



FARM CREDIT

THIRD QUARTER 2019 QUARTERLY INFORMATION STATEMENT OF THE FARM CREDIT SYSTEM

Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505 • Jersey City, New Jersey 07302 • 201-200-8000

NOVEMBER 8, 2019

This quarterly information statement provides important information for investors in the debt securities jointly issued by the four Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB and Farm Credit Bank of Texas (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This quarterly information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation (Funding Corporation) on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circular as of this date is the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated December 8, 2014, as amended by the supplements dated October 2, 2017 and September 17, 2018.

The offering circular may be amended or supplemented from time to time and a new offering circular may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular and related supplements, the most recent annual and quarterly information statements and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996, the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999, or the Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001. No securities previously offered under the Global Debt Program Offering Circular or the Master Notes Offering Circular are currently outstanding.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of or guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that (1) we have reviewed this quarterly information statement, (2) this quarterly information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this quarterly information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.

Matthew D. Walther *Theresa E. McCabe* *Karen R. Brenner*

Matthew D. Walther
Chairman of the Board

Theresa E. McCabe
President and CEO

Karen R. Brenner
Managing Director — Financial
Management Division

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities and links to each Bank’s website, are available on the Funding Corporation’s website located at www.farmcreditfunding.com. Other information regarding the System can be found on the System’s website located at www.farmcredit.com.

Copies of quarterly and annual reports of each Bank may be obtained, by request, from each respective Bank. In addition, reports of each Bank combined with its affiliated Associations may be obtained from each individual Bank. Bank addresses and telephone numbers are listed on page S-5 of this quarterly information statement. These documents and further information on each Bank or each Bank combined with its affiliated Associations and links to a Bank’s affiliated Associations’ websites are also available on each Bank’s website as follows:

- AgFirst Farm Credit Bank — www.agfirst.com
- AgriBank, FCB — www.agribank.com
- CoBank, ACB — www.cobank.com
- Farm Credit Bank of Texas — www.farmcreditbank.com

Information contained on these websites is not incorporated by reference into this quarterly information statement and you should not consider information contained on these websites to be part of this quarterly information statement.

BUSINESS

Overview of the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. Our mission is to support rural communities and agriculture with reliable, consistent credit and financial services. We do this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing

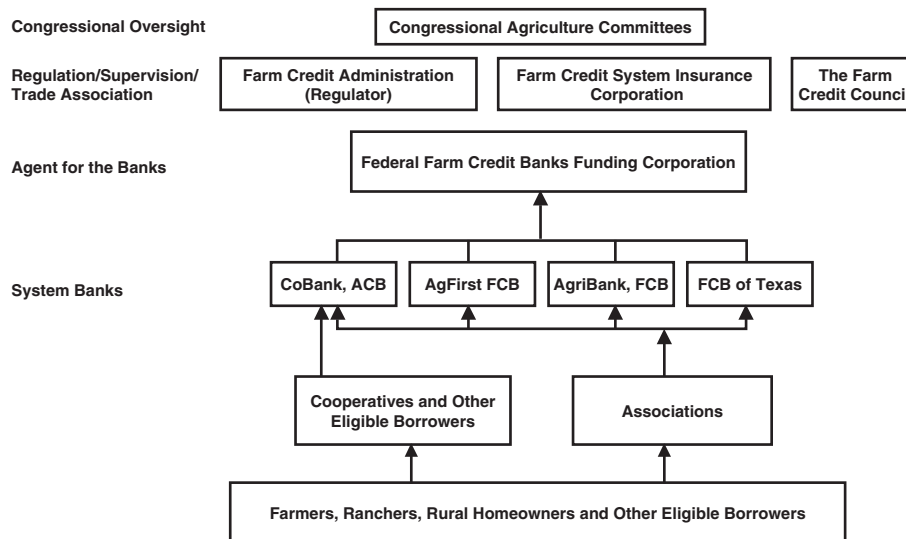
financial services and advice to those individuals and businesses.

Consistent with our mission of supporting rural America, we also make rural residential real estate loans, finance rural power, communication and water infrastructures and make loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the current overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank and Texas) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

The Banks jointly own the Funding Corporation. The Funding Corporation, as agent for the Banks,

issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

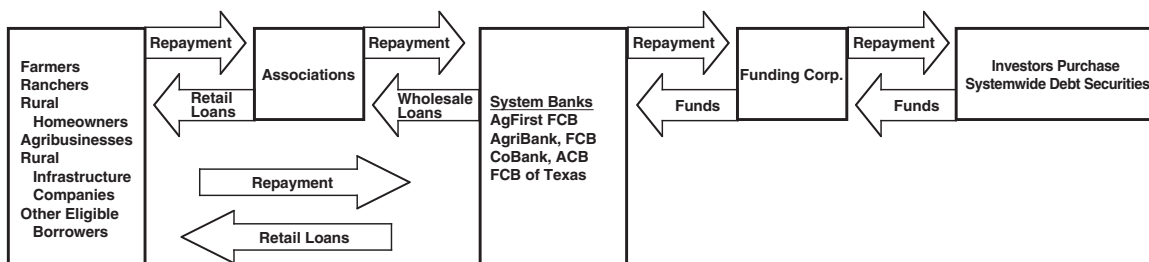
Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

Our Business Model

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds

through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks and the Associations include internally generated earnings and the issuance of common and preferred equities. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to agricultural and rural infrastructure cooperatives and businesses and other eligible entities. The Banks also purchase loan participations from Associations, other Banks and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these borrowers to repay their loans.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System’s borrowers and the ultimate repayment of funds to investors resulting from borrower loan repayments.



Overview of Our Business

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural products. We make credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of financially related services to their borrowers designed to enhance their business, including acting as agent or broker for credit and mortgage-life insurance, disability insurance, various types of crop insurance and livestock risk protection. The insurance is made available through private insurers.

Other services offered by System institutions include estate planning, record keeping, tax planning and preparation, fee appraisal and cash management products and services. In addition, some System institutions provide leasing and related services to their customers.

Government-Sponsored Enterprise Status

In order to better accomplish our mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, we have traditionally been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has historically allowed us to make competitively priced loans to eligible borrowers through all economic cycles and thus accomplish our mission.

Agricultural Industry Overview

The agricultural sector has been and remains a key economic force in the U.S. economy and is strongly affected by domestic and global economic conditions and government policies. Adverse weather events (including droughts and floods), food safety, disease and other unfavorable conditions (including wildfires) also directly affect the agricultural sector.

The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. Profitability in our business is dependent on the health of the U.S. agricultural sector, which is heavily influenced by domestic and world demand for agricultural products, and impacted by government policies and support programs, including crop insurance, which is available to producers of certain agricultural commodities. Further, off-farm income is important to the repayment ability of many agricultural producers. Accordingly, our business also may be impacted by the health of the general U.S. economy.

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations.

Banks

At September 30, 2019, the System had four Banks (three Farm Credit Banks and one Agricultural Credit Bank). The Banks' lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to agricultural and rural infrastructure cooperatives and businesses and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings and from the issuance of common and preferred equities.

Associations

At September 30, 2019, the System had 68 Associations throughout the nation and the Commonwealth of Puerto Rico. There were 67 Agricultural Credit Associations with Production Credit Association and Federal Land Credit Association subsidiaries, and one

Federal Land Credit Association. The Federal Land Credit Association makes real estate mortgage loans, including rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase eligible loan participations from other System entities and non-System lenders.

The Associations obtain a substantial majority of the funds for their lending operations from borrowings from their affiliated Bank, but also obtain some of their funds from internally generated earnings and from the issuance of equities.

Farm Credit Insurance Fund

As more fully discussed on page 22 in the 2018 *Annual Information Statement*, the Farm Credit System Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other mandatory and discretionary purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the debt obligation cannot be invoked until the Insurance Fund is exhausted. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

Disclosure Obligations

The Farm Credit Administration has promulgated regulations intended to ensure the appropriate disclosure of financial and other information concerning the System to investors in Systemwide Debt Securities and other interested parties. These disclosures are the responsibility of the System Disclosure Entities, which consist of the Banks and the Funding Corporation. For a description of the responsibilities of the System Disclosure Entities, see pages 17 and 18 of the 2018 *Annual Information Statement*.

Governance — Code of Ethics

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and finance and accounting senior professionals who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made during the first nine months of 2019. A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcreditfunding.com. Each Bank's code of ethics includes similar content and can be accessed through each of their respective websites listed on page 2.

Risk Factors

Other than described below, there have been no material changes to the risk factors previously disclosed in the System's 2018 Annual Information Statement.

Uncertainty relating to the potential discontinuance of LIBOR after 2021 could adversely affect System institutions' results of operations, financial condition and liquidity.

