2021 Quarterly Report

JUNE 30, 2021

Dear CoBank Customer-Owner:

We are pleased to report that CoBank recorded another period of strong financial and business performance in the second quarter of 2021. Lending increased across all three of our operating segments compared to the same prior-year period, while earnings, credit quality and capital remained strong. The rural economy is benefiting as U.S. economic growth recovers, driving higher levels of spending and investment by businesses and consumers. CoBank is well-positioned to meet increased demand for credit from our customers and to assist them in their transition into a post-pandemic operating environment.

Average loan volume increased 11 percent in the second quarter of 2021 to $124.4 billion, from $111.7 billion in the second quarter last year. For the first six months of 2021, average loan volume rose by 13 percent to $125.1 billion, from $110.9 billion in the same period last year. Loan growth in both periods occurred predominantly in lending to grain and farm supply cooperatives in our Agribusiness operating segment, affiliated Associations in our Farm Credit Banking operating segment, and rural power and electric distribution customers in our Rural Infrastructure operating segment.

Net income for the second quarter of 2021 increased 19 percent to $358.3 million, compared to $301.1 million in the second quarter of 2020. This increase for the quarter was primarily due to higher net interest income and a lower provision for loan losses somewhat offset by an increase in operating expenses and lower noninterest income. For the first six months of 2021, net income grew 15 percent to $682.3 million, compared to $595.2 million in the same period last year. The increase for the first six months resulted primarily from higher net interest income somewhat offset by an increase in operating expenses, a higher provision for loan losses and a decrease in noninterest income.

Net interest income for the second quarter increased to $447.0 million, from $375.3 million in the same period last year. For the first six months of 2021, net interest income grew to $890.1 million, compared to $758.6 million in the same period last year. The increase in both periods was primarily driven by higher average loan volume, higher earnings on balance sheet positioning and an improvement in lending spreads in most lending portfolios.

Operating expenses increased by $20.7 million for the quarter and increased $33.7 million from the first six months of last year. The higher level of operating expenses in the quarter and first six months of 2021 was primarily driven by an increase in insurance fund premium expense. The Farm Credit System Insurance Corporation assessed premium rates of 16 basis points of adjusted insured debt obligations in the quarter and first six months of 2021 compared to 8 basis points in the same periods of the prior year.

We did not record a provision for loan losses in the second quarter of 2021 compared to a provision of $16.0 million in the second quarter of 2020. The bank's provision for loans losses was $55.0 million for the six months ended June 30, 2021 compared to $42.0 million in the same period last year. The 2021 provision primarily relates to increased lending activity in our Agribusiness operating segment and an increase in specific reserves primarily related to a limited number of customers in our Rural Infrastructure operating segment impacted by the severe winter storms that occurred in Texas in February 2021. Notwithstanding the increase in the provision for loan losses, our overall loan quality measures remain strong at June 30, 2021.

CoBank's capital and liquidity levels remain in excess of regulatory minimums. As of June 30, 2021, shareholders' equity totaled $11.9 billion, and the bank's total capital ratio was 14.73 percent, compared with the 8.0 percent minimum (10.5 percent inclusive of the capital conservation buffer) established by the Farm Credit Administration, the bank's independent regulator. At June 30, 2021, the bank held approximately $35.3 billion in cash, investments and overnight funds and had 187 days of liquidity, compared to 174 days at December 31, 2020.

The table below contains key financial data for the three- and six-month periods ended June 30, 2021. Complete financial information is provided in Management's Discussion and Analysis and the financial statements and footnotes that follow this letter.

KEY FINANCIAL DATA

($ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
INCOME STATEMENT	**2021**	**2020**	**2021**	**2020**
Net interest income	$447	$375	$890	$759
Provision for loan losses	-	16	55	42
Noninterest income	64	80	146	152
Operating expenses	122	101	234	201
Net income	358	301	682	595
BALANCE SHEET (period-end)		**June 30, 2021**		**December 31, 2020**
Total loans		$121,316		$120,856
Less: allowance for loan losses[(1)]		693		636
Net loans		120,623		120,220
Total assets		157,786		158,586
Total shareholders' equity		11,901		11,910

($ in millions)	Six Months Ended June 30,	
PROFITABILITY METRICS	**2021**	**2020**
Net interest margin	1.14%	1.05%
Return on average common equity	12.46%	11.46%
Return on average assets	0.86%	0.80%
Operating expense ratio	18.55%	21.18%
Average total loans	$125,132	$110,930
Average earning assets	158,109	145,056
Average total assets	160,870	150,548

[(1)] Excludes our reserve for unfunded commitments of $101 at June 30, 2021 and $97 at December 31, 2020 which is classified in liabilities in our balance sheet.

CoBank is committed to our mission to serve rural America and provide our customers with dependable credit regardless of the macroeconomic environment. Our board and executive team look ahead to the future with a high degree of confidence in the Bank and continue to position ourselves to best serve customers across all our industries and uphold our cooperative commitments to serving our communities across rural America. Our commitment to our customers drives us as an organization and we value the trust you place in us and deeply appreciate the opportunity to serve as your trusted financial partner.

Kevin G. Riel
Chair of the Board

Thomas E. Halverson
President and Chief Executive Officer

August 9, 2021

Management's Discussion and Analysis of Financial Condition and Results of Operations
CoBank, ACB

Business Overview

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

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

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes, the accompanying regulatory capital disclosures and our 2020 Annual Report to Shareholders.

Consolidated Results of Operations

Average loan volume was $125.1 billion during the first six months of 2021 compared to $110.9 billion in the same prior-year period. The 13 percent increase in average loan volume reflected growth in lending across all three operating segments. Loan growth occurred predominantly in lending to grain and farm supply cooperatives in our Agribusiness operating segment, affiliated Associations in our Farm Credit Banking operating segment and rural power and electric distribution customers in our Rural Infrastructure operating segment.

Net income increased $87.1 million to $682.3 million for the six-month period ended June 30, 2021, compared to $595.2 million during the same period in 2020. The 15 percent increase in earnings resulted primarily from an increase in net interest income somewhat offset by an increase in operating expenses, a higher provision for loan losses and a decrease in noninterest income in the 2021 period.

Net Interest Margin and Net Interest Income						
For the Six Months Ended June 30,		**2021**			**2020**	
($ in Millions)	**Average Balance**	**Average Rate**	**Interest Income/ Expense**	**Average Balance**	**Average Rate**	**Interest Income/ Expense**
Interest-earning Assets(1)						
Loans	**$ 125,132**	**2.01 %**	**$ 1,250**	$ 110,930	2.74 %	$ 1,516
Investment Securities, Federal Funds Sold and Other Overnight Funds	**32,977**	**1.38**	**225**	34,126	1.88	320
Total Interest-earning Assets(1)	**158,109**	**1.88**	**1,475**	145,056	2.54	1,836
Total Interest-bearing Liabilities	**146,398**	**0.80**	**585**	136,763	1.58	1,077
Interest Rate Spread		**1.08**			0.96	
Impact of Equity Financing	**11,880**	**0.06**		11,191	0.09	
Net Interest Margin and Net Interest Income		**1.14 %**	**$ 890**		1.05 %	$ 759

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

Net interest income increased $131.5 million to $890.1 million for the six months ended June 30, 2021, compared to $758.6 million for the same prior-year period. The 17 percent increase in net interest income was primarily driven by higher average loan volume, including increased levels of lending to many grain and farm supply cooperatives in our Agribusiness operating segment, higher earnings on balance sheet positioning and an improvement in lending spreads in most lending portfolios.

Net interest margin improved to 1.14 percent for the first six months of 2021 compared to 1.05 percent for the same period in 2020. The increase in net interest margin was driven by higher lending spreads in our loan portfolio which is due in part to changes in asset mix during the current period, including increased lending to Agribusiness customers which carry higher spreads than many of our other lending portfolios.

We recorded a $55.0 million provision for loan losses in the six-month period ended June 30, 2021. The 2021 provision primarily relates to increased lending activity in our Agribusiness operating segment and an increase in specific reserves primarily related to a small number of customers in our Rural Infrastructure operating segment impacted by the severe winter storms that occurred in Texas earlier in the year. We recorded a $42.0 million provision for loan losses in the six-month period ended June 30, 2020. The 2020 provision primarily related to increases in specific reserves associated with a small number of customers in our Rural Infrastructure and Agribusiness operating segments, increased lending activity and higher reserves associated with the onset of COVID-19, somewhat offset by an improvement in credit quality in most sectors of the Rural Infrastructure portfolio. While overall credit quality remained strong, adversely classified loans and accrued interest increased to 0.69 percent of total loans and accrued interest at June 30, 2021 from 0.54 percent at December 31, 2020 due to slight deterioration in credit quality for a small number of customers in our Agribusiness and Rural Infrastructure operating segments. Nonaccrual loans increased $22.5 million to $139.9 million at June 30, 2021 from $117.4 million at December 31, 2020 due to downgrades of a small number of customers in our Rural Infrastructure operating segment. Gross charge-offs were $3.0 million for the first six months of 2021, compared to $8.9 million for the same period in 2020. Gross recoveries were $10.7 million for the first six months of 2021, compared to $1.9 million for the same period in 2020.

Noninterest income decreased $5.9 million to $146.5 million for the first six months of 2021 from $152.4 million for the same prior-year period. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. Net fee income decreased $3.3 million in the 2021 period primarily due to a lower level of transaction-related lending fees in our Rural Infrastructure operating segment. Patronage income increased $12.0 million for the six months ended June 30, 2021 due to a greater level of loans sold to affiliated Associations and other System institutions as well as a higher level of patronage received from other System institutions. Prepayment income increased $3.4 million in the 2021 period resulting from a higher level of customer refinancing activity and higher prepayment fees from certain of our affiliated Associations. Losses on early extinguishments of debt increased $10.6 million compared to the 2020 period and are generally incurred to offset the current and prospective impact of prepayments in our loan and investment portfolios. The availability in the market of similarly tenored debt, coupled with the timing of prepayments, does not always allow us to fully offset the impact of prepayments in the same period. Noninterest income in the 2020 period included a return of excess insurance funds from the Farm Credit System Insurance Corporation (Insurance Corporation) related to the Farm Credit System Insurance Fund (Insurance Fund) of $12.6 million.

Total operating expenses for the six-month period ended June 30, 2021 increased $33.7 million to $234.3 million from $200.6 million for the same period in 2020. The higher level of operating expenses was primarily driven by an increase in Insurance Fund premium expense of $31.6 million in the first six months of 2021 compared to the 2020 period due to increases in premium rates and, to a lesser extent, insured debt obligations. Insurance Fund premium rates are set by the Insurance Corporation and were 16 basis points of adjusted insured debt obligations in the first half of 2021 compared to 8 basis points during the same period of 2020. The premium rate will remain 16 basis points of adjusted insured debt obligations for the remainder of 2021. Employee compensation expense increased $8.3 million for the first six months of 2021 due primarily to a higher level of accrued incentive compensation reflective of strong business and financial performance somewhat offset by lower employee headcount. As of June 30, 2021 and 2020, we had 1,117 and 1,160 employees, respectively. These increases in operating expenses were partially offset by decreases in other operating expenses, purchased services expenses and general and administrative expenses in the first six months of 2021 compared to the 2020 period. Other operating expenses decreased $2.9 million due to a lower level of expenditures for business travel and meeting related expenses due to COVID-19 restrictions. Purchased services expense decreased $2.7 million primarily due to decreased consulting and professional fees. General and administrative expenses decreased $1.4 million primarily due to the timing of charitable contributions and lower associate training and other miscellaneous expenses.

Our income tax expense decreased by $8.1 million to $65.0 million for the first six months of 2021, compared to $73.1 million for the same prior-year period. Our effective tax rates were 8.7 percent and 10.9 percent for the six-month periods ended June 30, 2021 and 2020, respectively. The decreases in our income tax expense and the effective tax rate were primarily due to an increase in earnings attributable to non-taxable business activities. As discussed in our 2020 Annual Report, we recorded a $30.2 million favorable adjustment to the provision for income taxes in the fourth quarter of 2019 reflecting amendments to our 2015 through 2017 federal and state tax returns to realize the benefit of certain equipment leasing transactions. In April 2020, the Internal Revenue Service initiated an examination of these amended federal tax returns which remains ongoing at this time.

As a result of the higher level of earnings in the first six months of 2021, our annualized return on average common shareholders' equity increased to 12.46 percent for the six months ended June 30, 2021 from 11.46 percent for the same period in 2020. Our annualized return on average assets increased to 0.86 percent for the six-month period ended June 30, 2021 from 0.80 percent for the same period in 2020.

For the three months ended June 30, 2021, net income increased $57.2 million to $358.3 million, compared to $301.1 million for the same prior-year period. The increase in net income included an increase in net interest income of $71.8 million to $447.0 million for the second quarter of 2021 compared to the same prior-year period. This increase in net interest income was primarily due to higher average loan volume, higher earnings from balance sheet positioning and an improvement in lending spreads in most lending portfolios. Average loan volume increased to $124.4 billion during the three months ended June 30, 2021 compared to $111.7 billion in the same prior-year period and primarily reflected an increase in lending to grain and farm supply cooperatives in our Agribusiness operating segment, affiliated Associations in our Farm Credit Banking operating segment and rural power and electric distribution customers in our Rural Infrastructure operating segment. We did not record a provision for loan losses for the three-month period ended June 30, 2021 compared to a provision of $16.0 million in the same prior-year period. Partially offsetting these favorable net income items was an increase in operating expenses of $20.7 million in the second quarter of 2021, compared to the same prior-year period, largely due to increases in insurance fund premium expense and employee compensation expense. Noninterest income also decreased $16.3 million in the second quarter of 2021 primarily due to lower levels of prepayment income and net fee income.

