Estate	14,847	15,287
Lease Receivables	5,915	9,549
Total Nonaccrual Loans	785,319	432,563
Accruing Restructured Loans:		
Real Estate Mortgage	34,348	18,481
Production and Intermediate-term	20,268	18,639
Agribusiness	3,892	2,123
Power	3,422	3,228
Rural Residential Real Estate	320	409
Total Accruing Restructured Loans	62,250	42,880
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	12,684	2,554
Production and Intermediate-term	4,611	10,783
Agribusiness	338	188
Rural Residential Real Estate	316	1,056
Lease Receivables	208	114
Total Accruing Loans 90 Days or More Past Due	18,157	14,695
Total Nonperforming Loans	865,726	490,138
Other Property Owned	60,616	10,031
Total Nonperforming Assets	\$ 926,342	\$ 500,169
Nonaccrual Loans as a Percentage of Total Loans	1.02 %	0.89 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	1.20	1.03
Nonperforming Assets as a Percentage of Capital	7.16	7.37

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

The following tables present an aging of past due loans and related accrued interest in the District for the periods presented.

(\$ in Thousands)

Aging of Past Due Loans

September 30, 2012							
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing	
Real Estate Mortgage	\$ 93,342	\$ 109,826	\$ 203,168	\$ 22,883,199	\$ 23,086,367	\$ 12,684	
Non-affiliated Associations	-	-	-	3,599,102	3,599,102	-	
Production and							
Intermediate Term	79,124	72,579	151,703	12,492,544	12,644,247	4,611	
Agribusiness	7,275	20,935	28,210	16,552,270	16,580,480	338	
Communications	-	5,492	5,492	2,916,418	2,921,910	-	
Power	-	-	-	10,102,054	10,102,054	-	
Water	-	-	-	1,095,657	1,095,657	-	
Agricultural Export							
Finance	-	-	-	4,410,852	4,410,852	-	
Rural Residential Real							
Estate	2,768	7,687	10,455	859,967	870,422	316	
Lease Receivables	3,246	2,301	5,547	2,198,992	2,204,539	208	
Other	-	-	-	55,326	55,326	-	
Total	\$ 185,755	\$ 218,820	\$ 404,575	\$ 77,166,381	\$ 77,570,956	\$ 18,157	

(\$ in Thousands)

Aging of Past Due Loans

December 31, 2011							
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing	
Real Estate Mortgage	\$ 34,802	\$ 49,821	\$ 84,623	\$ 6,425,403	\$ 6,510,026	\$ 2,554	
Non-affiliated Associations	-	-	-	4,050,481	4,050,481	-	
Production and							
Intermediate Term	36,186	57,901	94,087	6,688,311	6,782,398	10,783	
Agribusiness	6,264	7,886	14,150	12,362,121	12,376,271	188	
Communications	-	-	-	2,648,194	2,648,194	-	
Power	-	-	-	8,740,596	8,740,596	-	
Water	-	-	-	992,051	992,051	-	
Agricultural Export							
Finance	-	-	-	3,766,204	3,766,204	-	
Rural Residential Real							
Estate	6,363	7,710	14,073	775,341	789,414	1,056	
Lease Receivables	56,100	4,916	61,016	1,812,304	1,873,320	114	
Other	-	-	-	21,223	21,223	-	
Total	\$ 139,715	\$ 128,234	\$ 267,949	\$ 48,282,229	\$ 48,550,178	\$ 14,695	

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled \$187.1 million at September 30, 2012.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at September 30, 2012 totaled \$691.2 million compared to \$588.9 million at December 31, 2011.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

(\$ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Merger Impact	Balance at September 30, 2012
Real Estate							
Mortgage	\$ 52,628	\$ (6,658)	\$ 411	\$ (1,907)	\$ (232)	\$ 38,720	\$ 82,962
Production and Intermediate							
Term	143,613	(45,232)	4,492	47,884	(466)	47,644	197,935
Agribusiness	232,396	(4,113)	851	(16,440)	(2,841)	14,976	224,829
Communications	46,498	(1,555)	784	22,835	577	465	69,604
Power	68,204	-	142	18,102	(16,512)	2,239	72,175
Water	7,518	-	45	2,069	(1,828)	4	7,808
Agricultural							
Export							
Finance	12,073	-	362	(7,975)	1,584	16	6,060
Rural Residential							
Real Estate	4,123	(376)	-	1,544	-	55	5,346
Lease							
Receivables	21,761	(2,675)	555	3,906	-	902	24,449
Other	65	(1)	-	(54)	-	-	10
Total	\$ 588,879	\$ (60,610)	\$ 7,642	\$ 69,964	\$ (19,718)	\$ 105,021	\$ 691,178