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced

its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The System has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021. System institutions' exposure arises from loans that they make to customers, investment securities that they purchase, Systemwide Debt Securities that are issued by the Funding Corporation on the Banks' behalf, preferred stock that they issue and their derivative transactions. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of and return on instruments held by the System institutions.

There is considerable uncertainty as to how the financial services industry will address the discontinuance of LIBOR in financial instruments. This uncertainty could result in disputes and litigation with counterparties and borrowers surrounding the implementation of alternative reference rates in our financial instruments that reference LIBOR. If LIBOR ceases or changes in a manner that causes regulators or market participants to question its viability, financial instruments indexed to LIBOR could experience disparate outcomes based on their contractual terms, ability to amend those terms, market or product type, legal or regulatory jurisdiction, and a host of other factors. There can be no assurance that legislative or regulatory actions will dictate what happens if LIBOR ceases or is no longer viable, or what those actions might be.

OTHER BUSINESS MATTERS

Legal Proceedings

On June 13, 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 who held CoBank's 7.875% Subordinated Notes due in 2018. For additional information, see Note 12 to the accompanying condensed combined financial statements.

On November 4, 2016, an alleged class action complaint was filed in the Supreme Court of the State of New York against AgriBank by a purported beneficial owner of AgriBank's 9.125% subordinated notes due in 2019. For additional information, see

Note 12 to the accompanying condensed combined financial statements.

At September 30, 2019, various other lawsuits were pending or threatened against System institutions. Each System institution to which a pending or threatened lawsuit relates intends to vigorously defend against such action. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

SELECTED COMBINED FINANCIAL DATA AND KEY FINANCIAL RATIOS

The following selected combined financial data for each of the three years in the period ended December 31, 2018 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations).

While this quarterly information statement reports on the combined financial condition and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for the repayment of Systemwide Debt Securities. See Note 13 to the accompanying condensed combined financial statements for combining Bank-only financial condition and results of operations. Also, copies of quarterly and annual reports of each Bank are available on each of their respective websites; see page 2 for a listing of their websites.

The selected combined financial data for the nine months ended September 30, 2019 and 2018 has been derived from the System's unaudited condensed combined financial statements appearing elsewhere herein, which include all adjustments necessary for a fair statement of the results for these interim periods.

	September 30,		December 31,		
	2019	2018	2018	2017	2016
	(unaudited)				
			(in millions)		
Combined Statement of Condition Data					
Loans	\$276,112	\$265,007	\$273,378	\$259,888	\$249,791
Allowance for loan losses	(1,750)	(1,682)	(1,713)	(1,596)	(1,506)
Net loans	274,362	263,325	271,665	258,292	248,285
Cash, Federal funds sold and investments	67,070	60,264	66,471	60,673	61,552
Accrued interest receivable	3,339	3,073	2,732	2,354	2,140
Other property owned	81	92	84	55	75
Total assets	353,976	334,988	348,992	329,518	319,915
Systemwide bonds	265,037	249,319	258,788	239,573	228,159
Systemwide medium-term notes	86	89	89	89	95
Systemwide discount notes	17,738	19,054	22,582	25,507	29,528
Subordinated debt					499
Other bonds	2,085	2,056	1,817	1,950	2,431
Total liabilities	291,618	276,771	290,548	274,136	267,604
Capital	62,358	58,217	58,444	55,382	52,311
	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2019	2018	2018	2017	2016
	(unaudited)				
			(in millions)		
Combined Statement of Income Data					
Net interest income	\$ 6,150	\$ 5,947	\$ 7,976	\$ 7,712	\$ 7,447
Provision for loan losses	(95)	(146)	(194)	(197)	(266)
Net noninterest expense	(1,869)	(1,693)	(2,324)	(2,288)	(2,158)
Income before income taxes	4,186	4,108	5,458	5,227	5,023
Provision for income taxes	(131)	(96)	(126)	(38)	(175)
Net income	<u>\$ 4,055</u>	<u>\$ 4,012</u>	<u>\$ 5,332</u>	<u>\$ 5,189</u>	<u>\$ 4,848</u>

Combined Key Financial Ratios

Certain combined key financial ratios of the System are set forth below:

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2019	2018	2018	2017	2016
Return on average assets	1.54%	1.61%	1.59%	1.62%	1.56%
Return on average capital	8.94	9.40	9.29	9.49	9.44
Net interest income as a percentage of average earning assets	2.41	2.45	2.46	2.48	2.49
Operating expense as a percentage of net interest income and noninterest income	35.5	34.3	35.2	35.1	34.6
Net loan charge-offs as a percentage of average loans	0.02	0.03	0.03	0.03	0.02
	September 30,		December 31,		
	2019	2018	2018	2017	2016
Nonperforming assets as a percentage of loans and other property owned	0.92%	0.92%	0.83%	0.78%	0.82%
Allowance for loan losses as a percentage of loans outstanding	0.63	0.63	0.63	0.61	0.60
Capital as a percentage of total assets	17.6	17.4	16.7	16.8	16.4
Capital as a percentage of total assets (excluding restricted assets and capital — Insurance Fund) . . .	16.4	16.2	15.5	15.6	15.2
Capital and allowance for loan losses as a percentage of loans outstanding	23.2	22.6	22.0	21.9	21.5
Debt to capital	4.68:1	4.75:1	4.97:1	4.95:1	5.12:1

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND QUARTERLY RESULTS OF OPERATIONS

The System's *2018 Annual Information Statement* contains the December 31, 2018 audited combined financial statements together with commentary that explains the principal aspects of the System's combined financial position and results of operations. The following commentary represents a quarterly supplement to that information statement and includes a discussion of significant financial developments for the nine months ended September 30, 2019. This commentary should be read in conjunction with the *2018 Annual Information Statement* and with the condensed combined financial statements of the System beginning on page F-1 of this quarterly information statement.

Basis of Presentation

The accompanying condensed combined financial statements and related financial information contained in this quarterly information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund, and reflect the investments in and allocated earnings of certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying condensed combined financial statements for additional information on organization and significant accounting policies and the Supplemental Combining Information on pages F-47 through F-53). This quarterly information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of System entities as discussed in the "Business" section in this quarterly information statement.

Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Note 7 to the accompanying condensed combined financial statements for information about the capital of the Banks, Note 13 for information related to the financial condition and results of operations of the Banks, and the Supplemental Combining Information on pages F-47 through F-49 for information related to the financial condition of the combined Banks.) Because the

Associations are not directly liable for the payment of principal or interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of the principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 5 to the accompanying condensed combined financial statements.)

Forward-Looking Information

Certain sections of this quarterly information statement contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent our current assumptions and expectations regarding our business, the economy and other future conditions. However, actual results and developments may differ materially from our expectations and forecasts due to a number of risks and uncertainties, many of which are beyond our control. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

These statements are not guarantees of future performance and involve certain risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to:

- political (including trade and tax policies), legal, regulatory, financial markets and economic conditions and developments in the U.S. and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors;
- adverse weather-related events (including droughts and floods), food safety, disease, and other unfavorable conditions (including wildfires) that periodically occur that impact agricultural productivity and income;

- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the System, the U.S. government, other government-sponsored enterprises and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy;
- credit, interest rate and liquidity risk inherent in our lending activities;
- the replacement of LIBOR and the implementation of Secured Overnight Financing Rate (SOFR) or other benchmark interest rates;
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements; and
- industry outlooks for agricultural conditions.

Overview

General

The System's combined net income increased \$43 million or 1.1% to \$4.055 billion for the first nine months of 2019, as compared with net income of \$4.012 billion for the same period of 2018. The increase resulted primarily from an increase in net interest income of \$203 million and a decrease in the provision for loan losses of \$51 million, offset by increases in noninterest expense of \$143 million and the provision for income taxes of \$35 million and a decrease in noninterest income of \$33 million.

The System's net interest income increased 3.4% to \$6.150 billion primarily from a higher level of average earning assets. The net interest margin declined four basis points to 2.41% for the first nine months of 2019, as compared to the same period of the prior year. This decline was due to an eleven basis point decrease in the net interest spread to 2.02% resulting primarily from increased debt costs and lower lending spreads due to continued competitive market pressures. The net interest margin was positively impacted by a seven basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System's loan portfolio increased \$2.734 billion or 1.0% to \$276.112 billion since

year-end 2018. The increase primarily resulted from increases in real estate mortgage and processing and marketing loans offset, in part, by a decrease in loans to cooperatives. Financing for new and existing customers was the primary driver for increased real estate mortgage and processing and marketing loan volume. Loans to cooperatives primarily decreased due to lower seasonal loan volume, which typically reaches a low in late summer and early fall.

The System's nonperforming assets (which consist of nonaccrual loans, accruing restructured, accruing loans 90 days or more past due and other property owned) increased \$267 million to \$2.549 billion at September 30, 2019, as compared with \$2.282 billion at December 31, 2018, representing 0.92% and 0.83% of total loans and other property owned for the corresponding periods.