Operating Segment Financial Review

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

Loans outstanding and the allowance for loan losses by operating segment at June 30, 2021 and 2020 are reported in Notes 3 and 11 to the accompanying condensed consolidated financial statements. All customer activity, including loans and leases and related income, is specifically assigned to the business units that comprise the operating segments. Investment securities and federal funds sold and other overnight funds, which are primarily held as a liquidity reserve to support our banking operations, are not specifically assigned to operating segments; however, the income from investment securities and federal funds sold and other overnight funds is attributed to the operating segments. Net income by operating segment is summarized in the following table and is more fully detailed in Note 11 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment ($ in Thousands)

For the Six Months Ended June 30,	2021	2020
Operating Segment:		
Agribusiness	$ **360,987**	$ 281,066
Farm Credit Banking	**125,176**	127,181
Rural Infrastructure	**196,152**	186,957
Total	$ **682,315**	$ 595,204

Agribusiness

The Agribusiness operating segment includes loans and other financial services provided to a diverse market of cooperatives and other businesses in various agricultural sectors including grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Agribusiness loans outstanding totaled $36.5 billion at June 30, 2021, compared to $36.1 billion at December 31, 2020. The Agribusiness segment includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters of agricultural products. The Agricultural Export Finance Division had $5.6 billion and $6.0 billion in loans outstanding as of June 30, 2021 and December 31, 2020, respectively. At June 30, 2021 and December 31, 2020, 19 and 22 percent, respectively, of the loans in the Agricultural Export Finance Division were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of June 30, 2021 and December 31, 2020, FCL had $3.9 billion and $4.1 billion in leases outstanding, respectively.

Agribusiness average loan volume increased 20 percent to $40.5 billion for the first six months of 2021 from $33.7 billion for the same period in 2020. Growth in Agribusiness loan volume resulted primarily from higher levels of financing to many grain and farm supply cooperatives due to higher commodity prices in the 2021 period.

Agribusiness net income increased $79.9 million in the first six months of 2021 to $361.0 million from $281.1 million for the same period in 2020. The increase was primarily due to an increase in net interest income somewhat offset by an increase in operating expenses.

Net interest income increased by $100.2 million to $497.7 million for the six-month period ended June 30, 2021, from $397.5 million for the 2020 period. This increase was primarily due to higher average loan volume driven by the higher level of financing to many grain and farm supply cooperatives, as well as higher earnings on balance sheet positioning and an improvement in lending spreads.

Agribusiness recorded a $45.9 million provision for loan losses during the first six months of 2021 compared to $47.5 million in the same prior-year period. The 2021 provision primarily reflects increased lending activity and the credit downgrades of several food and agribusiness customers. The 2020 provision primarily reflected increases in specific reserves for a small number of customers, increased lending activity, higher reserves related to two lease portfolio purchases and an additional level of reserves associated with the onset of COVID-19. Nonaccrual loans in Agribusiness decreased $3.9 million to $94.5 million at June 30, 2021, as compared to $98.4 million at December 31, 2020. Gross charge-offs were $3.0 million for the first six months of 2021, compared to $0.9 million for the same period in 2020. Gross recoveries were $2.4 million for the first six months of 2021, compared to $1.6 million for the same period in 2020.

Noninterest income increased $0.6 million to $88.3 million in the first six months of 2021 from $87.7 million for the 2020 period resulting from higher patronage income and an increase in fee income due to a higher level of transaction-related lending fees partially offset by higher losses on early extinguishments of debt, net of prepayment income. In addition, noninterest income for the six months ended June 30, 2020 included a return of excess insurance funds from the Insurance Corporation.

Agribusiness operating expenses increased $23.6 million to $145.0 million for the first six months of 2021 from $121.4 million in the same prior-year period primarily due to the increases in Insurance Fund premium expense and employee compensation expense somewhat offset by the decreases in other operating expense, purchased services expense and general and administrative expense described on page 5.

Farm Credit Banking

The Farm Credit Banking operating segment includes wholesale loans from the direct funding relationships we have with our 20 affiliated Association customer-owners and our wholesale funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of June 30, 2021, the Farm Credit Banking loan portfolio totaled $60.4 billion, compared to $60.5 billion at December 31, 2020. At June 30, 2021 and December 31, 2020, loans outstanding included $55.4 billion and $55.5 billion, respectively, in wholesale loans to our affiliated Associations and $5.0 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations. These participations included $3.9 billion as of June 30, 2021 and December 31, 2020 in wholesale loans made by the Farm Credit Bank of Texas (FCBT). The balance of participations of $1.1 billion as of June 30, 2021 and December 31, 2020, represent wholesale loans made by AgFirst Farm Credit Bank.

Farm Credit Banking average loan volume increased 10 percent to $60.2 billion for the six-month period ended June 30, 2021, compared to $55.0 billion for the same prior-year period. The increase resulted from greater overall lending by our affiliated Associations to agricultural producers and processors and our affiliated Associations funding a higher level of syndicated loans and participations.

Farm Credit Banking net income decreased $2.0 million to $125.2 million for the first six months of 2021, as compared to $127.2 million for the same prior-year period. The decrease resulted primarily from lower noninterest income and higher operating expenses partially offset by higher net interest income.

Net interest income increased to $142.1 million in the first six months of 2021 compared to $139.9 million for the same period in 2020, primarily due to growth in average loan volume.

As a wholesale lender to Associations, we benefit from the diversification provided by the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their respective loan portfolios. Lower spreads in the Farm Credit Banking operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. Notwithstanding the Special Mention credit quality classification of an affiliated Association wholesale loan as discussed on page 9, loan quality in Farm Credit Banking remains strong. No provision for loan losses or allowance for credit losses have been recorded related to any of our wholesale loans to Associations.

Farm Credit Banking noninterest income decreased $3.4 million to $5.8 million in the first six months of 2021 from $9.2 million in the 2020 period. The decrease primarily resulted from a higher level of losses on extinguishments of debt in the 2021 period that partially offset prepayment income from certain Associations. We generally offset the impact of prepayment fees with losses on similarly tenored debt instruments; however, the market availability of similarly tenored debt, coupled with the timing of prepayments, do not always allow us to fully offset the impact of prepayments in the same period.

Operating expenses increased $0.9 million to $22.7 million for the first six months of 2021 from $21.8 million for the same prior-year period primarily due to the higher level of Insurance Fund premiums assessed by the Insurance Corporation in 2021. While Insurance Fund premiums related to wholesale loans are passed directly to associations, a portion of premiums related to our liquidity investment portfolio is charged to the Farm Credit Banking operating segment. The increase was mostly offset by a change in operating expense allocation methodology beginning in 2021. Farm Credit Banking has no income tax expense as the earnings on its business activities are statutorily tax-exempt.

Rural Infrastructure

The Rural Infrastructure operating segment includes loans and other financial services provided to cooperatives and other companies in the power and energy, communications, water and waste water industries as well as to community facilities in rural America. Power and energy industry customers include rural electric generation and transmission cooperatives, midstream energy and gas pipeline providers, electric distribution cooperatives, renewable energy providers, independent power producers, regulated utilities and investor-owned utilities. Communications industry customers include companies providing local wireline broadband services, long-haul and middle-mile fiber transport, and data center and cloud-based products to rural communities. Our customers also include regional and national communications providers with networks that are globally interconnected, who are essential to bringing services to rural America through their partnerships and contractual relationships with our rural customers. In addition, the Bank serves customers in the water industry, including rural water and waste water companies, as well as rural health care and other community facilities. We also make investments in certain Rural Business Investment Companies (RBICs). Our investments in RBICs focus on small and middle market companies that create jobs and promote commerce in rural America. Rural Infrastructure loans outstanding totaled $24.3 billion at June 30, 2021, compared to $24.2 billion at December 31, 2020.

Rural Infrastructure average loan volume increased 10 percent to $24.4 billion for the first six months of 2021, compared to $22.2 billion for the same prior-year period. The increase in loan volume was primarily related to rural power and electric distribution borrowers.

Rural Infrastructure net income increased $9.2 million to $196.2 million for the first six months of 2021, compared to $187.0 million for the same prior-year period. The increase was primarily driven by increased net interest income partially offset by a higher provision for loan losses, an increase in operating expenses and a decrease in noninterest income.

Net interest income increased $29.1 million to $250.3 million for the six-month period ended June 30, 2021, compared to $221.2 million in the 2020 period. This increase was primarily due to higher average loan volume, higher earnings on balance sheet positioning and an improvement in lending spreads in most portfolios.

Rural Infrastructure recorded a provision for loan losses of $9.1 million during the first six months of 2021 compared to a loan loss reversal of $5.5 million for the same period in 2020. The 2021 provision primarily reflects higher specific reserves from the adverse impacts on a limited number of our electric power infrastructure customers resulting from severe winter storms that occurred in Texas in February 2021. The 2020 loan loss reversal primarily reflected improvements in credit quality in our electric distribution and water portfolios partially offset by a specific reserve related to a communications customer. Nonaccrual loans in Rural Infrastructure increased $26.4 million to $45.4 million at June 30, 2021, compared to $19.0 million at December 31, 2020 primarily due to the addition of several rural power loans which were transferred to nonaccrual status during 2021. There were no charge-offs for the first six months of 2021, compared to $8.0 million for the same period in 2020. Gross recoveries were $8.3 million for the first six months of 2021, compared to $0.3 million for the same period in 2020.

Noninterest income decreased $3.1 million to $52.4 million for the six-month period ended June 30, 2021, compared to $55.5 million for the same period in 2020 driven by a decrease in fee income due to a lower level of transaction-related lending fees, partially offset by higher patronage income. In addition, noninterest income for the six months ended June 30, 2020 included a return of excess insurance funds from the Insurance Corporation.

Rural Infrastructure operating expenses increased $9.1 million to $66.5 million for the first six months of 2021 compared to $57.4 million for the same prior-year period primarily due to the increases in Insurance Fund premium expense and employee compensation expense offset by the decreases in other operating expense, purchased services expense and general and administrative expense described on page 5.

Credit Quality, Liquidity, Capital Resources and Other

Loan Quality

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

Loan Quality Ratios

	June 30, 2021			December 31, 2020		
	Wholesale Loans (1)	Commercial Loans (2)	Total Bank	Wholesale Loans (1)	Commercial Loans (2)	Total Bank
Acceptable	**97.56 %**	**95.72 %**	**96.64 %**	97.08 %	95.73 %	96.40 %
Special Mention	**2.44**	**2.90**	**2.67**	2.92	3.20	3.06
Substandard	**-**	**1.38**	**0.69**	-	1.05	0.53
Doubtful	**-**	**-** (3)	**-** (3)	-	0.02	0.01
Loss	**-**	**-**	**-**	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

(1) Represents loans in our Farm Credit Banking operating segment
(2) Represents loans in our Agribusiness and Rural Infrastructure operating segments
(3) Represents less than 0.01 percent of total bank loans and accrued interest

Our overall loan quality measures remain strong at June 30, 2021. Special Mention loans and accrued interest, excluding wholesale loans to Associations, were 2.90 percent of total loans and accrued interest at June 30, 2021 compared to 3.20 percent at December 31, 2020. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") and related accrued interest as a percent of total loans and accrued interest increased to 0.69 percent at June 30, 2021, compared to 0.54 percent at December 31, 2020 due to slight deterioration in credit quality for a small number of customers in our Agribusiness and Rural Infrastructure operating segments.

At June 30, 2021, Special Mention loans included $1.5 billion in wholesale loans to one of our affiliated Associations. Pursuant to our regulatory requirements, we classify our wholesale loans using the same Uniform Loan Classification System used for our commercial loans. Our loans to Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. While the

Special Mention classification primarily reflects internal control and other operational weaknesses at this Association as a result of the collateralization and other mitigants described above, we do not anticipate any losses related to this wholesale loan. As of June 30, 2021, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans to Associations.

We recorded a $55.0 million provision for loan losses in the first six months of 2021 compared to $42.0 million in the 2020 period. The 2021 provision primarily relates to increased lending activity in our Agribusiness operating segment and an increase in specific reserves primarily related to a small number of customers in our Rural Infrastructure operating segment impacted by the severe winter storms that occurred in Texas in February 2021. The 2020 provision primarily related to increases in specific reserves associated with a small number of customers in our Rural Infrastructure and Agribusiness operating segments, increased lending activity and higher reserves associated with the onset of COVID-19. Gross charge-offs were $3.0 million for the first six months of 2021, compared to $8.9 million for the same period in 2020. Gross recoveries were $10.7 million for the first six months of 2021, compared to $1.9 million for the same period in 2020. Nonaccrual loans increased $22.5 million to $139.9 million at June 30, 2021, from $117.4 million at December 31, 2020 due to downgrades of a small number of customers in our Rural Infrastructure operating segment. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $794.9 million at June 30, 2021, compared to $732.2 million at December 31, 2020. Our ACL, as a percent of total loans, was 0.65 percent and 0.61 percent at June 30, 2021 and December 31, 2020, respectively. As a percent of non-guaranteed loans outstanding and excluding loans to Associations, our ACL was 1.33 percent and 1.24 percent at June 30, 2021 and December 31, 2020, respectively.