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

(\$ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at September 30, 2011
Real Estate Mortgage	\$ 42,077	\$ (3,305)	\$ 6	\$ 21,646	\$ (2,739)	\$ 57,685
Production and Intermediate Term	129,381	(24,498)	3,883	36,827	(8,310)	137,283
Agribusiness	253,776	(4,170)	1,819	19,052	(30,323)	240,154
Communications	60,824	(6,333)	34	(8,298)	101	46,328
Power	51,292	(4,439)	233	17,401	(6,122)	58,365
Water	5,616	(1,707)	-	3,344	(697)	6,556
Agricultural Export Finance	10,732	(126)	279	-	(156)	10,729
Rural Residential Real Estate	2,878	(1,638)	-	2,799	(141)	3,898
Lease Receivables	19,852	(2,310)	205	6,500	-	24,247
Other	37	-	-	83	(5)	115
Total	\$ 576,465	\$ (48,526)	\$ 6,459	\$ 99,354	\$ (48,392)	\$ 585,360

District Capital Resources

Combined District shareholders' equity at September 30, 2012 totaled \$12.9 billion, a net increase of \$6.1 billion as compared to \$6.8 billion at December 31, 2011. The merger accounted for \$5.2 billion of the increase, net of merger-related fair value adjustments. The additional increase resulted from District net income of \$1.2 billion and additional other comprehensive income of \$95.0 million, offset by net stock retirements, patronage distributions and preferred stock dividends of \$312.2 million. The components of the District's accumulated other comprehensive income (loss) are detailed in the following table:

(\$ in Thousands)

Accumulated Other Comprehensive Income (Loss)

	September 30, 2012	December 31, 2011
Unrealized Gains on Investment Securities	\$ 211,565	\$ 158,662
Net Pension Adjustment	(255,738)	(115,156)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	(9,819)	(5,960)
Accumulated Other Comprehensive Income (Loss)	\$ (53,992)	\$ 37,546

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

The following table presents regulatory capital ratios for CoBank and the range of ratios at the affiliated Associations.

District Capital Ratios						
	September 30, 2012			December 31, 2011		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	16.13%	15.20%	9.20%	16.37%	16.01%	10.02%
Associations	13.37% - 34.81%	13.16% - 34.38%	13.11% - 29.19%	13.81% - 20.59%	13.65% - 20.26%	13.65% - 20.26%
Regulatory Minimum	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at September 30, 2012, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios.

Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide debt securities are applicable only to System banks and do not include Associations. CoBank has limited access to Association capital. There are no capital sharing agreements between CoBank and its affiliated Associations.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

(\$ in Thousands)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Interest Income				
Loans	\$ 702,689	\$ 467,160	\$ 2,098,669	\$ 1,481,699
Investment Securities	83,318	67,462	255,809	209,525
Total Interest Income	786,007	534,622	2,354,478	1,691,224
Interest Expense	197,181	175,518	598,482	543,783
Net Interest Income	588,826	359,104	1,755,996	1,147,441
Provision for Loan Losses	30,317	27,572	69,964	99,354
Net Interest Income After Provision for Loan Losses	558,509	331,532	1,686,032	1,048,087
Noninterest Income/ Expense				
Net Fee Income	35,634	35,497	107,071	91,463
Prepayment Income	13,106	5,360	36,551	16,843
Losses on Early Extinguishments of Debt	(21,578)	(18,147)	(51,232)	(26,923)
Total Other-Than-Temporary Impairment Losses	(529)	-	(972)	(2,847)
Portion Recognized in Other Comprehensive Loss	(1,471)	(2,000)	(4,028)	(3,153)
Net Other-Than-Temporary Impairment Losses Included in Earnings	(2,000)	(2,000)	(5,000)	(6,000)
Other, Net	26,010	18,346	171,496	50,071
Total Noninterest Income	51,172	39,056	258,886	125,454
Operating Expenses				
Employee Compensation	116,176	54,969	358,708	161,937
Insurance Fund Premium	8,392	6,333	24,722	20,590
Information Services	11,897	5,970	34,819	17,622
General and Administrative	18,611	10,792	49,010	31,565
Occupancy and Equipment	10,127	5,185	29,244	15,321
Farm Credit System Related	5,908	2,609	18,042	7,895
Purchased Services	9,464	10,015	26,517	26,153
Other	10,464	5,096	31,729	14,773
Total Operating Expenses	191,039	100,969	572,791	295,856
Income Before Income Taxes	418,642	269,619	1,372,127	877,685
Provision for Income Taxes	39,146	42,171	156,893	149,946
Net Income	\$ 379,496	\$ 227,448	\$ 1,215,234	\$ 727,739