Funding

The System continues to have reliable access to the debt capital markets to support its mission of providing credit and financial services to agriculture, rural infrastructure and rural communities. During the first nine months of 2019, investor demand for Systemwide Debt Securities remained favorable across all products.

The System is a government-sponsored enterprise that continues to benefit from broad access to domestic and global capital markets. This access provides us with a dependable source of competitively priced debt, which is critical for supporting our mission of providing credit to agriculture and rural America.

Agricultural Outlook

Overview

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors. The System utilizes the United States Department of Agriculture (USDA) analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business or events that occurred subsequent to its issuance. References to USDA information in this section refer to U.S. agricultural market data and not System data.

The USDA's most recent forecast (August 30, 2019) estimates farmers' net cash income (a measure of the cash income after payment of business

expenses) for 2019 will be \$112.6 billion, a \$7.6 billion increase from 2018 and \$2.0 billion above the 10-year average. The forecasted increase in farmers' net cash income for 2019 is primarily due to expected increases in direct government payments of \$5.8 billion to \$19.5 billion, following higher payments from the USDA Market Facilitation Program (MFP), and cash farm-related income of \$5.6 billion. The MFP was first implemented in 2018 to assist farmers that are impacted by trade disputes. Partially offsetting the increase is a decrease in cash receipts for crops and livestock of \$2.4 billion and an increase in cash expenses of \$1.4 billion.

The USDA is also forecasting farm sector solvency/liquidity ratios to weaken in 2019 as reflected in the increases in debt-to-equity and debt-to-asset ratios to 15.6% and 13.5%, which represent the highest levels since 2009, but well below the peak of 28.5% and 22.2% in 1985. Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecast to decline 18.7% from 2018 and has declined 66% from robust levels in 2012.

Agricultural production is a major use of land in the U.S. and the value of farm real estate accounted for 83% of the total value of the U.S. farm sector assets according to the USDA. Since real estate is such a significant component of the balance sheet of U.S. farms, the value of the farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's recent forecast anticipates that farm sector equity, the difference between farm sector assets and debt, is predicted to rise 1.8% in 2019 in nominal terms. Farm real estate value is expected to increase 1.9% and non-real estate farm assets is expected to increase 2.2%, while farm sector debt is forecast to increase 3.4% in 2019. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 61.8% of total farm debt in 2019.

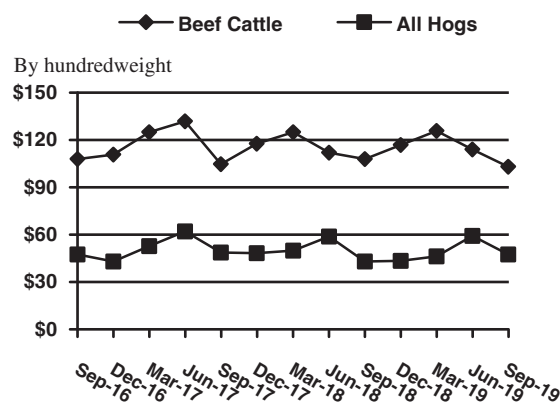
Commodity Prices

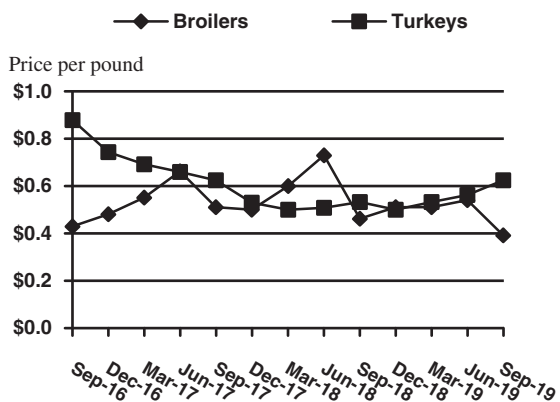
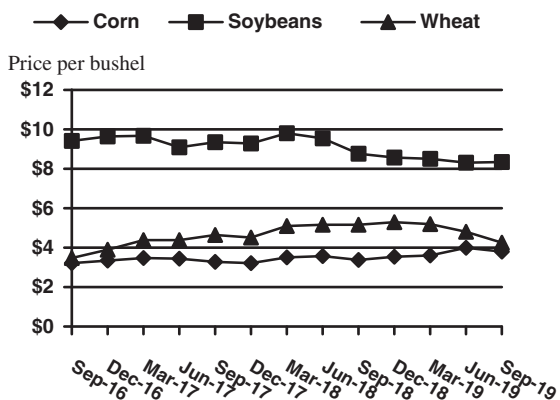
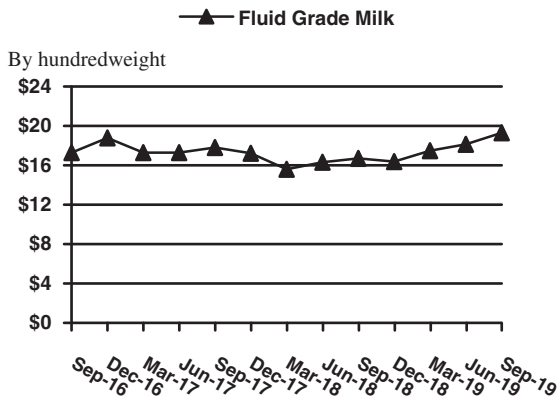
Global economic conditions influence demand for food and agricultural products, which supports U.S. agricultural trade. The ongoing uncertainty surrounding U.S. trade policy continues to put pressure

on commodity prices, along with elevated global supplies for certain commodities. Pork and soybeans have been particularly negatively impacted by trade disputes, but another iteration of the MFP has eased some of the negative impact caused by trade disputes. Furthermore, the spread of African Swine Fever (ASF) in parts of Asia, particularly China, also has widespread consequences for U.S. pork and soybean markets. Higher Chinese hog prices in August and September 2019 and recent growth in U.S. pork export sales to China may be signaling that the situation is worsening in China, which could provide an increase to U.S. pork prices and global animal protein prices in general. Conversely, the Chinese ASF outbreak is bearish for global soybean demand that may spill over to other crops over time as production adjustments are made.

With respect to U.S. grain production, historically wet weather in the Midwest adversely affected growing conditions in some production areas. Consequently, ending inventories are expected to decrease but remain at elevated levels that will likely limit price increases. However, the financial impact on farmers in 2019 may be partially mitigated by crop insurance, MFP and disaster aid.

The following charts set forth certain agricultural commodity prices, utilizing the average monthly price for the last month of each quarter by hundredweight for beef cattle, hogs and milk, per bushel for corn, soybeans and wheat and by pound for poultry, on certain dates during the period from September 30, 2016 to September 30, 2019:





The agricultural environment has been more challenging during the past few years. Currency fluctuations, ample inventories and current U.S. trade

policies, including the retaliatory action by other countries, has adversely impacted demand and prices for agricultural exports. This has reduced net farm income (a broad measure of profits) and eroded working capital. As the agriculture sector adjusts to current market conditions, producers' financial performance has been negatively impacted, particularly stressing less efficient operations. During this period of adjustment, the System's financial performance and credit quality may be negatively impacted but is expected to remain sound overall. Geographic and commodity diversification across the System coupled with off-farm income support for many borrowers helps to mitigate the impact of periods of less favorable agricultural conditions. While the System benefits overall from diversification, certain System institutions have higher geographic, commodity and borrower concentrations, which during times of less favorable agricultural conditions, may accentuate the negative impact on those institutions' financial performance and credit quality.

Results of Operations

Net Interest Income

Net interest income increased \$70 million or 3.5% to \$2.085 billion and increased \$203 million or 3.4% to \$6.150 billion for the three and nine months ended September 30, 2019, as compared with \$2.015 billion and \$5.947 billion for the same periods of the prior year. The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2019, as compared with the corresponding periods of the prior year, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and the levels of average interest rates. The change in the benefit derived from funding earning assets with noninterest-bearing sources (principally capital) is reflected solely as an increase in volume.