While the overall credit quality of our loan portfolio remains strong, we experienced slight deterioration during the first half of 2021. We believe further credit quality deterioration in the future is possible due to market factors impacting our customers, including an ongoing volatile agricultural commodity price environment, trade disputes among the United States and its trading partners, weather related events and uncertainties associated with changing government policies. In addition, concentrations within our loan portfolio can cause the level of our loan quality, nonaccrual loans, charge-offs and provisions for loan losses or loan loss reversals to vary significantly from period to period.

Liquidity and Investments

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

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

One of the ways we measure and monitor our liquidity position is by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. At June 30, 2021, our liquidity was 187 days, compared to 174 days at December 31, 2020.

We hold cash, investment securities, federal funds sold and other overnight funds primarily to maintain a liquidity reserve and manage short-term surplus funds. Cash, federal funds sold and other overnight funds totaled $2.8 billion and $3.2 billion as of June 30, 2021 and December 31, 2020, respectively. Our investment securities were $32.5 billion at June 30, 2021, compared to $32.8 billion at December 31, 2020.

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

Investment Securities ($ in Millions)	June 30, 2021			December 31, 2020		
	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)	Amortized Cost	Fair Value	Unrealized Gains
U.S. Treasury Debt	$ 15,612	$ 15,946	$ 334	$ 13,853	$ 14,362	$ 509
U.S. Agency Debt	2,247	2,356	109	2,795	2,960	165
Residential Mortgage-Backed:						
Ginnie Mae	898	908	10	862	886	24
U.S. Agency	1,555	1,577	22	2,333	2,365	32
Commercial Mortgage-Backed:						
U.S. Agency	11,198	11,264	66	11,404	11,554	150
Corporate Bonds	362	392	30	364	394	30
Asset-Backed and Other	58	57	(1)	304	304	-
Total	$ 31,930	$ 32,500	$ 570	$ 31,915	$ 32,825	$ 910

Credit risk in our investment portfolio primarily exists in investment securities that are not guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency), which currently include asset-backed securities (ABS) backed by pools of prime auto loans and corporate bonds of midstream energy companies. The midstream energy corporate bonds are purchased under our lending authorities and not held for liquidity purposes. Our ABS and midstream energy corporate bonds collectively total $448.8 million or 1 percent of our total investment portfolio as of June 30, 2021. Credit risk in our investment portfolio also arises from counterparties to short-term investments, which include overnight bank deposits and federal funds sold. We recorded no other-than-temporary impairment losses on investment securities during the first six months of 2021 or 2020.

Pursuant to FCA regulations, certain securities must be excluded from our liquidity reserve, which would include ABS that are no longer rated triple-A by at least one major rating agency, corporate bonds that do not carry one of the two highest ratings by at least one major rating agency, or any investment whose market value is less than 80 percent of book value. As of June 30, 2021, $469.2 million of such securities were excluded from our liquidity reserve, the most significant of which were our corporate bonds of midstream energy companies that are not held for liquidity purposes.

In the first six months of 2021, we sold five U.S. Treasury debt securities for total proceeds of $1.1 billion and five U.S. Agency debentures for total proceeds of $574.4 million. These securities were sold to manage liquidity, for economic purposes and/or to take advantage of favorable market conditions. The resulting net gains from these investment sales of $1.7 million are recorded in other, net noninterest income in the accompanying condensed consolidated statements of income for the six months ended June 30, 2021. We did not sell any securities during the first six months of 2020.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded net unrealized losses of $340.0 million for the first six months of 2021, compared to net unrealized gains of $800.1 million for the same prior-year period. The unrealized losses and gains recorded in both periods primarily reflect the impact of market interest rate changes on the fair value of fixed rate securities.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled $702.4 million and $585.1 million for the first six months of 2021 and 2020, respectively.

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

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

Included in our bonds and notes at June 30, 2021 and December 31, 2020 was $425.0 million of funding pursuant to a bond guarantee program offered by the Rural Utilities Service (RUS) agency of the United States Department of Agriculture. In March 2021, we closed on an additional $375.0 million of Series E funding with RUS. The funding is provided by the Federal Financing Bank and guaranteed by RUS. As part of the bond guarantee agreement with RUS, we are required to pledge collateral in an amount equal to at least 110% of the principal balance of all RUS bonds outstanding. Our RUS funding facilities allow us to access funding for certain rural infrastructure loans through September 2024 under Series D and through July 2025 under Series E.

Interest Rate Swaps and Other Derivatives

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

Interest rate swaps and other derivatives are recorded at fair value as assets or liabilities in the accompanying condensed consolidated balance sheets. Interest rate swaps and other derivative assets totaled $588.5 million at June 30, 2021 compared to $877.9 million at December 31, 2020. Interest rate swaps and other derivative liabilities totaled $434.3 million at June 30, 2021 compared to $610.4 million at December 31, 2020. The decreases in derivative assets and derivative liabilities at June 30, 2021 are primarily the result of changes in market interest rates during the first six months of 2021.

Changes in the fair value of our interest rate swaps and other derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items designated as hedging instruments are recorded in interest income and interest expense in the accompanying condensed consolidated statements of income and totaled a net loss of $5.6 million and a net loss of $5.5 million for the first six months of 2021 and 2020. Net changes in the fair value of derivatives not designated as hedging instruments are recorded in noninterest income in the accompanying condensed consolidated statements of income and totaled net gains of $7.1 million for the first six months of 2021 and 2020. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled net gains of $3.9 million and $28.1 million for the first six months of 2021 and 2020, respectively.

Capital Resources

We believe that a sound capital position is critical to our long-term financial success and future growth. Our shareholders' equity is composed of preferred and common stock, retained earnings and accumulated other comprehensive income (loss), and remained consistent at $11.9 billion at June 30, 2021 and December 31, 2020. During the first six months of 2021, shareholders' equity was reduced by a decrease in accumulated other comprehensive income primarily resulting from increases in net unrealized losses on investment securities driven by market interest rate changes, patronage accruals, preferred stock dividends and common stock retirements. These factors were offset by current period earnings.

At June 30, 2021 and December 31, 2020, our capital and leverage ratios exceeded regulatory minimums, as shown in the following table.

Regulatory Capital Requirements and Ratios

		June 30, 2021		December 31, 2020		
	Regulatory Minimums	Actual	Actual Buffer	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 Capital Ratio	4.5 %	**11.99 %**	**7.49 %**	12.33 %	7.83 %	2.5 %
Tier 1 Capital Ratio	6.0	**13.79**	**7.79**	14.25	8.25	2.5
Total Capital Ratio	8.0	**14.73**	**6.73**	15.22	7.22	2.5
Tier 1 Leverage Ratio[1]	4.0	**7.21**	**3.21**	7.30	3.30	1.0
Permanent Capital Ratio	7.0	**13.90**	**n/a**	14.36	n/a	n/a
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5	**3.16**	**n/a**	3.23	n/a	n/a

[1] At least 1.5 percent must be URE and URE equivalents.

See pages 54 through 63 for more information on required regulatory capital disclosures, including the components of the ratios displayed above.

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

Capital Plans

In June 2021, the CoBank Board of Directors approved changes to certain capital plans and patronage programs to more closely align the Bank's capital base with its risks, which could result in lower capital levels and capital ratios over time. The target patronage rate for Affiliated Associations was increased to 45 basis points and the target patronage rate for non-affiliated Farm Credit and other financing institutions was increased to 30 basis points. In addition, the loan base period used for determining target equity levels for affiliated Associations was increased to the five-year trailing average from a one-year average. These changes are effective beginning in 2021 for patronage distributions and stock retirements expected to be made in March 2022. Management and the board continuously evaluate the Bank's capital plans and patronage programs based on financial performance, capital requirements, asset growth, emerging risks and other items. Any future changes to patronage and capital distributions would be subject to FCA regulations and board approval.

Future of LIBOR

On March 5, 2021, the United Kingdom's Financial Conduct Authority (UKFCA) and the ICE Benchmark Administrator (IBA) formally announced that all LIBOR tenors will either be discontinued or no longer be representative immediately after December 31, 2021 for the GBP, JPY, CHF, EUR, and the 1-week and 2-month USD tenors, and immediately after June 30, 2023 for the remaining USD tenors. The UKFCA does not expect that any LIBOR tenors will become unrepresentative before these respective dates; however, publication by the IBA of most of the LIBOR tenors is expected to cease immediately after these dates. The UKFCA has worked closely with market participants and regulatory authorities around the world to ensure that alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

On March 9, 2021, the Federal Reserve's Alternative Reference Rate Committee (ARRC) released a statement of clarification related to the UKFCA and IBA announcements. The ARRC confirmed a "Benchmark Transition Event" occurred under ARRC and International Swaps and Derivatives Association (ISDA) recommended fallback language as a result of the announcements on March 5, 2021.

On April 6, 2021, the New York Governor signed legislation to provide legal clarity for legacy financial instruments governed by New York state law during the LIBOR transition. The amendment to existing New York law mirrored a proposal drafted by the ARRC. The law is limited to USD LIBOR-indexed contracts and financial instruments governed under New York law that do not have any fallback language or do not include appropriate fallback language per the legislation. The new law states the LIBOR transition cannot be used as a breach of contract under law and provides that the recommended benchmark replacement is a commercially reasonable substitute for LIBOR. The new law's provisions are effective upon the occurrence of a statutory event, such as, a "LIBOR Discontinuance Event" or "LIBOR Replacement Date". Upon the statutory events, the LIBOR-based benchmark index, by operation of law, will be replaced by a "Recommended Benchmark Replacement" currently defined as the Secured Overnight Financing Rate ("SOFR"). Another state has subsequently adopted legislation similar to the New York legislation. At this time, there is no specific federal law akin to the New York legislation addressing the LIBOR transition. However, the United States Congress began working on a draft version of federal legislation that would provide a statutory substitute benchmark rate for contracts that use USD LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. The current version of the legislation, the Adjustable Interest Rate (LIBOR) Act of 2021, was formally introduced in the House of Representatives on July 22, 2021. While similar to the New York state LIBOR legislation, including a safe harbor for use of recommended LIBOR fallbacks that are based on SOFR, there are differences in the current draft of the federal legislation, most significantly, that the draft bill specifically provides for the preemption of state law. At this time, it is uncertain as to whether, when, and in what form such federal legislation will be adopted.

On April 20, 2021, the ARRC published the key principles and market indicators which they feel are critical to endorse forward-looking term SOFR indexes. The ARRC's term rate principles and term rate market indicators together provide clear guidance that would allow the ARRC to recommend a SOFR-based term rate.

On May 21, 2021, the CME Group was selected by the ARRC to publish its recommended forward-looking SOFR term rates.

On July 26, 2021, the ARRC announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone in the transition away from USD LIBOR.

On November 30, 2020, the U.S. Prudential Regulators (Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency) issued a statement to encourage banks to transition away from LIBOR as soon as practicable. The Prudential Regulators believe entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and will examine bank practices accordingly. Therefore, the Prudential Regulators encourage banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. New contracts entered into before December 31, 2021 should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation.

On December 18, 2020, the FCA issued an informational memorandum with similar LIBOR transition guidance as the Prudential Regulators, but applicable to Farm Credit System institutions, including CoBank. In accordance with the informational memorandum, System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following: reduce LIBOR exposures; stop the inflow of new LIBOR volume; develop and implement loan products with alternative reference rates; assess, and if necessary, revise fallback language on legacy LIBOR indexed loans and contracts; adjust operational processes, including accounting and management information systems, to handle alternative reference rates; and communicate pending or imminent changes to customers as appropriate.

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

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

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

LIBOR-Indexed Financial Instruments at June 30, 2021 ($ in Millions)

	Due in 2021	Due in 2022	Due in 2023 on or before June 30, 2023	Due after June 30, 2023	Total
Commercial Loans [(1)]	$ 5,562	$ 5,981	$ 1,047	$ 18,193	$ 30,783
Wholesale Loans [(2)]	3,610	2,818	-	-	6,428
Investment Securities	4	69	149	5,033	5,255
Debt	11,955	875	171	785	13,786
Derivatives (Notional Amounts)	3,789	6,461	3,972	26,275	40,497
Preferred Stock [(3)]	-	-	-	1,300	1,300

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

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

[(3)] Represents our non-cumulative perpetual preferred stock with a fixed-to floating rate dividend feature indexed to 3-month USD LIBOR, which does not have a contractual maturity date. Includes $225 million that pays a dividend currently indexed to 3-month USD LIBOR plus a spread as of June 30, 2021. Dividends on an additional $400 million, $300 million, and $375 million of preferred stock convert from a fixed rate to 3-month USD LIBOR plus a spread in 2022, 2025, and 2026, respectively.