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets

(\$ in Thousands)

	September 30, 2012	December 31, 2011
Assets		
Total Loans	\$ 76,972,984	\$ 48,336,198
Less: Allowance for Loan Losses	691,178	588,879
Net Loans	76,281,806	47,747,319
Cash	1,094,739	2,849,697
Investment Securities	18,119,034	12,995,458
Interest Rate Swaps and Other Financial Instruments	1,090,887	1,047,897
Accrued Interest Receivable and Other Assets	1,427,791	736,311
Total Assets	\$ 98,014,257	\$ 65,376,682
Liabilities		
Bonds and Notes	\$ 82,303,797	\$ 56,168,289
Subordinated Debt	1,000,000	1,000,000
Interest Rate Swaps and Other Financial Instruments	172,950	136,062
Reserve for Unfunded Commitments	187,149	167,404
Accrued Interest Payable and Other Liabilities	1,403,601	1,114,643
Total Liabilities	85,067,497	58,586,398
Shareholders' Equity		
Preferred Stock Issued by Bank	925,000	700,000
Preferred Stock Issued by Associations	336,994	-
Common Stock	1,245,160	1,201,116
Paid In Capital	654,652	164,369
Unallocated Retained Earnings	9,838,946	4,687,253
Accumulated Other Comprehensive Income (Loss)	(53,992)	37,546
Total Shareholders' Equity	12,946,760	6,790,284
Total Liabilities and Shareholders' Equity	\$ 98,014,257	\$ 65,376,682

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, 2012.

/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, 2012

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, 2012

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*

Leili Ghazi, Agribusiness Division – West

Michael W. Hechtner, Agribusiness Division – Central

Lynn M. Scherler, Agribusiness Division – South

G. David Sparks, Agribusiness Division – East

Jonathan B. Logan, Corporate Agribusiness Banking Group

Karen S. Lowe, Agricultural Export Finance Division

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

Stephen B. Secor, Operations Division

Todd E. Wilson, Enterprise Solutions and Services Division

Regulatory, Legislative and Compliance

Andrew D. Jacob, Regulatory, Legislative and Compliance

L. Todd Van Hoose, Government Affairs

Legal

Gregory J. Buehne, General Counsel

Human Resources

Robert L. O'Toole, Senior Vice President

Wichita Operations

David D. Janish, Chief Operations Officer

Gregory E. Somerhalder, Chief Risk Officer

Rodney A. Brown, Asset Review Division

Katia V. Hoffer, Enterprise Risk Management

Steven W. Wittbecker, 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 in the Regional Agribusiness Banking Group.

** Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

Office Locations

CoBank, ACB

CoBank National Office

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

Farm Credit Leasing Services Corporation

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

Washington, DC Office

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

U.S. Regional Offices

Ames Banking Center

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

Atlanta Banking Center **

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

Austin Banking Center

4801 Plaza on the Lake Drive
Austin, TX 78746
(512) 483-9273

California Farm Credit Leasing Office *

2345 East Earhart Avenue
Stockton, CA 95206
P.O. Box 31990
Stockton, CA 95213
(209) 944-7478

Enfield Banking Center **

240B South Road
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
Lubbock, TX 79493
(806) 788-3700
FCL: (806) 788-3705

Minneapolis Banking Center **

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

Ohio Farm Credit Leasing Office *

1220 Imscher Boulevard
Celina, OH 45822
(855) 838-9961 Ext. 23969

Omaha Banking Center **

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

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
(509) 363-8700
(800) 378-5577

Sterling Banking Center

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

St. Louis Banking Center **

1650 Des Peres Road, Suite 120
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

Wichita Banking Center **

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

International

Singapore Representative Office

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

* Farm Credit Leasing office only

** Farm Credit Leasing office within this CoBank location

CoBank's 2012 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 10, 2012, August 9, 2012, November 9, 2012, and March 1, 2013 (Annual Report).