	For the Three Months Ended September 30, 2019 vs. 2018			For the Nine Months Ended September 30, 2019 vs. 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income:						
Loans	\$176	\$ 74	\$250	\$499	\$ 603	\$1,102
Investments	22	26	48	45	177	222
Total interest income	198	100	298	544	780	1,324
Interest expense:						
Systemwide Debt Securities and other	83	145	228	210	911	1,121
Changes in net interest income	<u>\$115</u>	<u>\$(45)</u>	<u>\$ 70</u>	<u>\$334</u>	<u>\$(131)</u>	<u>\$ 203</u>

The changes in rates earned on interest-earning assets and rates paid on interest-bearing funds are further illustrated in the following presentation of interest rate spreads:

	Three Months Ended				Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate
	(\$ in millions)							
Assets								
Real estate mortgage loans	\$126,907	5.08%	\$122,675	4.94%	\$125,772	5.07%	\$120,824	4.81%
Production and intermediate-term loans	52,936	5.25	49,887	5.05	51,627	5.27	48,270	4.82
Agribusiness loans	46,454	4.74	42,199	4.63	48,407	4.75	45,622	4.25
Rural infrastructure loans	29,449	4.54	28,315	4.39	29,320	4.58	28,378	4.37
Rural residential real estate loans	7,359	4.55	7,193	4.48	7,308	4.55	7,192	4.43
Agricultural export finance loans	6,142	3.23	6,029	3.04	6,313	3.30	5,786	2.71
Lease receivables	3,531	3.88	3,505	3.62	3,534	3.85	3,528	3.64
Loans to other financing institutions	805	2.86	850	2.56	798	2.89	817	2.38
Nonaccrual loans	2,034	3.69	2,004	5.23	1,955	3.91	1,844	5.12
Total loans	275,617	4.91	262,657	4.77	275,034	4.91	262,261	4.59
Federal funds sold, investments and other interest-earning assets	65,850	2.45	60,676	2.35	64,709	2.52	60,791	2.19
Total earning assets	341,467	4.44	323,333	4.32	339,743	4.46	323,052	4.14
Allowance for loan losses	(1,754)		(1,665)		(1,753)		(1,648)	
Other noninterest-earning assets	13,144		11,862		12,600		11,721	
Total assets	<u>\$352,857</u>		<u>\$333,530</u>		<u>\$350,590</u>		<u>\$333,125</u>	
Liabilities and Capital								
Systemwide bonds and medium-term notes	\$264,127	2.39%	\$248,361	2.20%	\$262,193	2.44%	\$246,633	2.05%
Systemwide discount notes	18,381	2.39	19,312	2.01	19,500	2.47	21,631	1.68
Other interest-bearing liabilities	3,092	1.81	3,102	1.42	2,933	1.73	2,939	1.22
Total interest-bearing liabilities	285,600	2.39	270,775	2.18	284,626	2.44	271,203	2.01
Noninterest-bearing liabilities	5,363		4,758		5,461		5,037	
Capital	61,894		57,997		60,503		56,885	
Total liabilities and capital	<u>\$352,857</u>		<u>\$333,530</u>		<u>\$350,590</u>		<u>\$333,125</u>	
Net interest spread(1)		2.05		2.14		2.02		2.13
Impact of noninterest-bearing sources		0.39		0.35		0.39		0.32
Net interest margin(2)		2.44%		2.49%		2.41%		2.45%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by average earning assets.

As illustrated in the preceding tables, net interest income increased in the three and nine months ended September 30, 2019, as compared with the same periods of the prior year. The increase resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets increased \$18.134 billion or 5.6% to \$341.467 billion for the three months ended September 30, 2019 and \$16.691 billion or 5.2% to \$339.743 billion for the nine months ended September 30, 2019, as compared with the same periods of 2018.

The net interest margin was 2.44% for the three months ended September 30, 2019, as compared with 2.49% for the same period of 2018. The net interest spread decreased nine basis points to 2.05% for the three months ended September 30, 2019 from the comparable prior year period and was offset by a four basis point increase in income earned on earning assets funded by non-interest bearing sources (principally capital). For the nine-month period ended September 30, 2019, the net interest margin was 2.41%, as compared with 2.45% for the same period of the prior year. The net interest margin was negatively impacted by a decrease in the net interest spread of eleven basis points to 2.02% for the nine months ended September 30, 2019, as compared with 2.13% for the same period of the prior year and was positively impacted by a seven basis point increase in

income earned on earning assets funded by non-interest bearing sources. The declines in the net interest spread for the three- and nine-month periods of 2019 were primarily the result of increased debt costs and lower lending spreads due to continued competitive market pressures.

Provision for Loan Losses

The System recognized provisions for loan losses of \$29 million and \$95 million for the three and nine months ended September 30, 2019, as compared with provisions for loan losses of \$59 million and \$146 million for the three and nine months ended September 30, 2018. The provision for loan losses for the first nine months of 2019 primarily reflected deterioration in credit quality in the agribusiness and rural power sectors, as well as increases in the general reserves due to changes in risk rating, collateral revaluations and industry-specific reserves for the dairy, grain and cattle industries. The provision for loan losses for the first nine months of 2018 primarily reflected specific reserves associated with a limited number of customers in the agribusiness and rural power sectors, as well as increased credit risk exposure resulting from credit quality deterioration and growth in agribusiness loan volume. The provision for loan losses for the first nine months of 2018 also included industry-specific reserves for the grain and dairy industries.

Noninterest Income

Noninterest income consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Loan-related fee income	\$ 63	\$ 70	\$184	\$177
Financially related services income	72	61	152	143
Income earned on Insurance Fund assets	23	19	71	53
Mineral income	17	21	49	58
Operating lease income	8		22	18
Losses on extinguishment of debt	(18)	(3)	(29)	(9)
Net gains on sales of investments and other assets	2	12	17	52
Net gains (losses) on derivative and other transactions	2	(11)	14	10
Other noninterest income	5	4	14	25
Total noninterest income	<u>\$174</u>	<u>\$173</u>	<u>\$494</u>	<u>\$527</u>

Noninterest income decreased \$33 million or 6.3% to \$494 million for the nine months ended September 30, 2019, as compared with the same period of the prior year. This decrease was primarily due to a decrease in net gains on sales of investments and other assets of \$35 million and an increase in

losses on extinguishment of debt of \$20 million, partially offset by an increase in income earned on Insurance Fund assets of \$18 million. During the first nine months of 2019, the Banks have called debt totaling \$37.6 billion, as compared to \$29 million during the same period of 2018.

Noninterest Expense

Noninterest expense increased \$47 million or 6.3% to \$795 million and increased \$143 million or 6.4% to \$2.363 billion for the three and nine months ended September 30, 2019, as compared with the same periods of the prior year. Noninterest expense consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Salaries and employee benefits	\$484	\$460	\$1,457	\$1,376
Occupancy and equipment expense	73	66	212	189
Purchased services	58	53	165	147
Other operating expense	180	169	525	508
Total operating expense	795	748	2,359	2,220
Net losses on other property owned			4	
Total noninterest expense	\$795	\$748	\$2,363	\$2,220

The increase in noninterest expense for the three and nine months ended September 30, 2019 was primarily due to increases in salaries and employee benefits, occupancy and equipment expense and purchased services. Salaries and employee benefits increased \$24 million and \$81 million for the three and nine months ended September 30, 2019, as compared to the same periods of the prior year, as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased \$7 million and \$23 million for the three and nine months ended September 30, 2019, as compared to the same periods of the prior year, primarily due to increases in facilities and related maintenance expenses. For the three- and nine-month periods ended September 30, 2019, purchased services increased \$5 million and \$18 million due to increases in digital, efficiency and process refinement projects and other consulting services related to various other business initiatives. Operating expense statistics are as follows:

	For the Nine Months Ended September 30,	
	2019	2018
	(\$ in millions)	
Excess of net interest income over operating expense	\$3,791	\$3,727
Operating expense as a percentage of net interest income and noninterest income	35.5%	34.3%
Annualized operating expense as a percentage of average earning assets	0.93%	0.92%

Provision for Income Taxes

Provisions for income taxes were \$48 million and \$131 million for the three and nine months ended September 30, 2019, as compared with \$18 million and \$96 million for the same periods of the prior year. The effective tax rate increased from 2.3% for the nine months ended September 30, 2018 to 3.1% for the nine months ended September 30, 2019 due to increased earnings attributable to taxable business activities and a lower amount of patronage in 2019, as well as, a non-recurring income tax benefit related to tax reform recognized in 2018.

Risk Management

Overview

The System is in the business of making agricultural and other loans that require us to take certain risks. Management of risks inherent in our business is essential for our current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. Each System institution's goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities. Stress testing represents a component of each institution's risk management process. Each System institution is required by regulation to perform stress tests; however, the depth and frequency of these stress tests may vary by institution size and complexity.

The major types of risk for which we have exposure are structural risk, credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and political risk.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. Each System institution is responsible for its own risk management and there are no formal processes or procedures in place to mandate Systemwide risk mitigation actions, including, but not limited to, reducing credit risk concentration, interest rate and counterparty credit risk across the System. This structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank's credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities. (See Notes 7 and 13 to the accompanying condensed combined financial statements for additional information.)

In order to monitor the financial strength of each Bank and mitigate the risks of non-performance by

each Bank of its obligations under the Systemwide Debt Securities, we utilize two integrated intra-System financial performance agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Third Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated quarterly to measure the financial condition and performance of each District (a Bank and its affiliated Associations) using various ratios that take into account the District's and Bank's capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each District must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each District. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

The MAA is designed to provide for the timely identification and resolution of individual Bank financial issues and establishes performance criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the Tier 1 Leverage ratio of a Bank, and
- the Total Capital ratio of a Bank.