We continue to analyze potential risks associated with the LIBOR transition, including financial, market, accounting, operational, legal, tax, reputational and compliance risks. At this time, we are unable to completely predict when LIBOR will become unrepresentative. However, in light of the announcements by the UKFCA, the IBA and Prudential Regulators noted above, USD LIBOR, except in very limited circumstances, will be discontinued or declared unrepresentative (depending on the tenor) as of either immediately after December 31, 2021 or June 30, 2023. Because we routinely engage in transactions involving financial instruments that reference LIBOR, these developments may have a material impact on us, our borrowers, investors, customers and counterparties.

Other Regulatory Matters

On July 8, 2021, the FCA announced a proposed rule that would amend the Tier 1/Tier 2 capital framework to define and establish a risk weight for high-volatility commercial real estate exposures. The proposed rule would ensure that FCA’s capital rules remain comparable with the capital rules of other federal banking regulatory agencies and recognize the increased risk posed by high-volatility commercial real estate exposures.

Business Outlook

The broader economy and marketplace continues to transition into the post COVID-19 pandemic environment. Although there is some remaining uncertainty related to the COVID-19 delta variant and other lingering pandemic issues, business conditions are mostly favorable. The long anticipated and pent-up consumer and commercial demand for goods and services is being experienced across many industries in the economy. While higher demand is beneficial to businesses and consumers, it has created some challenges in the form of labor shortages, price inflation and supply chain disruptions. Inflation is being driven mostly by a supply shortage in labor, transportation, goods inventories and service offerings and each of these items will take time to correct. The labor market is improving but slower than expected as many workers have not returned to full employment. Consumers are conscious of rising prices and expect higher wages to combat higher living expenses.

Market conditions in many sectors of the agricultural and rural infrastructure industries we serve remain generally favorable. The rural economy is benefiting as U.S. economic growth rebounds, driving higher levels of spending and investment by businesses and consumers. Agricultural commodity prices for corn, soybeans and wheat remain high and continue to experience volatility driven by higher than normal temperatures and fluctuations in export demand. The drought in the western United States, the worst in 40 years, is creating some heightened concerns in this geographic region particularly in the specialty crop sectors. Labor shortages and supply chain disruptions are also impacting certain sectors of the agricultural economy. The power, energy, and water industries also face some weather and other related challenges. However, the outlook in these sectors remains favorable over the long-term in anticipation of trillions in dollars of infrastructure spending by the U.S. government associated with the American Jobs Plan.

Although the challenges across certain of our industry sectors could reduce credit quality and impact the level of loan demand, CoBank remains well positioned to assist our customers in their transition to a post-pandemic operating environment and continue to serve rural America.

Under the guidance of our Board of Directors and through the focus of an experienced executive management team, we remain focused on achieving continued success through execution of our business strategies. This includes, among other objectives, creating mutually beneficial partnerships with other System institutions, maintaining effective access to the agency debt capital markets, opportunistically accessing the preferred stock capital markets, educating policy makers and other key stakeholders about the critical mission of CoBank and the System, prudently optimizing current lending authorities and maintaining compliance with laws and regulations. We continue to collaborate with our affiliated Associations on business model enhancements that further strengthen the ability to fulfill our collective mission, including through the more efficient use of capital. We will also continue to explore strategic alliances and other opportunities with our customers, other System institutions, financial service providers and other public and private entities as we strive to fulfill our mission in rural America in a safe and sound manner.

Forward-Looking Statements

Certain of the statements contained in this quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially and adversely from our expectations expressed in any forward-looking statements. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "target," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

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

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

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

Condensed Consolidated Balance Sheets

CoBank, ACB

($ in Thousands)

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Total Loans	**$ 121,315,902**	$ 120,855,800
Less: Allowance for Loan Losses	**693,437**	635,426
Net Loans	**120,622,465**	120,220,374
Cash and Cash Equivalents	**682,402**	2,335,212
Federal Funds Sold and Other Overnight Funds	**2,100,000**	835,000
Investment Securities	**32,500,439**	32,825,003
Interest Rate Swaps and Other Derivatives	**588,496**	877,874
Accrued Interest Receivable and Other Assets	**1,291,998**	1,492,941
Total Assets	**$ 157,785,800**	$ 158,586,404
Liabilities		
Bonds and Notes	**$ 143,680,025**	$ 143,383,683
Interest Rate Swaps and Other Derivatives	**434,303**	610,420
Reserve for Unfunded Commitments	**101,466**	96,769
Patronage Payable	**322,588**	616,775
Accrued Interest Payable and Other Liabilities	**1,346,650**	1,969,152
Total Liabilities	**$ 145,885,032**	$ 146,676,799
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity		
Preferred Stock	**$ 1,500,000**	$ 1,500,000
Common Stock	**3,946,739**	3,917,740
Unallocated Retained Earnings	**6,060,402**	5,803,923
Accumulated Other Comprehensive Income	**393,627**	687,942
Total Shareholders' Equity	**$ 11,900,768**	$ 11,909,605
Total Liabilities and Shareholders' Equity	**$ 157,785,800**	$ 158,586,404

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

Condensed Consolidated Statements of Income

CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Interest Income				
Loans	**$ 621,297**	$ 661,284	**$ 1,250,528**	$ 1,516,308
Investment Securities, Federal Funds Sold and Other Overnight Funds	**110,057**	145,487	**224,931**	319,377
Total Interest Income	**731,354**	806,771	**1,475,459**	1,835,685
Interest Expense	**284,336**	431,514	**585,392**	1,077,111
Net Interest Income	**447,018**	375,257	**890,067**	758,574
Provision for Loan Losses	**-**	16,000	**55,000**	42,000
Net Interest Income After Provision for Loan Losses	**447,018**	359,257	**835,067**	716,574
Noninterest Income (Expense)				
Net Fee Income	**31,851**	39,254	**66,695**	69,947
Patronage Income	**34,692**	30,183	**64,080**	52,130
Prepayment Income	**10,529**	23,240	**32,865**	29,460
Losses on Early Extinguishments of Debt	**(16,441)**	(16,629)	**(31,120)**	(20,548)
Gains on Interest Rate Swaps and Other Derivatives	**3,115**	4,192	**7,101**	7,128
Return of Excess Insurance Funds	**-**	-	**-**	12,617
Other, Net	**(105)**	(252)	**6,848**	1,629
Total Noninterest Income	**63,641**	79,988	**146,469**	152,363
Operating Expenses				
Employee Compensation	**59,937**	54,597	**115,560**	107,214
Insurance Fund Premium	**27,865**	12,662	**56,732**	25,139
Information Services	**12,424**	11,952	**24,214**	23,666
General and Administrative	**7,586**	6,984	**11,673**	13,063
Occupancy and Equipment	**3,909**	3,653	**7,941**	7,910
Farm Credit System Related	**4,298**	4,312	**8,807**	8,736
Purchased Services	**3,599**	4,782	**6,615**	9,286
Other	**2,033**	1,989	**2,712**	5,632
Total Operating Expenses	**121,651**	100,931	**234,254**	200,646
Income Before Income Taxes	**389,008**	338,314	**747,282**	668,291
Provision for Income Taxes	**30,724**	37,193	**64,967**	73,087
Net Income	**$ 358,284**	$ 301,121	**$ 682,315**	$ 595,204

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

Condensed Consolidated Statements of Comprehensive Income (Loss)

CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net Income	**$ 358,284**	$ 301,121	**$ 682,315**	$ 595,204
Other Comprehensive Income (Loss), Net of Tax:				
Net Change in Unrealized Gains (Losses) on Investment Securities Not Other-Than-Temporarily Impaired	**52,510**	84,076	**(302,208)**	706,793
Net Change in Unrealized (Losses) Gains on Interest Rate Swaps and Other Derivatives	**(7,367)**	8,535	**3,883**	28,083
Net Pension Adjustment	**2,004**	1,745	**4,010**	3,492
Other Comprehensive Income (Loss)	**47,147**	94,356	**(294,315)**	738,368
Comprehensive Income	**$ 405,431**	$ 395,477	**$ 388,000**	$ 1,333,572

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 Six Months Ended June 30,	2021	2020
Balance at Beginning of Period	**$ 11,909,605**	$ 10,566,893
Comprehensive Income	**388,000**	1,333,572
Preferred Stock:		
Dividends	**(41,214)**	(42,814)
Common Stock:		
Issuances	**32**	39
Retirements	**(32,934)**	(34,792)
Cash Patronage Accrued	**(322,721)**	(243,400)
Balance at End of Period	**$ 11,900,768**	$ 11,579,498

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 Six Months Ended June 30,	2021	2020
Cash Flows Provided by Operating Activities		
Net Income	$ **682,315**	$ 595,204
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	**55,000**	42,000
Deferred Income Taxes	**12,128**	11,514
Depreciation and Amortization/Accretion, Net	**30,182**	27,667
Losses on Early Extinguishments of Debt	**31,120**	20,548
(Increase) Decrease in Accrued Interest Receivable and Other Assets	**(31,108)**	41,940
Decrease in Accrued Interest Payable and Other Liabilities	**(78,141)**	(154,702)
Net Losses on Interest Rate Swaps and Other Derivatives	**9,482**	5,456
Payments on Operating Lease Liabilities	**(5,103)**	(4,984)
Other, Net	**(3,436)**	498
Net Cash Provided by Operating Activities	**702,439**	585,141
Cash Flows Used in Investing Activities		
Net Increase in Loans	**(458,565)**	(2,265,696)
Net Increase in Investment Securities	**(550,091)**	(2,664,185)
Net Increase in Federal Funds Sold and Other Overnight Funds	**(1,265,000)**	(440,000)
Other, Net	**109,670**	-
Net Cash Used in Investing Activities	**(2,163,986)**	(5,369,881)
Cash Flows (Used in) Provided by Financing Activities		
Net Issuances of Bonds and Notes	**405,247**	5,087,844
Payments on Early Extinguishments of Debt	**(31,120)**	(20,548)
Net Retirements of Common Stock	**(32,902)**	(34,753)
Cash Patronage Distribution Paid	**(489,757)**	(475,638)
Special Cash Patronage Distribution Paid	**(106,603)**	(39,839)
Preferred Stock Dividends Paid	**(41,239)**	(43,192)
Cash Collateral Received from (Paid to) Derivative Counterparties, Net	**119,690**	(210,900)
Variation Margin (Paid) Received on Cleared Derivatives, Net	**(14,579)**	68,520
Net Cash (Used in) Provided by Financing Activities	**(191,263)**	4,331,494
Net Decrease in Cash	**(1,652,810)**	(453,246)
Cash at Beginning of Period	**2,335,212**	948,669
Cash at End of Period	$ **682,402**	$ 495,423
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	$ **533,960**	$ (372,855)
Net Change in Receivables from Investment Securities	**(433)**	(5,814)
Net Change in Unrealized (Losses) Gains on Investment Securities, Before Taxes	**(340,047)**	800,071
Net Change in Unrealized Gains on Interest Rate Swaps and Other Derivatives and Hedged Items, Before Taxes	**4,018**	28,062
Patronage in Common Stock	**61,901**	66,245
Cash Patronage Payable	**322,721**	243,400
Supplemental Noncash Information Related to Leases		
Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities	**4,155**	4,072

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

Notes to Condensed Consolidated Financial Statements

CoBank, ACB

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

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

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

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2020 Annual Report, which includes a description of our organization and lending authority. Also included in the 2020 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.

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

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

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The update provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform. The update simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. With respect to hedge accounting, the update allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments were effective for all entities as of March 12, 2020, through December 31, 2022. We applied the optional expedients available under this ASU to our debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020 as more fully described in the 2020 Annual Report. We have also elected the optional expedients to our loans as we incorporate fallback language into these agreements. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." The update allows certain derivative instruments to be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the optional amendments from March 12, 2020 to December 31, 2022. We adopted ASU 2021-01 on January 7, 2021 and the adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

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

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

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

	June 30, 2021	December 31, 2020
Agribusiness	**$ 36,522**	$ 36,103
Farm Credit Banking	**60,448**	60,516
Rural Infrastructure	**24,346**	24,237
Total	**$ 121,316**	$ 120,856

Allowance for Credit Losses

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

	Agribusiness	Farm Credit Banking[1]	Rural Infrastructure	Total
June 30, 2021				
Allowance for Loan Losses				
Beginning Balance at January 1, 2021	$ 489,424	$ -	$ 146,002	$ 635,426
Charge-offs	(3,025)	-	-	(3,025)
Recoveries	2,405	-	8,328	10,733
Provision for Loan Losses	45,900	-	9,100	55,000
Transfers to Reserve for Unfunded Commitments[2]	(3,964)	-	(733)	(4,697)
Ending Balance at June 30, 2021	530,740	-	162,697	693,437
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2021	80,917	-	15,852	96,769
Transfers from Allowance for Loan Losses[2]	3,964	-	733	4,697
Ending Balance at June 30, 2021	84,881	-	16,585	101,466
Allowance for Credit Losses	$ 615,621	$ -	$ 179,282	$ 794,903
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans and Unfunded Commitments:				
Individually Evaluated for Impairment	$ 21,706	$ -	$ 12,300	$ 34,006
Collectively Evaluated for Impairment	593,915	-	166,982	760,897
Total	$ 615,621	$ -	$ 179,282	$ 794,903
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 94,533	$ 60,527,956	$ 45,373	$ 60,667,862
Collectively Evaluated for Impairment	36,528,410	-	24,373,011	60,901,421
Total	$ 36,622,943	$ 60,527,956	$ 24,418,384	$ 121,569,283

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

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

		Agribusiness		Farm Credit Banking[1]		Rural Infrastructure		Total
June 30, 2020								
Allowance for Loan Losses								
Beginning Balance at January 1, 2020	$	471,495	$	-	$	183,269	$	654,764
Charge-offs		(883)		-		(8,023)		(8,906)
Recoveries		1,625		-		279		1,904
Provision for Loan Losses (Loan Loss Reversal)		47,500		-		(5,500)		42,000
Transfers to Reserve for Unfunded Commitments[2]		(22,804)		-		(121)		(22,925)
Ending Balance at June 30, 2020		496,933		-		169,904		666,837
Reserve for Unfunded Commitments								
Beginning Balance at January 1, 2020		77,471		-		14,831		92,302
Transfers from Allowance for Loan Losses[2]		22,804		-		121		22,925
Ending Balance at June 30, 2020		100,275		-		14,952		115,227
Allowance for Credit Losses	$	597,208	$	-	$	184,856	$	782,064
Allowance for Credit Losses								
Ending Balance, Allowance for Credit Losses Related to Loans and Unfunded Commitments:								
Individually Evaluated for Impairment	$	53,117	$	-	$	19,146	$	72,263
Collectively Evaluated for Impairment		544,091		-		165,710		709,801
Total	$	597,208	$	-	$	184,856	$	782,064
Loans								
Ending Balance for Loans and Related Accrued Interest:								
Individually Evaluated for Impairment	$	202,412	$	56,218,772	$	49,221	$	56,470,405
Collectively Evaluated for Impairment		31,929,353		-		22,964,034		54,893,387
Total	$	32,131,765	$	56,218,772	$	23,013,255	$	111,363,792

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

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

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

Credit Quality

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

June 30, 2021	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
Acceptable	$ 33,169,739	$ 1,145,374	$ 59,048,671	$ 24,112,432	$ 117,476,216
Special Mention	1,616,589	-	1,479,285	155,272	3,251,146
Substandard	691,005	-	-	150,680	841,685
Doubtful	236	-	-	-	236
Loss	-	-	-	-	-
Total	$ 35,477,569	$ 1,145,374	$ 60,527,956	$ 24,418,384	$ 121,569,283
December 31, 2020					
Acceptable	$ 32,397,637	$ 1,497,512	$ 58,830,561	$ 24,041,710	$ 116,767,420
Special Mention	1,743,097	-	1,771,023	191,725	3,705,845
Substandard	564,493	-	-	73,483	637,976
Doubtful	6,564	-	-	5,102	11,666
Loss	-	-	-	-	-
Total	$ 34,711,791	$ 1,497,512	$ 60,601,584	$ 24,312,020	$ 121,122,907

Aging Analysis

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

June 30, 2021	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Farm Credit Banking	Rural Infrastructure	Total
30-89 Days Past Due	$ 40,640	$ -	$ -	$ -	$ 40,640
90 Days Past Due	12,399	-	-	19,982	32,381
Total Past Due	$ 53,039	$ -	$ -	$ 19,982	$ 73,021
Current	35,424,530	1,145,374	60,527,956	24,398,402	121,496,262
Total	$ 35,477,569	$ 1,145,374	$ 60,527,956	$ 24,418,384	$ 121,569,283
Accruing Loans 90 Days or More Past Due	$ 742	$ -	$ -	$ -	$ 742
December 31, 2020					
30-89 Days Past Due	$ 35,635	$ -	$ -	$ 11,691	$ 47,326
90 Days Past Due	29,519	-	-	5,102	34,621
Total Past Due	$ 65,154	$ -	$ -	$ 16,793	$ 81,947
Current	34,646,637	1,497,512	60,601,584	24,295,227	121,040,960
Total	$ 34,711,791	$ 1,497,512	$ 60,601,584	$ 24,312,020	$ 121,122,907
Accruing Loans 90 Days or More Past Due	$ 736	$ -	$ -	$ -	$ 736

Impaired Loans

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

June 30, 2021	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[(1)]	Farm Credit Banking[(1)]	Rural Infrastructure	Total
Nonaccrual Loans[(2)]	**$ 94,533**	**$ -**	**$ -**	**$ 45,373**	**$ 139,906**
Accruing Loans 90 Days or More Past Due	**742**	**-**	**-**	**-**	**742**
Accruing Restructured Loans	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 95,275**	**$ -**	**$ -**	**$ 45,373**	**$ 140,648**
December 31, 2020					
Nonaccrual Loans[(2)]	$ 98,401	$ -	$ -	$ 19,000	$ 117,401
Accruing Loans 90 Days or More Past Due	736	-	-	-	736
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 99,137	$ -	$ -	$ 19,000	$ 118,137

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

(2) Included in nonaccrual loans at June 30, 2021 and December 31, 2020 were $12.2 million and $12.5 million, respectively, of loans that qualified as troubled debt restructurings.

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

June 30, 2021	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Farm Credit Banking(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	**$ 37,039**	**$ -**	**$ -**	**$ -**	**$ 37,039**
Unpaid Principal	**69,256**	**-**	**-**	**-**	**69,256**
Average Balance	**44,783**	**-**	**-**	**7,903**	**52,686**
Interest Income Recognized	**7,853**	**-**	**-**	**257**	**8,110**
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	**58,236**	**-**	**-**	**45,373**	**103,609**
Unpaid Principal	**59,824**	**-**	**-**	**46,088**	**105,912**
Allowance for Loan Losses	**21,706**	**-**	**-**	**12,300**	**34,006**
Average Balance	**50,552**	**-**	**-**	**24,404**	**74,956**
Interest Income Recognized	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans					
Carrying Amount	**95,275**	**-**	**-**	**45,373**	**140,648**
Unpaid Principal	**129,080**	**-**	**-**	**46,088**	**175,168**
Allowance for Loan Losses	**21,706**	**-**	**-**	**12,300**	**34,006**
Average Balance	**95,335**	**-**	**-**	**32,307**	**127,642**
Interest Income Recognized	**7,853**	**-**	**-**	**257**	**8,110**
December 31, 2020					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 40,674	$ -	$ -	$ 5,101	$ 45,775
Unpaid Principal	71,796	-	-	23,363	95,159
Average Balance	52,750	-	-	5,727	58,477
Interest Income Recognized	13,880	-	-	-	13,880
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	58,463	-	-	13,899	72,362
Unpaid Principal	69,809	-	-	14,124	83,933
Allowance for Loan Losses	20,821	-	-	3,300	24,121
Average Balance	129,445	-	-	29,239	158,684
Interest Income Recognized	13,522	-	-	-	13,522
Total Impaired Loans					
Carrying Amount	99,137	-	-	19,000	118,137
Unpaid Principal	141,605	-	-	37,487	179,092
Allowance for Loan Losses	20,821	-	-	3,300	24,121
Average Balance	182,195	-	-	34,966	217,161
Interest Income Recognized	27,402	-	-	-	27,402

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

Commitments on Impaired Loans

There were $3.7 million in commitments available to be drawn by borrowers whose loans were classified as impaired at June 30, 2021.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions, interest rate reductions, and/or forgiveness of principal or interest. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2020 Annual Report. During the six months ended June 30, 2021 and 2020, there were no modifications that qualified as TDRs. Included in nonaccrual loans at June 30, 2021 and December 31, 2020 were $12.2 million and $12.5 million, respectively, of loans that qualified as TDRs.

Note 4 – Investment Securities

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

($ in Millions)

June 30, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 15,612	$ 356	$ (22)	$ 15,946
U.S. Agency Debt	2,247	111	(2)	2,356
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	898	10	-	908
U.S. Agency	1,555	29	(7)	1,577
Commercial MBS:				
U.S. Agency	11,198	114	(48)	11,264
Corporate Bonds	362	30	-	392
Asset-Backed and Other	58	-	(1)	57
Total	$ 31,930	$ 650	$ (80)	$ 32,500
December 31, 2020				
U.S. Treasury Debt	$ 13,853	$ 509	$ -	$ 14,362
U.S. Agency Debt	2,795	165	-	2,960
Residential MBS:				
Ginnie Mae	862	24	-	886
U.S. Agency	2,333	42	(10)	2,365
Commercial MBS:				
U.S. Agency	11,404	165	(15)	11,554
Corporate Bonds	364	30	-	394
Asset-Backed and Other	304	-	-	304
Total	$ 31,915	$ 935	$ (25)	$ 32,825

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at June 30, 2021 is as follows:

($ in Millions)

	Contractual Maturity				
June 30, 2021	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
U.S. Treasury Debt Securities					
Amortized Cost	$ 3,135	$ 10,341	$ 2,136	$ -	$ 15,612
Fair Value	3,155	10,622	2,169	-	15,946
Weighted Average Yield	1.35 %	1.32 %	1.36 %	- %	1.33 %
U.S. Agency Debt Securities					
Amortized Cost	$ 88	$ 1,259	$ 726	$ 174	$ 2,247
Fair Value	90	1,308	766	192	2,356
Weighted Average Yield	2.20 %	1.86 %	2.01 %	2.56 %	1.98 %
Ginnie Mae Residential MBS					
Amortized Cost	$ -	$ 1	$ 1	$ 896	$ 898
Fair Value	-	1	1	906	908
Weighted Average Yield	- %	2.72 %	2.13 %	1.87 %	1.87 %
U.S. Agency Residential MBS					
Amortized Cost	$ -	$ 4	$ 296	$ 1,255	$ 1,555
Fair Value	-	3	300	1,274	1,577
Weighted Average Yield	- %	0.54 %	1.57 %	1.89 %	1.82 %
U.S. Agency Commercial MBS					
Amortized Cost	$ 28	$ 2,995	$ 8,041	$ 134	$ 11,198
Fair Value	28	3,027	8,075	134	11,264
Weighted Average Yield	0.42 %	0.94 %	0.88 %	0.88 %	0.90 %
Corporate Bonds					
Amortized Cost	$ 7	$ 181	$ 174	$ -	$ 362
Fair Value	7	194	191	-	392
Weighted Average Yield	3.28 %	4.01 %	3.89 %	- %	3.94 %
Asset-Backed and Other					
Amortized Cost	$ -	$ 41	$ 7	$ 10	$ 58
Fair Value	-	41	7	9	57
Weighted Average Yield	- %	1.18 %	2.45 %	5.46 %	2.05 %
Total					
Amortized Cost	$ 3,258	$ 14,822	$ 11,381	$ 2,469	$ 31,930
Fair Value	3,280	15,196	11,509	2,515	32,500
Weighted Average Yield	1.37 %	1.32 %	1.11 %	1.87 %	1.29 %

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

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at June 30, 2021 and December 31, 2020. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2021				
U.S. Treasury Debt	**3,092**	**(22)**	**-**	**-**
U.S. Agency Debt	**114**	**(2)**	**215**	**-**
Residential MBS:				
Ginnie Mae	**238**	**-**	**-**	**-**
U.S. Agency	**87**	**(1)**	**84**	**(6)**
Commercial MBS:				
U.S. Agency	**4,181**	**(48)**	**299**	**-**
Asset-Backed and Other	**9**	**(1)**	**3**	**-**
Total	**$ 7,721**	**$ (74)**	**$ 601**	**$ (6)**
December 31, 2020				
U.S. Treasury Debt	$ 1,250	$ -	$ -	$ -
U.S. Agency Debt	22	-	233	-
Residential MBS:				
Ginnie Mae	3	-	19	-
U.S. Agency	110	(1)	256	(9)
Commercial MBS:				
U.S. Agency	2,583	(15)	295	-
Corporate Bonds	-	-	3	-
Asset-Backed and Other	9	-	-	-
Total	$ 3,977	$ (16)	$ 806	$ (9)

As of June 30, 2021, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, nor is it likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of our cost basis occurs.

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

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2021 and 2020 are presented in the following table.

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

	Unrealized Gains (Losses) On Investment Securities Non-OTTI	Unrealized Gains (Losses) on Interest Rate Swaps and Other Derivatives	Net Pension Adjustment	Total
Balance at January 1, 2021	**$ 799,538**	**$ (43,353)**	**$ (68,243)**	**$ 687,942**
Other comprehensive loss before reclassifications	**(300,493)**	**(2,254)**	**-**	**(302,747)**
Amounts reclassified from accumulated other comprehensive income (loss) to net income	**(1,715)**	**6,137**	**4,010**	**8,432**
Net current-period other comprehensive (loss) income	**(302,208)**	**3,883**	**4,010**	**(294,315)**
Balance at June 30, 2021	**$ 497,330**	**$ (39,470)**	**$ (64,233)**	**$ 393,627**
Balance at January 1, 2020	$ 232,886	$ (63,443)	$ (75,018)	$ 94,425
Other comprehensive income before reclassifications	706,793	21,727	-	728,520
Amounts reclassified from accumulated other comprehensive income (loss) to net income	-	6,356	3,492	9,848
Net current-period other comprehensive income	706,793	28,083	3,492	738,368
Balance at June 30, 2020	$ 939,679	$ (35,360)	$ (71,526)	$ 832,793

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

The following table presents the effect of reclassifications from accumulated other comprehensive income (loss) to net income for the six-month periods ended June 30, 2021 and 2020.