For additional information on the regulatory capital ratios, see page 33.

If a Bank fails to meet the MAA performance criteria, it will be placed into one of three categories. Each category gives the other System Banks and the Funding Corporation (collectively, the MAA Committee) progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may, subject to the discretion of the MAA Committee, be limited to refinancing maturing debt obligations; and a "Category III" Bank may, subject to the discretion of the MAA Committee, not be permitted to participate in issuances of Systemwide Debt Securities. Decisions by the MAA Committee

to permit, limit or prohibit a “Category II” or “Category III” Bank to participate in the issuance of Systemwide Debt Securities are subject to oversight and override by the Farm Credit Administration. A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the Tier 1 Leverage ratio and the Total Capital ratio are:

	<u>Tier 1 Leverage Ratio</u>	<u>Total Capital Ratio</u>
Category I	<5.0%	<10.5%
Category II	<4.0%	<8.0%
Category III	<3.0%	<7.0%

During the first nine months of 2019, all Banks met the agreed-upon standards of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet MAA’s specified financial criteria. (See Note 13 for each Bank’s Tier 1 Leverage and Total Capital ratios.) For additional information regarding the CIPA or the MAA, see pages 21, 22, 47 and 48 in the *2018 Annual Information Statement*.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. (See pages 26 and 27 for a discussion regarding derivative counterparty exposure.)

System institutions manage credit risk associated with their retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,

- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,
- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income.

Although System institutions monitor credit risk individually, the System has established a quarterly process to report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers. Beginning in the second quarter of 2019, the System committee increased the threshold for monitoring large loan exposures to \$1.25 billion from \$1.0 billion. The increase in the exposure level reflects the growth in the System’s risk-bearing capacity. In certain limited circumstances, a threshold of \$1.5 billion for monitoring large loan exposures may be considered. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed these limits, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest loan exposures, including all loan exposures to a borrower greater than 75% of the \$1.25 billion level or \$937.5 million. While this process captures information regarding large loan exposures, any credit decision resides with the individual System institutions. At September 30, 2019, no exposure was above \$1.25 billion and at December 31, 2018, one exposure was above \$1.0 billion but less than \$1.5 billion. Additionally, four exposures at September 30, 2019 exceeded \$937.5 million and 10 exposures at December 31, 2018 exceeded \$750 million.

For a detailed discussion of our credit risk management practices, see pages 48 through 50 in the *2018 Annual Information Statement*.

Loan Portfolio

The System's loan portfolio consists only of retail loans. For additional information on the types of loans we make, see pages 7 through 9 in the *2018 Annual Information Statement*. Bank loans to affili-

ated Associations have been eliminated in the condensed combined financial statements. Loans outstanding consisted of the following:

	September 30, 2019	December 31, 2018
	(in millions)	
Real estate mortgage	\$129,197	\$126,310
Production and intermediate-term	54,108	53,447
Agribusiness:		
Processing and marketing	26,772	24,832
Loans to cooperatives	14,956	17,589
Farm-related business	3,762	3,692
Rural infrastructure:		
Power	19,012	20,100
Communication	7,875	6,755
Water/waste water	2,378	2,305
Rural residential real estate	7,395	7,308
Agricultural export finance	6,234	6,581
Lease receivables	3,582	3,630
Loans to other financing institutions	841	829
Total loans	<u>\$276,112</u>	<u>\$273,378</u>

Loan volume increased \$2.734 billion or 1.0% to \$276.112 billion at September 30, 2019, as compared with \$273.378 billion at December 31, 2018, primarily as a result of increases in real estate mortgage and processing and marketing loans offset, in part, by a decrease in loans to cooperatives.

Real estate mortgage loans increased \$2.887 billion or 2.3% during the first nine months of 2019. Financing for new and existing customers was the primary driver of the increase.

Processing and marketing loans increased \$1.940 billion or 7.8% during the first nine months of 2019, primarily due to new loan growth and advances on existing loans within certain industries.

Loans to cooperatives decreased \$2.633 billion or 15.0%, as compared with December 31, 2018, primarily due lower seasonal loan volume, which typically reaches a low in late summer and early fall.

System institutions reduce credit risk through certain federal government guarantee programs, such as the Farm Service Agency and Small Business Administration. As of September 30, 2019 and December 31, 2018, \$8.193 billion and \$7.859 billion of loans had varying levels of federal government guarantees. System institutions also limit, to some extent, the credit risk of certain real estate mortgage loans by entering into agreements with others that provide long-term standby commitments to purchase System loans and other credit guarantees. The amount of loans under these other credit guarantees was \$3.347 billion at September 30, 2019, of which \$2.262 billion was provided by Farmer Mac, as compared with total credit guarantees of \$3.511 billion at December 31, 2018, of which \$2.314 billion was provided by Farmer Mac. For additional information on Farmer Mac, see page 12 in the *2018 Annual Information Statement*.

Nonperforming Assets

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2019	December 31, 2018
	(in millions)	
Nonaccrual loans:		
Real estate mortgage	\$ 922	\$ 830
Production and intermediate-term	580	489
Agribusiness	396	398
Rural infrastructure	65	79
Rural residential real estate	52	53
Lease receivables	33	34
Total nonaccrual loans	<u>2,048</u>	<u>1,883</u>
Accruing restructured loans:		
Real estate mortgage	173	173
Production and intermediate-term	86	86
Agribusiness	25	5
Rural residential real estate	7	8
Total accruing restructured loans	<u>291</u>	<u>272</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	73	31
Production and intermediate-term	52	10
Agribusiness		1
Rural infrastructure	2	
Rural residential real estate	1	
Lease receivables	1	1
Total accruing loans 90 days or more past due	<u>129</u>	<u>43</u>
Total nonperforming loans	<u>2,468</u>	<u>2,198</u>
Other property owned	81	84
Total nonperforming assets	<u>\$2,549</u>	<u>\$2,282</u>
	September 30, 2019	December 31, 2018
Nonaccrual loans as a percentage of total loans	0.74%	0.69%
Nonperforming assets as a percentage of total loans and other property owned	0.92	0.83
Nonperforming assets as a percentage of capital	4.09	3.90

The following table presents the nonaccrual loan activity:

	For the Nine Months Ended September 30,	
	2019	2018
	(in millions)	
Balance at beginning of period	\$ 1,883	\$ 1,660
Additions:		
Gross amounts transferred into nonaccrual	821	1,156
Recoveries	20	20
Advances	489	515
Other, net	2	
Reductions:		
Charge-offs	(51)	(75)
Transfers to other property owned (book value)	(25)	(77)
Returned to accrual status	(79)	(129)
Repayments	(1,012)	(1,054)
Other, net		(5)
Balance at end of period	<u>\$ 2,048</u>	<u>\$ 2,011</u>

Nonaccrual loans increased \$165 million or 8.8% during the first nine months of 2019, primarily due to loans transferred into nonaccrual status and advances, substantially offset by repayments on nonaccrual loans. The increase was primarily due to credit quality deterioration impacting a limited number of borrowers primarily in the dairy and cattle industries. Nonaccrual loans that were current as to principal and interest were 55.8% of total nonaccrual loans at September 30, 2019, as compared with 65.3% at December 31, 2018. Accruing loans 90 days or more past due increased \$86 million to \$129 million at September 30, 2019. These loans are considered well secured and in the process of collection.

Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans was 0.30% at September 30, 2019, as compared with 0.29% at September 30, 2018. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and accrued interest receivable was as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Acceptable	92.6%	93.4%
Other assets especially mentioned	3.6	3.1
Substandard/doubtful . .	<u>3.8</u>	<u>3.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Allowance for Loan Losses

The allowance for loan losses was \$1.750 billion at September 30, 2019 and \$1.713 billion at

December 31, 2018. Net loan charge-offs of \$14 million and \$31 million were recorded during the three and nine months ended September 30, 2019, respectively, as compared with net loan charge-offs of \$28 million and \$53 million for the same periods of the prior year. The System's allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the System's condensed combined financial statements, the allowance for loan losses of each System entity is specific to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, collateral value, current agricultural production conditions and economic conditions.

Certain System borrowers continue to face challenges due to reduced net farm income in certain sectors. System underwriting standards require strong collateral support for real estate mortgage loans. By regulation, real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination or up to 97% if guaranteed by federal, state or other governmental agency. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio below the statutory maximum of 85%. These factors help to mitigate the System's exposure to loan losses. At September 30, 2019, \$687 million of the System's \$2.468 billion of nonperforming loans had specific reserves (representing probable losses) of \$219 million. The remaining \$1.781 billion of nonperforming loans were evaluated and determined not to need a specific reserve.