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

For the Six Months Ended June 30, 2021	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain (Loss) Recognized in Income Statement
Unrealized gains (losses) on available-for-sale investment securities:		
Sales gains and losses	$ 1,677	Noninterest Income - Other, Net
Tax effect	38	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other derivatives:		
Interest rate contracts	(7,700)	Interest Expense
Foreign exchange contracts	1,929	Interest Income
Tax effect	(366)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial loss	(4,810)	Operating Expenses - Employee Compensation
Prior service cost	(487)	Operating Expenses - Employee Compensation
Tax effect	1,287	Provision for Income Taxes
Total reclassifications	**$ (8,432)**	
For the Six Months Ended June 30, 2020		
Unrealized gains (losses) on interest rate swaps and other derivatives:		
Interest rate contracts	(7,310)	Interest Expense
Foreign exchange contracts	1,153	Interest Income
Tax effect	(199)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial loss	(4,127)	Operating Expenses - Employee Compensation
Prior service cost	(504)	Operating Expenses - Employee Compensation
Tax effect	1,139	Provision for Income Taxes
Total reclassifications	$ (9,848)	

Note 6 – Derivatives and Hedging Activities

Risk Management Objectives and Strategies

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

Uses of Derivatives

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

The notional amounts of derivatives at June 30, 2021 and related activity for the first six months of 2021 are shown in the following table.

Activity in the Notional Amounts of Derivatives

($ in Millions)	Swaps	Caps / Floors	Spots / Forwards	Total
December 31, 2020	**$ 46,666**	**$ 6,435**	**$ 157**	**$ 53,258**
Additions /Accretion	**40,367**	**181**	**863**	**41,411**
Maturities /Amortization	**(39,191)**	**(42)**	**(790)**	**(40,023)**
Terminations	**(686)**	**-**	**-**	**(686)**
June 30, 2021	**$ 47,156**	**$ 6,574**	**$ 230**	**$ 53,960**

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

Activity in the Notional Amounts of Derivatives

($ in Millions)	Swaps	Caps / Floors	Spots / Forwards	Total
December 31, 2019	$ 33,339	$ 6,745	$ 192	$ 40,276
Additions /Accretion	13,870	219	1,131	15,220
Maturities /Amortization	(5,370)	(152)	(1,143)	(6,665)
Terminations	(461)	-	-	(461)
June 30, 2020	$ 41,378	$ 6,812	$ 180	$ 48,370

Accounting for Derivative Instruments and Hedging Activities

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

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

Fair Value Hedges

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

Cash Flow Hedges

Our cash flow hedges include interest rate caps and floors to hedge cap and floor risk embedded within a portion of our floating-rate investment securities and loans. Interest rate caps and interest rate floors are an integral part of our interest rate hedging strategies. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. The interest rate floors hedge cash flows from floating-rate loans. If market index rates underlying our floating rate loans decline below strike levels, we receive cash flows on the derivative. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount excluded from effectiveness assessment and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. For cash flow hedges in which the forecasted transaction is not probable of occurring, the amounts reclassified from accumulated other comprehensive income (loss) are reflected in current period earnings. At June 30, 2021, we expect that $15.3 million of expense will be reclassified from accumulated other comprehensive income (loss) into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 15 years.

Derivatives Not Designated as Hedges

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

Counterparty Credit Risk

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

Derivative transactions with our customers are typically secured through our loan agreements. As of June 30, 2021 and December 31, 2020, the notional amount of derivatives with our customers totaled $12.3 billion and $12.5 billion, respectively.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires certain derivative transactions to be cleared through a central clearinghouse and traded on regulated swap execution facilities. The U.S. Commodity Futures Trading Commission has exempted certain qualifying swaps entered into by end-users and financial cooperatives from these requirements. The exemptions do not cover all swaps executed by CoBank and are generally limited to swaps entered into in connection with loans and derivatives for customer-owners. CoBank has also voluntarily chosen to clear some swap transactions for economic and risk management purposes. As a result, certain of our derivative transactions are cleared through a futures commission merchant (FCM) with a clearinghouse or central counterparty (CCP). When these swaps are cleared, a single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including initial margin and variation margin or settlement payments that are required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, set exposure limits for each counterparty and collect initial margin and variation margin or settlement payments daily for changes in the value of cleared derivatives. The margin and settlement payments collected from both parties to the swap protect against credit risk in the event of a counterparty default. As of June 30, 2021 and December 31, 2020, the notional amount of our cleared derivatives was $30.0 billion and $29.0 billion, respectively. Initial margin and settlement payments totaling $58.7 million and $147.1 million, respectively, as of June 30, 2021 and $50.6 million and $161.7 million, respectively, as of December 31, 2020 were held by our CCP for our cleared derivatives.

Our remaining non-customer derivatives are transacted with derivative counterparties and governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to credit risk with these counterparties due to the timing of daily margining activities. As of June 30, 2021 and December 31, 2020, the notional amount of derivatives with our non-customer counterparties, excluding cleared derivatives, totaled $11.6 billion and $11.7 billion, respectively.

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of June 30, 2021 we posted $148.6 million in cash as collateral with our non-customer counterparties.

The fair value of our derivatives to all of our dealer counterparties was a liability at June 30, 2021 and December 31, 2020, and was offset by the collateral we posted to our dealer counterparties. The amount of losses related to derivatives we are exposed to in the event of nonperformance by dealer counterparties to our derivative positions is mitigated by collateral posted or held by us.

Hedge Terminations

We did not terminate any interest rate swaps for asset-liability management purposes during the six months ended June 30, 2021 and 2020.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of $686.0 million and $460.5 million during the first six months of 2021 and 2020, respectively. Proceeds from the customer terminations were offset by payments for the offsetting dealer terminations.

A summary of the impact of interest rate swaps and other derivatives on our condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020 is shown in the following tables.

Fair Value of Derivatives

	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
As of June 30, 2021		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	**$ 253,714**	**$ 6,793**
Foreign Exchange Contracts	**780**	**534**
Total Derivatives Designated as Hedging Instruments	**$ 254,494**	**$ 7,327**
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	**$ 481,106**	**$ 426,976**
Foreign Exchange Contracts	**-**	**-**
Total Derivatives Not Designated as Hedging Instruments	**$ 481,106**	**$ 426,976**
Settlement Payments	**(147,104)**	**-**
Total Derivatives	**$ 588,496**	**$ 434,303**
As of December 31, 2020		
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 376,007	$ 335
Foreign Exchange Contracts	147	1,962
Total Derivatives Designated as Hedging Instruments	$ 376,154	$ 2,297
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 663,401	$ 608,122
Foreign Exchange Contracts	1	1
Total Derivatives Not Designated as Hedging Instruments	$ 663,402	$ 608,123
Settlement Payments	(161,682)	-
Total Derivatives	$ 877,874	$ 610,420

(1) These assets make up the interest rate swaps and other derivatives in the condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020.

(2) These liabilities make up the interest rate swaps and other derivatives in the condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020.

A summary of the impact of interest rate swaps and other derivatives on our condensed consolidated statements of income and comprehensive income for the six months ended June 30, 2021 and 2020 is shown below.

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

	Interest Income Loans	Interest Income Investments	Total Interest Income	Interest Expense	Net Interest Income
Six Months Ended June 30, 2021					
Total Amount of Line Items Presented in Condensed Consolidated Statement of Income	**$ 1,250,528**	**$ 224,931**	**$ 1,475,459**	**$ (585,392)**	**$ 890,067**
Gain (Loss) on Fair Value Hedge Relationships:					
Interest Rate Contracts:					
Recognized on Derivatives	**$ -**	**$ -**	**$ -**	**$ (124,940)**	**$ (124,940)**
Recognized on Hedged Items	**-**	**-**	**-**	**124,305**	**124,305**
Net Income (Expense) Recognized on Fair Value Hedges	**$ -**	**$ -**	**$ -**	**$ (635)**	**$ (635)**
Gain (Loss) on Cash Flow Hedge Relationships:					
Interest Rate Contracts:					
Amount of Loss Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	**$ (716)**	**$ -**	**$ (716)**	**$ (6,984)**	**$ (7,700)**
Foreign Exchange Contracts:					
Amount of Gain Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)[(1)]	**1,929**	**-**	**1,929**	**-**	**1,929**
Amount Excluded from Effectiveness Testing Recognized in Earnings Based on an Amortization Approach	**158**	**-**	**158**	**-**	**158**
Net Income (Expense) Recognized on Cash Flow Hedges	**$ 1,371**	**$ -**	**$ 1,371**	**$ (6,984)**	**$ (5,613)**
Six Months Ended June 30, 2020					
Total Amount of Line Items Presented in Condensed Consolidated Statement of Income	$ 1,516,308	$ 319,377	$ 1,835,685	$ (1,077,111)	$ 758,574
Gain (Loss) on Fair Value Hedge Relationships:					
Interest Rate Contracts:					
Recognized on Derivatives	$ -	$ -	$ -	$ 285,087	$ 285,087
Recognized on Hedged Items	-	-	-	(284,357)	(284,357)
Net Income (Expense) Recognized on Fair Value Hedges	$ -	$ -	$ -	$ 730	$ 730
Gain (Loss) on Cash Flow Hedge Relationships:					
Interest Rate Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	$ (402)	$ -	$ (402)	$ (6,908)	$ (7,310)
Foreign Exchange Contracts:					
Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)[(2)]	1,153	-	1,153	-	1,153
Amount Excluded from Effectiveness Testing Recognized in Earnings Based on an Amortization Approach	618	-	618	-	618
Net Income (Expense) Recognized on Cash Flow Hedges	$ 1,369	$ -	$ 1,369	$ (6,908)	$ (5,539)

[(1)] Fully offset by a $1,929 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 six months ended June 30, 2021.

[(2)] Fully offset by a $1,153 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 six months ended June 30, 2020.

Effect of Cash Flow Hedge Accounting on the Condensed Consolidated Balance Sheet	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives	
Six Months Ended June 30,	**2021**	**2020**
Interest Rate Contracts	**$ (3,814)**	$ 21,173
Foreign Exchange Contracts	**2,061**	733
Total	**$ (1,753)**	$ 21,906

Effect of Derivatives Not Designated as Hedging Relationships on the Condensed Consolidated Statements of Income	Net Amount of Gain (Loss) Recognized	
Six Months Ended June 30,	**2021**	**2020**
Interest Rate Contracts	**$ 1,943** (1)	$ 685 (2)
Foreign Exchange Contracts	**-**	-
Total	**$ 1,943**	$ 685

(1) Includes $220 loss on short-term derivatives indexed to SOFR and recognized in interest expense and $2,163 gain on derivatives with customers and related offsetting derivatives with counterparties including credit valuation adjustments and recognized in noninterest income/expense for the six months ended June 30, 2021.

(2) Includes $457 loss on short-term derivatives indexed to SOFR and recognized in interest expense and $1,142 gain on derivatives with customers and related offsetting derivatives with counterparties including credit valuation adjustments and recognized in noninterest income/expense for the six months ended June 30, 2020.

A summary of the cumulative basis adjustment for fair value hedging relationships included in the carrying amount of hedged liabilities as of June 30, 2021 and December 31, 2020 is shown in the following table.

Derivatives in Fair Value Hedging Relationships		Cumulative Basis Adjustment Included in the Carrying Amount of Hedged Liabilities	
	Carrying Amount of Hedged Liabilities	Hedged Items Currently Designated	Hedged Items No Longer Designated
As of June 30, 2021			
Bonds and Notes	**$ 13,510,205**	**$ 207,997**	**$ 23**
As of December 31, 2020			
Bonds and Notes	$ 14,658,292	$ 332,302	$ 92

Asset/Liability Offsetting

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

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

Offsetting of Derivatives and Collateral

	Gross Amounts of Assets/ Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Cash Collateral Received/Pledged[1]	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Investments Securities Received/Pledged as Collateral	Net Amount
As of June 30, 2021				
Assets:				
Interest Rate Swaps and Other Derivatives:				
Dealer	**$ 55,618**	**$ -**	**$ -**	**$ 55,618**
Customer	**409,841**	**-**	**-**	**409,841**
Clearinghouse	**123,037**	**-**	**-**	**123,037**
Accrued Interest Receivable on Derivative Contracts	**49,609**	**-**	**-**	**49,609**
Liabilities:				
Interest Rate Swaps and Other Derivatives:				
Dealer	**207,611**	**(148,600)**	**-**	**59,011**
Customer	**57,870**	**-**	**-**	**57,870**
Clearinghouse	**168,822**	**-**	**(58,730)**	**110,092**
Accrued Interest Payable on Derivative Contracts	**7,362**	**-**	**-**	**7,362**
As of December 31, 2020				
Assets:				
Interest Rate Swaps and Other Derivatives:				
Dealer	$ 44,209	$ -	$ -	$ 44,209
Customer	624,224	-	-	624,224
Clearinghouse	209,441	-	-	209,441
Accrued Interest Receivable on Derivative Contracts	63,142	-	-	63,142
Liabilities:				
Interest Rate Swaps and Other Derivatives:				
Dealer	314,100	(268,290)	-	45,810
Customer	32,719	-	-	32,719
Clearinghouse	263,601	-	(50,628)	212,973
Accrued Interest Payable on Derivative Contracts	9,025	-	-	9,025

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

Note 7 – Fair Value Measurements

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

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

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

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at June 30, 2021 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 June 30, 2021 include our derivative contracts, collateral balances related to derivative contracts, federal funds sold and other overnight funds, U.S. Treasury and agency debt investment securities, Ginnie Mae MBS, corporate bonds, and the substantial majority of agency MBS and asset-backed securities (ABS).

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

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

The fair value of our interest rate swaps and other derivatives 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 and discounting (primarily the Overnight Index Swap rate for collateralized non-customer derivative contracts, SOFR for collateralized cleared derivative contracts and the USD LIBOR/swap curve for non-collateralized customer derivative contracts), volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

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

Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements

	Valuation Technique	Inputs
Federal Funds Sold and Other Overnight Funds	Carrying Value	Par/Principal Plus Accrued Interest
Investment Securities	Third-Party Pricing Service	Prepayment Rate
		Lifetime Default Rate
		Loss Severity
		Benchmark Yield Curve
		Quoted Prices
Interest Rate Swaps and Other Derivatives	Discounted Cash Flow	Benchmark Yield Curve
		Counterparty Credit Risk
		Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at June 30, 2021 include a small portion of agency MBS and ABS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Fair value for Level 3 agency MBS is estimated through a third-party pricing service that uses valuation models to estimate current market prices. Fair value for our Level 3 ABS is calculated internally using third-party models. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at June 30, 2021 also include $71.5 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets is based on either the fair value of the underlying collateral, if the loan is collateral dependent, or the present value of expected future cash flows. Such valuations may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the 'Assets and Liabilities Measured at Fair Value on a Recurring Basis' tables on pages 46 and 47 because they are not measured on a recurring basis.

Our Level 3 liabilities at June 30, 2021 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of Level 3 assets or liabilities occurred during the six months ended June 30, 2021 and 2020.

The following table presents quantitative information about Level 3 fair value measurements as of June 30, 2021.

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

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets				
Investment Securities:				
U.S. Agency MBS	$ 78	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Other (included in Asset-Backed)	16	Discounted Cash Flow	Prepayment Rate	0% (0%)
Impaired Loans	71	Appraisal /	Income/Expense Data	**
		Discounted Cash Flow	Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 16	Discounted Cash Flow	Mark-to-Market Spread	0.1-1.4% (1.0%)

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2021 and December 31, 2020 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

June 30, 2021

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	$ 2,100	$ -	2,100
Investment Securities:				
U.S. Treasury Debt	-	15,946	-	15,946
U.S. Agency Debt	-	2,356	-	2,356
Residential MBS:				
Ginnie Mae	-	908	-	908
U.S. Agency	-	1,499	78	1,577
Commercial MBS:				
U.S. Agency	-	11,264	-	11,264
Corporate Bonds	-	392	-	392
Asset-Backed and Other	-	41	16	57
Interest Rate Swaps and Other Derivatives	-	588	-	588
Assets Held in Trust (included in Other Assets)	119	-	-	119
Collateral Assets (included in Other Assets)	-	149	-	149
Total Assets	$ 119	$ 35,243	$ 94	$ 35,456
Liabilities				
Interest Rate Swaps and Other Derivatives	$ -	$ 434	$ -	$ 434
Standby Letters of Credit (included in Other Liabilities)	-	-	16	16
Total Liabilities	$ -	$ 434	$ 16	$ 450

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2020				
($ in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	835	$ -	$ 835
Investment Securities:				
U.S. Treasury Debt	-	14,362	-	14,362
U.S. Agency Debt	-	2,960	-	2,960
Residential MBS:				
Ginnie Mae	-	886	-	886
U.S. Agency	-	2,281	84	2,365
Commercial MBS:				
U.S. Agency	-	11,554	-	11,554
Corporate Bonds	-	394	-	394
Asset-Backed and Other	-	291	13	304
Interest Rate Swaps and Other Derivatives	-	878	-	878
Assets Held in Trust (included in Other Assets)	108	-	-	108
Collateral Assets (included in Other Assets)	-	268	-	268
Total Assets	$ 108	$ 34,709	$ 97	$ 34,914
Liabilities				
Interest Rate Swaps and Other Derivatives	$ -	$ 610	$ -	$ 610
Standby Letters of Credit (included in Other Liabilities)	-	-	13	13
Total Liabilities	$ -	$ 610	$ 13	$ 623

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

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis			
($ in Millions)	**U.S. Agency Residential MBS**	**Asset-Backed Securities and Other**	**Standby Letters of Credit**
Balance at December 31, 2020	**$ 84**	**$ 13**	**$ 13**
Total Gains or Losses (Realized/Unrealized)			
Included in Other Comprehensive Income	**-**	**(1)**	**-**
Purchases	**-**	**4**	**-**
Issuances	**-**	**-**	**8**
Settlements	**(7)**	**-**	**(5)**
Accretion	**1**	**-**	**-**
Balance at June 30, 2021	**$ 78**	**$ 16**	**$ 16**
Balance at December 31, 2019	$ 99	$ 14	$ 11
Total Gains or Losses (Realized/Unrealized):			
Included in Other Comprehensive Income	(3)	-	-
Purchases	-	8	-
Issuances	-	-	6
Settlements	(7)	-	(5)
Balance at June 30, 2020	$ 89	$ 22	$ 12

Estimated Fair Value of Certain Other Financial Instruments

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of June 30, 2021 and December 31, 2020.

($ in Millions)

	June 30, 2021			December 31, 2020		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	**$ 120,622**	**$ 123,329**	**Level 3**	$ 120,220	$ 124,075	Level 3
Financial Liabilities:						
Bonds and Notes	**$ 143,680**	**$ 146,034**	**Level 3**	$ 143,384	$ 146,959	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (114)**	**Level 3**	$ -	$ (112)	Level 3

Commitments to Extend Credit

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

Note 8 – Employee Benefit Plans

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

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

We contributed $1.4 million to our funded qualified defined benefit pension plans during the six months ended June 30, 2021, and anticipate that we will contribute approximately $1.6 million more to such plans during the remainder of 2021. We expect to contribute a total of $0.3 million, net of collected retiree premiums, to our other postretirement benefit plans in 2021. We have not made any contributions to our trust funds related to our nonqualified retirement plans during the six months ended June 30, 2021. Our actual contributions could differ from the estimates noted above.

Note 9 – Commitments and Contingent Liabilities

Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices, farmer delivery patterns, weather, environmental and other factors, we provide a significant amount of revolving loan commitments. We also provide revolving loan commitments to other customers including those in the electric distribution and power supply industries. At June 30, 2021, commitments to extend credit and commercial letters of credit were $41.4 billion and $116.1 million, respectively.

Under the Farm Credit Act, we are primarily liable for the portion of outstanding Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) issued by CoBank. Additionally, we are contingently liable by statute for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were $328.8 billion at June 30, 2021.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible unencumbered assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At June 30, 2021, the aggregated assets of the Insurance Fund totaled $5.7 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

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

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

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

Note 10 – Leased Property

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

Other information related to our operating leases is as follows:

Operating Leases	June 30, 2021	December 31, 2020
Right-of-Use Assets	**$ 66,351**	$ 70,137
Lease Liabilities	**69,931**	73,610
Six Months Ended June 30,	**2021**	**2020**
Operating Lease Cost	**$ 7,106**	$ 6,843
Weighted Average Remaining Lease Term	**9 years**	10 years
Weighted Average Discount Rate	**2.96%**	3.02%

Future minimum lease payments under non-cancellable operating leases as of June 30, 2021 were as follows:

Future Minimum Lease Payments	
Year Ending June 30,	
2022	$ 10,167
2023	9,345
2024	8,430
2025	8,343
2026	8,268
Thereafter	35,394
Total future minimum lease payments	$ 79,947
Less imputed interest	10,016
Lease liabilities reported as of June 30, 2021	$ 69,931

Note 11 – Segment Financial Information

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

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

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 19 percent of these loans are guaranteed by the U.S. government.

For the six-month periods ended June 30, 2021 and 2020, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended June 30, 2021

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	**$ 248,510**	**$ 72,001**	**$ 126,507**	**$ 447,018**
(Loan Loss Reversal)/Provision for Loan Losses	**(900)**	**-**	**900**	**-**
Noninterest Income (Expense)	**42,066**	**(3,380)**	**24,955**	**63,641**
Operating Expenses	**75,096**	**12,520**	**34,035**	**121,651**
Provision for Income Taxes	**20,251**	**-**	**10,473**	**30,724**
Net Income	**$ 196,129**	**$ 56,101**	**$ 106,054**	**$ 358,284**

For the Three Months Ended June 30, 2020

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	$ 188,052	$ 71,407	$ 115,798	$ 375,257
Provision for Loan Losses/(Loan Loss Reversal)	16,800	-	(800)	16,000
Noninterest Income	44,276	7,419	28,293	79,988
Operating Expenses	60,743	11,064	29,124	100,931
Provision for Income Taxes	17,900	-	19,293	37,193
Net Income	$ 136,885	$ 67,762	$ 96,474	$ 301,121

Segment Financial Information

For the Six Months Ended June 30, 2021

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	$ 497,735	$ 142,060	$ 250,272	$ 890,067
Provision for Loan Losses	45,900	-	9,100	55,000
Noninterest Income	88,288	5,814	52,367	146,469
Operating Expenses	145,008	22,698	66,548	234,254
Provision for Income Taxes	34,128	-	30,839	64,967
Net Income	$ 360,987	$ 125,176	$ 196,152	$ 682,315
Selected Financial Information at June 30, 2021 ($ in Millions):				
Loans	$ 36,522	$ 60,448	$ 24,346	$ 121,316
Less: Allowance for Loan Losses	(531)	-	(162)	(693)
Net Loans	$ 35,991	$ 60,448	$ 24,184	$ 120,623
Accrued Interest Receivable and Other Assets	501	239	673	1,413
Total Segment Assets	$ 36,492	$ 60,687	$ 24,857	$ 122,036
Federal Funds Sold and Other Overnight Funds				2,100
Investment Securities				32,500
Other Assets				1,150
Total Assets	$ 36,492	$ 60,687	$ 24,857	$ 157,786

For the Six Months Ended June 30, 2020

	Agribusiness	Farm Credit Banking	Rural Infrastructure	Total CoBank
Results of Operations ($ in Thousands):				
Net Interest Income	$ 397,548	$ 139,863	$ 221,163	$ 758,574
Provision for Loan Losses (Loan Loss Reversal)	47,500	-	(5,500)	42,000
Noninterest Income	87,699	9,163	55,501	152,363
Operating Expenses	121,365	21,845	57,436	200,646
Provision for Income Taxes	35,316	-	37,771	73,087
Net Income	$ 281,066	$ 127,181	$ 186,957	$ 595,204
Selected Financial Information at June 30, 2020 ($ in Millions):				
Loans	$ 32,057	$ 56,125	$ 22,922	$ 111,104
Less: Allowance for Loan Losses	(497)	-	(170)	(667)
Net Loans	$ 31,560	$ 56,125	$ 22,752	$ 110,437
Accrued Interest Receivable and Other Assets	445	249	659	1,353
Total Segment Assets	$ 32,005	$ 56,374	$ 23,411	$ 111,790
Federal Funds Sold and Other Overnight Funds				2,250
Investment Securities				36,273
Other Assets				1,664
Total Assets	$ 32,005	$ 56,374	$ 23,411	$ 151,977

Note 12 – Affiliated Associations

CoBank is chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. As of June 30, 2021, we have 20 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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

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

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

Effective January 1, 2021, two of our affiliated Associations, Farm Credit of Western Oklahoma, ACA and AgPreference, ACA merged and are doing business as Farm Credit of Western Oklahoma, ACA.

On April 8, 2021, the boards of Farm Credit East, ACA and Yankee Farm Credit, ACA approved a letter of intent to pursue a merger. The Associations are operating under a Joint Management Agreement and the combined Association will do business as Farm Credit East, ACA. The Associations anticipate a merger date of January 1, 2022 subject to receiving all regulatory and shareholder approvals required.

Note 13 – Subsequent Events

We have evaluated subsequent events through August 9, 2021, which is the date the financial statements were issued.

Regulatory Capital Disclosures

CoBank, ACB

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

Overview

These quarterly regulatory capital disclosures (set forth in Title 12 of the Code of Federal Regulations parts 628.61 through 628.63) should be read in conjunction with our 2020 Annual Report to Shareholders, which includes additional qualitative disclosures. Unless otherwise noted, there have been no material changes to the qualitative disclosures contained in our 2020 Annual Report.