The following table presents the activity in the allowance for loan losses:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(\$ in millions)			
Balance at beginning of period	\$1,755	\$1,666	\$1,713	\$1,596
Charge-offs:				
Real estate mortgage	(2)	(3)	(5)	(9)
Production and intermediate-term	(14)	(13)	(37)	(36)
Agribusiness	(5)	(18)	(5)	(23)
Rural infrastructure				(3)
Rural residential real estate		(1)	(1)	(2)
Lease receivables			(3)	(2)
Total charge-offs	(21)	(35)	(51)	(75)
Recoveries:				
Real estate mortgage	2		5	5
Production and intermediate-term	5	6	12	14
Agribusiness			2	1
Rural infrastructure		1		1
Rural residential real estate			1	1
Total recoveries	7	7	20	22
Net charge-offs	(14)	(28)	(31)	(53)
Provision for loan losses	29	59	95	146
Reclassification (to) from reserve for unfunded commitments*	(20)	(15)	(27)	(7)
Balance at end of period	\$1,750	\$1,682	\$1,750	\$1,682
Annualized ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.04%	0.02%	0.03%

* Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments primarily as a result of advances on or repayments of seasonal lines of credit or other loans.

Allowance for loan losses by loan type is as follows:

	September 30, 2019		December 31, 2018	
	Amount	%	Amount	%
	(\$ in millions)			
Real estate mortgage	\$ 474	27.0%	\$ 481	28.1%
Production and intermediate-term	493	28.2	448	26.1
Agribusiness	460	26.3	475	27.7
Rural infrastructure	230	13.1	217	12.7
Rural residential real estate	19	1.1	19	1.1
Agricultural export finance	19	1.1	19	1.1
Lease receivables	54	3.1	53	3.1
Loans to other financing institutions	1	0.1	1	0.1
Total	\$1,750	100.0%	\$1,713	100.0%

The allowance for loan losses as a percentage of total loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	September 30, 2019	December 31, 2018
Allowance for loan losses as a percentage of:		
Total loans	0.63%	0.63%
Nonperforming assets . . .	68.7	75.1
Nonaccrual loans	85.4	91.0

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread and net interest margin) and, ultimately, the long-term capital position of the System. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market’s expectation of future interest rates at different points along the yield curve.
- Repricing risk — results from the timing differences (mismatches) between interest-bearing assets and liabilities that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from “embedded options” that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with this flexibility frequently introduce a risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan closes. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

After the loan settles, the borrower may also have the option to repay the loan’s principal

ahead of schedule. If interest rates fall, System institutions may be forced to reinvest principal repaid from higher-rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

Interest rate caps are another form of embedded options that may be present in certain investments and floating and adjustable- rate loans. Interest rate caps typically prevent the investment or loan rate from increasing above a defined limit. In a rising interest rate environment, the spread may be reduced if caps limit upward adjustments to floating investment or loan rates while debt costs continue to increase.

Interest rate floors are also embedded options that may be present in certain investments and floating- and adjustable-rate loans. Interest rate floors prevent the loan or investment rate from decreasing below a certain defined limit. In a declining rate environment, the spread may be widened if the floor limits the downward adjustments to a floating-rate investment or loan rate as underlying debt costs continue to decrease below the floor rate.

- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of the Banks in managing interest rate risk is to maintain stable earnings and preserve the long-term market value of equity. In most cases, the wholesale funding provided by a Bank to an Association matches the terms and embedded options of the Association’s retail loans. This funding approach shifts the majority of the interest rate risk associated with retail loans from the Association to its funding Bank where interest rate risk is generally managed centrally. The Banks and Associations are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring and reporting this risk on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk and define the role of the board of directors in delegating

day-to-day responsibility for interest rate risk management to Bank or Association management. That authority is delegated to an asset/liability management committee, made up of senior Bank or Association managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the CIPA and MAA, and regulatory oversight by the Farm Credit Administration.

One of the primary benefits of our status as a government-sponsored enterprise debt issuer is that, through the Funding Corporation and its selling group, the System has daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issue to match asset cash flows. The ability to quickly access the debt markets helps us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enables us to issue Systemwide Debt Securities that offset most of the primary interest rate risk exposures embedded in our loans. For example, by issuing floating-rate Systemwide Debt Securities, we are able to minimize the basis risk exposure presented by similarly-indexed, floating-rate loans. As discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments, we are able to significantly offset the risk created by a prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early to offset prepayment risk in earning assets or refinance debt in a declining interest rate environment.

Approximately 75% of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time without fees, and the remainder of the System's fixed-rate loans contain provisions

requiring prepayment fees to partially or fully compensate the System for the cost of retiring the debt, some of which may be non-callable.

The Banks participate in the derivatives markets, which provide additional tools to manage interest rate risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

The Banks assess and manage interest rate risk using sophisticated processes and models, including interest rate gap analysis, net interest income sensitivity analysis and market value of equity sensitivity analysis and duration gap analysis. These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis presents a comparison of interest-sensitive assets and liabilities in defined time segments as of September 30, 2019. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, cash flows, rate and spread changes and financial instrument optionality, and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment. Within the gap analysis, gaps are created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of earning assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital provides part of the funding. The gap table below includes anticipated cash flows on interest sensitive assets and liabilities given the current level of interest rates.

	Repricing Intervals				Total
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	
	(\$ in millions)				
Floating-rate loans:					
Indexed/adjustable-rate loans	\$ 49,409	\$ 332	\$ 854	\$ 625	\$ 51,220
Administered-rate loans	54,810				54,810
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	5,156	2,974	15,783	15,785	39,698
Fixed-rate without prepayment or conversion fees	32,179	17,210	53,698	25,249	128,336
Nonaccrual loans				2,048	2,048
Total gross loans	141,554	20,516	70,335	43,707	276,112
Federal funds sold, investments and other interest-earning assets	32,605	5,211	20,403	7,668	65,887
Total earning assets	174,159	25,727	90,738	51,375	341,999
Interest-bearing liabilities:					
Callable bonds and notes	14,319	20,785	29,322	12,406	76,832
Noncallable bonds and notes	135,091	12,352	40,917	17,669	206,029
Other interest-bearing liabilities	3,108		105	145	3,358
Total interest-bearing liabilities	152,518	33,137	70,344	30,220	286,219
Effect of interest rate swaps and other derivatives	10,545	(1,689)	(9,327)	471	
Total interest-bearing liabilities adjusted for swaps and other derivatives	163,063	31,448	61,017	30,691	286,219
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	\$ 11,096	\$ (5,721)	\$ 29,721	\$ 20,684	\$ 55,780
Cumulative gap	\$ 11,096	\$ 5,375	\$ 35,096	\$ 55,780	
Cumulative gap as a percentage of total earning assets	3.24%	1.57%	10.26%	16.31%	

As illustrated above, the System had a positive gap position between its earning assets and interest-bearing liabilities for the zero to six months repricing interval as measured on September 30, 2019 and reflects the System's asset-sensitive position during this time period.

Typically, the net interest income of an institution that is asset sensitive will be favorably impacted in a rising rate environment and unfavorably impacted in a declining rate environment. Due to the System's ability to exercise call options on its callable debt when interest rates decline, the System's net interest income has benefited in the past from certain declining interest rate environments.

The System's net interest spread, a component of its net interest margin, may also react in a different manner due to certain conditions at the time an earn-

ing asset or interest-bearing liability reprices. These conditions include competitive pressures on spreads or rates, the steepness of the yield curve and how capital is deployed to fund earning assets. In addition, a significant portion of the System's floating-rate loans are administered-rate loans that, unlike indexed loans, require definitive action by management to change the interest rate. The interest rates charged on administered-rate loans may reflect managements' assessments of whether rate changes are feasible or warranted in view of market conditions. Therefore, the actual interest rates charged on administered-rate loans may not reflect the movement of interest rates in the markets, thereby creating volatility in net interest income.

The System's cumulative gap position in the zero to six months repricing interval decreased from 4.10% at December 31, 2018 to 3.24% at September 30, 2019.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis, each Bank conducts simulations of net interest income and market value of equity. The sensitivity analysis incorporates the effects of leverage and the optionality of interest sensitive assets and liabilities due to interest rate changes. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are generally based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 91 basis points at September 30, 2019 and 120 basis points at December 31, 2018. Under these simulations, the System's sensitivity to interest rate changes (sum of Districts' sensitivity analyses) was:

	September 30, 2019		
	-91	+100	+200
Change in net interest income	0.09%	0.67%	1.13%
Change in market value of equity	1.96%	-3.18%	-6.95%

	December 31, 2018			
	-120	-100	+100	+200
Change in net interest income	-2.27%	-2.03%	1.45%	3.24%
Change in market value of equity	5.32%	4.32%	-3.73%	-7.24%

Each Bank measures District interest rate sensitivity under these simulations in accordance with its asset/liability management policies. District measurements are presented in the Supplemental Financial Information on page F-55.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility. (For a more detailed discussion of sensitivity analysis and prepayment modeling assumptions, see pages 65 and 66 in the *2018 Annual Information Statement*.)