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

Disclosure Requirement	Description	Q2 2021 Quarterly Report Reference
Scope of Application	Corporate entity and consolidated subsidiaries	Page 54
Capital Structure	Regulatory capital components	Pages 54 through 55
Capital Adequacy	Risk-weighted assets	Page 56
	Regulatory capital ratios	Page 13
Capital Buffers	Quantitative disclosures	Pages 13, 56
Credit Risk	Summary of exposures	Page 57
	Geographic distribution	Page 58 through 59
	Industry distribution	Page 59
	Contractual maturity	Page 60
	Impaired loans and allowance for credit losses	Note 3
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Note 6, Page 60 through 61
Credit Risk Mitigation	Exposures with reduced capital requirements	Pages 6, 9, 60 through 61
Securitization	Securitization exposures	Notes 4 and 7, Pages 10 through 12, 61 through 62
Equities	General description	Page 62
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Note 6, Page 62 through 63

Scope of Application

The disclosures contained herein relate to CoBank, ACB and its wholly-owned subsidiaries, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. These entities are also consolidated in our financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). FCL is required to comply with the capital regulations on a standalone basis, but it is not required to make the disclosures contained herein for CoBank as a whole. FCL's capital ratios exceeded the minimum regulatory requirements at June 30, 2021.

Capital Structure

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

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

Regulatory Capital Components Three Months Ended June 30, 2021		Average Balance
Common Equity Tier 1 Capital (CET1)		
Common Cooperative Equities:		
Statutory Minimum Purchased Borrower Stock	$	2,461
Other Required Member Purchased Stock		1,119,493
Allocated Equities:		
Qualified Allocated Equities Subject to Retirement		2,762,935
Nonqualified Allocated Equities Subject to Retirement		-
Nonqualified Allocated Equities Not Subject to Retirement		3,086,577
Unallocated Retained Earnings		3,139,115
Paid-In Capital		-
Regulatory Adjustments and Deductions Made to CET1		(106,732)
Total CET1	$	10,003,849
Tier 1 Capital		
Non-Cumulative Perpetual Preferred Stock	$	1,500,000
Regulatory Adjustments and Deductions Made to Tier 1 Capital		-
Total Additional Tier 1 Capital		1,500,000
Total Tier 1 Capital	$	11,503,849
Tier 2 Capital		
Common Cooperative Equities Not Included in CET1	$	-
Tier 2 Capital Elements:		
Allowance for Credit Losses		790,973
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Tier 2 Capital	$	790,973
Total Capital	$	12,294,822

Capital Adequacy and Capital Buffers

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

Risk-Weighted Assets

Three Months Ended June 30, 2021		Average Balance
On-Balance Sheet Assets:		
Exposures to Sovereign Entities	$	-
Exposures to Supranational Entities and Multilateral Development Banks		161,435
Exposures to Government-Sponsored Enterprises		14,856,433 (1)
Exposures to Depository Institutions, Foreign Banks, and Credit Unions		3,618,881 (2)
Exposures to Public Sector Entities		68,959
Corporate Exposures, including Borrower Loans and Leases		52,623,475
Residential Mortgage Exposures		-
Past Due and Nonaccrual Exposures		191,142
Securitization Exposures		70,102
Equity Investment Exposures		48,258
Other Assets		761,698
Off-Balance Sheet:		
Unfunded Loan Commitments		9,087,582
Equity Investment Commitments		36,257
Over-the-Counter Derivatives		515,502
Cleared Derivative Transactions		1,290
Letters of Credit		1,390,727
Reverse Repurchase Transactions		-
Unsettled Transactions		11,784
Total Risk-Weighted Assets Before Additions (Deductions)	$	83,443,525
Additions:		
Intra-System Equity Investments	$	106,732
Deductions:		
Regulatory Adjustments and Deductions Made to CET1		(106,732)
Regulatory Adjustments and Deductions Made to Additional Tier 1 Capital		-
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Risk-Weighted Assets	$	83,443,525 (3)

(1) Includes exposures to Farm Credit System entities.

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

(3) For purposes of calculating the permanent capital ratio, average risk-weighted assets for the three months ended June 30, 2021 was $82.8 billion.

As shown on page 13 of this quarterly report, the Bank exceeded all capital requirements as of June 30, 2021 to which it was subject, including applicable capital buffers. Because capital exceeded the buffer requirements, the Bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $839.8 million as of June 30, 2021.

Credit Risk

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

Major Credit Exposures - Lending and Investments

Three Months Ended June 30, 2021	Average Balance	End of Period
Loans Outstanding	$ 124,380,402	$ 121,315,902
Unfunded Loan Commitments	35,616,915	41,332,118
Investment Securities	32,336,599	32,500,439
Letters of Credit	1,672,098	1,875,263
Equity Investment Commitments	85,311	84,022
Reverse Repurchase Transactions	7,506	48,081

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

Major Credit Exposures - Derivatives

Three Months Ended and As of June 30, 2021	Average Balance		End of Period	
	Notional Amount	Gross Positive Value	Notional Amount	Gross Positive Value
Over-the-Counter Derivatives:				
Interest Rate Contracts	$ 23,786,130	$ 466,358	$ 23,834,965	$ 464,679
Foreign Exchange Contracts	116,456	413	229,919	780
Total Over-the-Counter Derivatives	23,902,586	466,771	24,064,884	465,459
Cleared Derivatives:				
Interest Rate Contracts	24,475,873	113,802	29,895,198	123,037
Total Derivatives	$ 48,378,459	$ 580,573	$ 53,960,082	$ 588,496

The following table illustrates the geographic distribution of our total loan commitments as of June 30, 2021.

Total Lending Portfolio - Geographic Distribution

As of June 30, 2021	Wholesale Loans[1]	Commercial Loans
California	46 %	7 %
Washington	18	2
Texas	4 [2]	7
Connecticut	10	1
Kansas	5	4
Illinois	-	6
Iowa	-	6
Minnesota	-	5
Oklahoma	4	2
Colorado	3	3
Ohio	-	4
Nebraska	-	3
New York	-	3
Missouri	-	3
Asia	-	3
Georgia	-	3
Florida	-	3
New Mexico	2	-
Latin America	-	2
Mississippi	1 [2]	2
Wisconsin	-	2
Indiana	-	2
North Dakota	-	2
South Dakota	-	2
North Carolina	-	2
Alabama	1 [2]	1
Virginia	-	2
Arkansas	-	2
Maryland	1 [2]	-
Utah	2	-
Arizona	-	1
Michigan	-	1
Europe, Middle East, and Africa	-	1
Massachusetts	-	1
Tennessee	-	1
Louisiana	-	1
Other	3 [2]	10
Total	100 %	100 %

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

[2] Includes participation interests in loan commitments to nonaffiliated Associations.

The following table illustrates the geographic distribution of our impaired loans as of June 30, 2021.

Impaired Loans - Geographic Distribution	
As of June 30, 2021	**Share[1]**
Texas	23 %
California	14
Minnesota	10
Oklahoma	9
Oregon	9
Florida	7
Iowa	6
Washington	5
Colorado	3
Vermont	2
Arizona	2
North Dakota	2
New York	1
South Dakota	1
Wisconsin	1
Other	5
Total	100 %

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

The following table illustrates the primary business/commodity distribution of our total loan commitments as of June 30, 2021.

Total Lending Portfolio - Distribution by Primary Business/Commodity	
As of June 30, 2021	**Share**
Affliated Associations	41 %
Farm Supply and Grain Marketing	13
Electric Distribution	8
Nonaffliated Entities	4
Generation and Transmission	4
Agricultural Export Finance	3
Regulated Utilities	3
Fruits, Nuts, Vegetables	3
Lease Financing (through FCL)	3
Fish, Livestock, Poultry	2
Forest Products	2
Dairy	2
Water and Wastewater	2
Independent Power Producers	1
Local Exchange Carriers	1
Competitive Local Telephone Exchange Carriers	1
Wireless	1
Cable	1
Other	5
Total	100 %

The following table presents a summary of the remaining contractual maturity of our loans, unfunded loan commitments, investment securities, letters of credit, derivatives and equity investments at June 30, 2021.

($ in Millions)

Contractual Maturity

As of June 30, 2021	In One Year or Less	One to Five Years	After Five Years	Total
Loans Outstanding	$ 76,319	$ 20,382	$ 24,615	$ 121,316
Unfunded Loan Commitments	24,635	9,433	7,264	41,332
Investment Securities	3,280	15,196	14,024	32,500
Letters of Credit	592	956	327	1,875
Derivatives (Notional Amounts)	20,114	21,659	12,187	53,960
Equity Investment Commitments	21	50	13	84

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

Counterparty Credit Risk

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

Credit Risk Mitigation

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

Loans

Our Agricultural Export Finance Division (AEFD) utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program for a portion of its export financing. Refer to the Operating Segment Financial Review section beginning on page 6 of this quarterly report for additional discussion related to our AEFD.

As discussed on page 9 of this quarterly report, our loans to affiliated Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios. Lower regulatory capital requirements are commensurate with the lower risk profile associated with our loans to affiliated Associations.

Investments

Credit risk in our investment portfolio is mitigated by investing primarily in securities issued or guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency). Credit risk in our investment portfolio primarily exists in the 1 percent of our investments securities that are not guaranteed by the U.S. government or a U.S. Agency, which currently include asset-backed securities (ABS) and corporate bonds of midstream energy companies. Our ABS and midstream energy corporate bonds collectively total $448.8 million of our total investment portfolio as of June 30, 2021. Credit risk in our investment portfolio also arises from counterparties to short-term investments, which include our overnight bank deposits and federal funds sold. With the exception of corporate bonds, which are risk-weighted based on the corporate counterparty, these exposures are captured in the Securitization section below.

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

Loan and Investment Exposures

Three Months Ended June 30, 2021		Average Exposure Amount		Risk Weighted Exposures
Guaranteed Loans	$	1,659,063	$	-
Loans to Farm Credit System entities		60,175,469		12,035,094
Investment Securities Issued or Guaranteed by U.S. Government		17,274,088		-
Investment Securities Issued or Guaranteed by a U.S. Agency		14,106,697		2,821,339
Total	$	93,215,317	$	14,856,433

Derivatives

As described in Note 6 in the condensed consolidated financial statements in this quarterly report, transactions with dealers in our over-the-counter derivative portfolio, as well as those cleared through a clearinghouse, are collateralized or otherwise secured through settlement payments. As a result, at June 30, 2021, we posted financial collateral with dealers totaling $148.6 million that was included in calculating risk-weighted assets. Total risk-weighted assets for our over-the-counter derivatives and cleared derivative transactions amounted to $515.5 million and $1.3 million, respectively, for the three-month period ended June 30, 2021.

Securitization

The Bank participates in securitizations as investors through the purchase of MBS and ABS, which are included in our investment portfolio. As of June 30, 2021, CoBank did not retain any resecuritization exposures. The following disclosures relate only to ABS not guaranteed by the U.S. government or a U.S. Agency. The average balance of these unguaranteed securities was $70.3 million for the three-month period ended June 30, 2021.

Below is a summary of our securitization exposures held during the three months ended June 30, 2021 by exposure type and categorized by risk-weight band.

Securitization Exposures

Three Months Ended June 30, 2021	Average Exposure Amount	Risk Weighted Asset (Under Gross Up Approach)
Asset-Backed Securities	$ 70,266	$ 70,102
Total	$ 70,266	$ 70,102

Securitization Risk-Weight Bands

Three Months Ended June 30, 2021	Average Exposure Amount	Risk Weighted Asset (Under Gross Up Approach)
Gross-Up Risk-Weight Bands:		
100% - 125%	$ 70,266	$ 70,102
>125% and <1,250%	-	-
1,250%	-	-
Total	$ 70,266	$ 70,102

For the three-month period ended June 30, 2021, we did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

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

Equities

The Bank has certain exposure to equity investments. We make investments and are a limited partner in certain Rural Business Investment Companies (RBICs). These RBICs focus on small and middle market companies that create jobs and promote commerce in rural America. The Bank also holds investments in various unincorporated business entities (UBEs), as defined by FCA regulation. We hold these investments to acquire and manage unusual or complex collateral associated with loan workouts as well as to make mission-related investments. Our investments in RBICs and UBEs are not publicly traded and are accounted for under the equity method. We also hold an equity investment as a result of the bankruptcy of a former customer which is accounted for at cost less any impairment as there is no readily determinable fair value. There have been no sales or liquidations of these investments during the three months ended June 30, 2021.

Interest Rate Risk

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

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

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

Net Interest Income at Risk

Scenario:	
- 300 bp shock	n/a
- 200 bp shock	n/a
- 100 bp shock	n/a
- 2 bp shock	- %
+ 100 bp shock	-
+ 200 bp shock	0.2
+ 300 bp shock	1.1

Market Value of Equity at Risk

Scenario:	
- 300 bp shock	n/a
- 200 bp shock	n/a
- 100 bp shock	n/a
- 2 bp shock	0.1 %
+ 100 bp shock	(5.1)
+ 200 bp shock	(9.9)
+ 300 bp shock	(14.2)

Controls and Procedures

CoBank, ACB

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

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

Certification Required by Farm Credit Administration Regulations

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

Signed this 9th day of August, 2021.

/s/ KEVIN G. RIEL

Kevin G. Riel
Chair of the Board

/s/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

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

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

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

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

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

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

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

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

/s/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

Dated: August 9, 2021

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: August 9, 2021

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* *Farm Credit Leasing office within this CoBank location*

CoBank's 2021 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, 2021, August 9, 2021, November 9, 2021, and March 1, 2022 (Annual Report).