Duration Gap Analysis

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The System's aggregate duration gap (the sum of the Banks' duration gaps) was a positive 2.6 months at September 30, 2019 and a positive 4.2 months at December 31, 2018. Generally, a duration gap within the range of a positive six months to a negative six months indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and static measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

Derivative Products

Derivative products are a part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges that provide us with greater flexibility to manage interest rate and liquidity risks and to lower the overall cost of funds. We do not hold or enter into derivative transactions for trading purposes. Derivative products are subject to regulatory compliance obligations, including, among other things, recordkeeping, reporting, clearing and margining. Clearing and margining are discussed in more detail below.

The primary types of derivative products used and hedging strategies employed are described on page 67 of the *2018 Annual Information Statement*. For additional information on derivative products and hedging activities, see Note 10 to the accompanying condensed combined financial statements.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, increased \$3.960 billion to \$43.262 billion at September 30, 2019, as compared with \$39.302 billion at December 31, 2018. The aggregate notional amount of these instruments, which is not included in the Condensed Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to

fulfill its performance obligations under a derivative contract, the credit risk (exposure) will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe us on early termination of the derivative, thus creating credit risk. When the fair value of the derivative is negative, we would owe the counterparty on early termination of the derivative, and, therefore, assume no credit risk.

To minimize the risk of credit losses for non-cleared derivatives, we typically enter into master agreements that govern all derivative transactions with a counterparty, which include bilateral collateral agreements requiring the exchange of collateral. In some instances, the bilateral exchange of collateral is required by regulation, whereas in other instances it is based on dollar thresholds of exposure that consider a counterparty's creditworthiness. We may also clear derivative transactions through a futures commission merchant (FCM), with a clearinghouse (i.e. a central counterparty (CCP)). Cleared derivatives require the payment of initial and variation margin as a protection against default. For additional information related to derivatives, see pages 68 through 70 in the *2018 Annual Information Statement*.

The Banks may enter into derivatives with their customers, including Associations, as a service to enable customers to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset the market risk by concurrently entering into offsetting agreements with non-System institutional derivative counterparties.

The exposure on derivatives by counterparty credit rating (Moody's) that would be owed to us due to a default or early termination by our counterparties at September 30, 2019 and December 31, 2018 were:

	September 30, 2019				December 31, 2018					
	Number of Counterparties	Notional Principal Exposure	Credit Exposure	Collateral Held	Exposure, Net of Collateral	Number of Counterparties	Notional Principal Exposure	Credit Exposure	Collateral Held	Exposure, Net of Collateral
	(\$ in millions)									
Bilateral derivatives:										
Aa2	4	\$10,343				3	\$ 8,798	\$ 58	\$ 47	\$ 11
Aa3	4	4,861				5	4,807	45	39	6
A1	2	175		\$1		2	176	2	2	
A2	2	1,010				2	691	13	13	
A3	1	1,415								
Baa1						1	1,207			
Cleared derivatives(1)										
	2	17,197				2	15,882	3		3
Total	15	\$35,001	\$0	\$1	\$0	15	\$31,561	\$121	\$101	\$20

(1) Represents derivative transactions cleared with central counterparties, which are not rated. Excluded from the table is initial margin posted by two Banks and one Association totaling \$127 million and \$68 million at September 30, 2019 and December 31, 2018 related to cleared derivative transactions.

Note: Due to the grouping of counterparties by credit rating, exposure, net of collateral may not represent the difference between credit exposure and collateral held. The above table excludes \$8.240 billion and \$7.729 billion notional amount of derivative financial instruments at September 30, 2019 and December 31, 2018 related to interest rate swaps that two Banks entered into with certain of their customers. Also excluded is \$21 million and \$12 million in notional amount of derivative financial instruments at September 30, 2019 and December 31, 2018 related to forward commitments that one Association has entered into to hedge interest rate risk on interest rate locks.

At September 30, 2019, the Banks' counterparties posted \$1 million in cash with us, as compared with \$101 million of cash at December 31, 2018. At September 30, 2019, three Banks had posted collateral with respect to its obligations under these agreements of \$232 million, while at December 31, 2018, two Banks had posted collateral of \$8 million.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The System has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021.

System institutions' exposure arises from loans that they make to customers, investment securities that they purchase, Systemwide Debt Securities that are issued by the Funding Corporation on the Banks' behalf, preferred stock that they issue and their derivative transactions. Alternative reference rates

that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held by System institutions. The LIBOR transition could result in System institutions 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 System institutions' ability to effectively use derivative instruments to manage interest rate risk. In addition, to the extent that System institutions cannot successfully transition their LIBOR-based 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. Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning System institutions' LIBOR-based instruments to instruments with an alternative rate,

we cannot yet reasonably estimate the expected financial impact of the LIBOR transition on the System.

On September 11, 2018 the Farm Credit Administration issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The Farm Credit Administration identified the following as important considerations in the development of each entity's transition plan:

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

The System will continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks.

At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR will become the benchmark to replace LIBOR. Because the System engages in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on us, borrowers, investors, and System institutions' customers and counterparties.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks and the Funding Corporation have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems, as well as the ability to handle events that threaten continuous market access by the Banks or disrupt the Funding Corporation's normal operations. Under this Contingency Funding Program, the Funding Corporation has the option to finance maturing Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. In addition, the Funding Corporation, in consultation with the Banks, may also issue Systemwide bonds directly to institutional investors. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Insurance Corporation to the extent funds are available in the Insurance Fund.

In addition, each Bank maintains contingency funding plans that help inform operating and funding needs and addresses actions each Bank would consider in the event that there is not ready access to traditional funding sources. These potential actions include drawing on existing uncommitted lines of credit with various financial institutions, borrowing overnight via federal funds, using investment securities as collateral to borrow, selling securities under repurchase agreements, using the proceeds from maturing investments and selling liquid investments.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory

authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2020, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have had access to the global capital markets. This access has traditionally provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The U.S. government does not guarantee, directly or indirectly, the

payment of principal or interest on any Systemwide Debt Securities issued by the Banks.

Investments

As more fully described on page 71 in the *2018 Annual Information Statement*, a Bank is authorized to hold eligible investments in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. Investments are utilized for the purposes of maintaining a diverse source of liquidity, managing short-term surplus funds and managing interest rate risk and, in so doing, they may enhance profitability. At September 30, 2019, no Bank exceeded the 35% limit.

Farm Credit Administration regulations were revised, effective January 1, 2019, to strengthen eligibility requirements for investments purchased by the Banks and to allow Associations greater flexibility regarding balance sheet risk management by establishing new limits on the amounts and types of investments they may hold. The regulations also require greater Bank oversight of Association investments. Associations may hold securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States Government or its agencies with the approval of its related Bank, in an amount not to exceed 10% of its total average 90-day outstanding loan balance.

Bank eligible investments (carried at fair value) must comply with the regulatory eligibility criteria and for reporting purposes are shown by credit ratings issued by Moody's Investors Service, S&P Global Ratings, or Fitch Ratings were as follows:

<u>September 30, 2019</u>	<u>Eligible Investments</u>		
	<u>AAA/Aaa</u>	<u>A1/P1/F1</u>	<u>Split Rated(1)</u>
			<u>Total</u>
			(in millions)
Federal funds sold and securities purchased under resale agreements		\$3,570	\$ 618
Commercial paper, bankers' acceptances, certificates of deposit and other securities		4,181	2,379
U.S. Treasury securities			18,767
U.S. agency securities			2,943
Mortgage-backed securities:			
Agency collateralized			25,160
Agency whole-loan pass through			1,296
Private label-FHA/VA			43
Asset-backed securities	\$2,438		1,521
Total	\$2,438	\$7,751	\$52,727
			\$62,916

<u>December 31, 2018</u>	<u>Eligible Investments</u>			
	<u>AAA/Aaa</u>	<u>A1/P1/F1</u>	<u>Split Rated(1)</u>	<u>Total</u>
	(in millions)			
Federal funds sold and securities purchased under resale agreements		\$2,881	\$ 498	\$ 3,379
Commercial paper, bankers' acceptances, certificates of deposit and other securities		4,618	2,063	6,681
U.S. Treasury securities			18,778	18,778
U.S. agency securities			2,480	2,480
Mortgage-backed securities:				
Agency collateralized			25,308	25,308
Agency whole-loan pass through			1,452	1,452
Private label-FHA/VA			49	49
Asset-backed securities	\$2,414	8	1,056	3,478
Total	<u>\$2,414</u>	<u>\$7,507</u>	<u>\$51,684</u>	<u>\$61,605</u>

(1) Investment that received the highest credit rating from at least one rating organization.

As noted in the tables above, the split rating on investments in U.S. Treasury, U.S. agency and agency mortgage-backed securities is the result of S&P Global Ratings maintaining the U.S. government's long-term sovereign credit rating of AA+. Both Moody's Investors Service and Fitch Ratings maintain ratings of Aaa and AAA for U.S. government and agency securities.

If a Bank held investment no longer meets the eligibility criteria referred to above, the investment becomes ineligible for regulatory liquidity calculation purposes. Under Farm Credit Administration regulations, if a Bank held investment is eligible when purchased but no longer satisfies the eligibility criteria referred to above, the Bank may continue to hold it subject to the following requirements:

- the Bank must notify the Farm Credit Administration within 15 calendar days after such determination,
- the Bank must not use the investment to satisfy its liquidity requirement,
- the Bank must continue to include the investment in the investment portfolio limit calculation,

- the Bank may continue to include the investment as collateral and net collateral at lower of cost or market, and
- the Bank must develop a plan to reduce the risk posed by the investment.

The Farm Credit Administration has the authority to require a Bank to divest any investment at any time for failure to comply with its regulation or for safety and soundness reasons. As of September 30, 2019, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

Ineligible securities (carried at fair value) held by the Banks totaled \$417 million at September 30, 2019 and \$250 million at December 31, 2018 and represented 0.7% and 0.4% of Federal funds and available-for-sale investments at September 30, 2019 and December 31, 2018, respectively.

The types of mortgage-backed and asset-backed securities that are included in the Bank's investment portfolio were:

	September 30, 2019			December 31, 2018		
	Amortized Cost	Fair Value	Unrealized Gains/(Losses)	Amortized Cost	Fair Value	Unrealized Gains/(Losses)
	(in millions)					
Mortgage-backed securities:						
Agency collateralized	\$25,050	\$25,160	\$110	\$25,631	\$25,308	\$(323)
Agency whole-loan pass through . . .	1,265	1,296	31	1,427	1,452	25
Non-agency				12	13	1
Private label-FHA/VA	150	145	(5)	167	162	(5)
Total mortgage-backed securities	<u>\$26,465</u>	<u>\$26,601</u>	<u>\$136</u>	<u>\$27,237</u>	<u>\$26,935</u>	<u>\$(302)</u>
Asset-backed securities:						
Home equity loans				\$ 6	\$ 6	
Small business loans	\$ 1,556	\$ 1,601	\$ 45	1,051	1,056	\$ 5
Auto loans	1,739	1,747	8	1,932	1,932	
Equipment loans	88	89	1	46	46	
Credit card receivables	519	521	2	446	441	(5)
Student loans	1	1		2	2	
Total asset-backed securities	<u>\$ 3,903</u>	<u>\$ 3,959</u>	<u>\$ 56</u>	<u>\$ 3,483</u>	<u>\$ 3,483</u>	<u>\$ 0</u>

Other Investments

As mentioned above, Associations are permitted to hold investments but they are limited to securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest, the U.S. government or its agencies. Mortgage-backed securities issued by Farmer Mac are also considered allowable investments for both Banks and Associations but are excluded from the Banks' eligible investment limitation and the Banks' liquidity calculations. These Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

	September 30, 2019	December 31, 2018
	(in millions)	
Farmer Mac securities	\$ 938	\$ 909
Small Business Administration securities and other government guaranteed	821	228
Rural America bonds and Agricultural Rural Community bonds	75	79
Total	<u>\$1,834</u>	<u>\$1,216</u>

Other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

	September 30, 2019	December 31, 2018
	(in millions)	
Rural home loan securities . . .	\$407	\$425
Farmer Mac securities	30	36
Other securities	12	6
Total	<u>\$449</u>	<u>\$467</u>

Liquidity Standard

The Farm Credit Administration regulations on liquidity set forth requirements for the Banks to:

- improve their capacity to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse economic or financial conditions;
- strengthen liquidity management;
- enhance the liquidity of assets that they hold in their liquidity reserves;
- maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and/or cash-like instruments to cover each Bank's financial

obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash, cash-like instruments, and/or highly liquid instruments that are sufficient to cover the Bank's obligations for the next 15 and subsequent 60 days, respectively;

- establish an incremental liquidity reserve, in addition to the three tiers set forth immediately above, comprised of cash and eligible investments; and
- strengthen their Contingency Funding Plan.

The number of days of liquidity is calculated by comparing the principal portion of maturing Systemwide Debt Securities and other borrowings of the Banks with the total amount of cash, cash equivalents and eligible investments maintained by that Bank. For purposes of calculating liquidity, liquid assets are reflected at fair value discounted for potential exposure to adverse market value changes that might be recognized upon liquidation or sale and include only the eligible investments of the Banks.

At September 30, 2019, each Bank met the individual tiers' minimums of the liquidity reserve and exceeded the aggregate regulatory minimum 90 days of liquidity. Each Bank's liquidity position ranged from 149 to 232 days at September 30, 2019. The System's liquidity position was 177 days at September 30, 2019, as compared with 182 days at December 31, 2018. (See Note 13 for each Bank's liquidity position at September 30, 2019 and December 31, 2018.)

Cash provided by the System's operating activities (primarily generated from net interest income in excess of operating expenses) of \$3.274 billion and \$3.748 billion for the first nine months of 2019 and 2018 provides an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity under the standard. Further, funds in the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay the debt.

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

The System continues to build capital primarily through net income earned and retained. Capital accumulated through earnings has been partially offset by cash patronage distributions to stockholders. Retained earnings is the most significant component of capital. As of September 30, 2019, retained earnings totaled \$49.350 billion and represented 79.1% of capital, as compared with \$46.445 billion and 79.5% at December 31, 2018. Capital as a percentage of assets increased to 17.6% at September 30, 2019, as compared with 16.7% at December 31, 2018.

Farm Credit Administration Capital Requirements

The following sets forth the regulatory capital ratio requirements and ratios at September 30, 2019:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum with Buffer*	Banks**	Associations
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-weighted assets	4.5%	7.0%	9.8% - 18.6%	12.1% - 38.3%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%	15.1% - 19.0%	12.1% - 38.3%
Total Capital	Tier 1 Capital, allowance for loan losses ² , other common cooperative equities ³ , and term preferred stock and subordinated debt ⁴	Risk-weighted assets	8.0%	10.5%	16.1% - 19.1%	13.5% - 39.5%
Tier 1 Leverage***	Tier 1 Capital	Total assets	4.0%	5.0%	5.5% - 7.6%	10.4% - 35.7%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	N/A	3.0% - 6.0%	8.2% - 36.4%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	7.0%	N/A	15.2% - 19.0%	13.2% - 38.8%

* These capital requirements became effective January 1, 2017 and have a three-year phase-in of the capital conservation buffer applied to the risk-weighted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

** See Note 13 for each Bank's Total Capital ratio and Tier 1 Leverage ratio at September 30, 2019 and December 31, 2018.

*** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

¹ Equities outstanding 7 or more years

² Capped at 1.25% of risk-weighted assets and inclusive of the reserve for unfunded commitments

³ Outstanding 5 or more years, but less than 7 years

⁴ Outstanding 5 or more years

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical to understanding our capital adequacy.

As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to agricultural and rural infrastructure cooperatives and businesses, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated

Association through various mechanisms, including testing the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital, allowance for loan losses and earnings at the Association level also reduce the credit exposure that each Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced

operating and financing policies and agreements for its District. (See Notes 7 and 13 to the accompanying condensed combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. In addition, any indirect access that the Banks may have to the capital of the Associations may be limited during stressed conditions in a deteriorating agricultural economic environment. Moreover, capital in one Association is not typically available to address capital needs of another Association or of a non-affiliated Bank.

Insurance Fund

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities.

The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

In the event a Bank is unable to timely pay Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligations. However, because of other authorized uses of the Insurance Fund, all of which benefit the Banks and Associations, or the magnitude of the default, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a Bank.

Due to the restricted use of funds in the Insurance Fund, the assets of the Insurance Fund have been included as a restricted asset and the capital of the Insurance Fund as restricted capital in the System's condensed combined financial statements. As of September 30, 2019, the assets in the Insurance

Fund totaled \$5.122 billion. (See Note 5 to the accompanying condensed combined financial statements and the Supplemental Combining Information on pages F-47 and F-49 for condensed combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's condensed combined financial statements.)

Insurance premiums are established by the Insurance Corporation with the objective of maintaining the "secure base amount," which is defined in the Farm Credit Act as 2% of the adjusted insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the adjusted insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. At December 31, 2018, the assets in the Insurance Fund exceeded the secure base amount by \$66 million (after deduction of prospective operating expenses for 2019) and the excess was transferred to the Allocated Insurance Reserves Accounts. In March 2019, the Insurance Corporation's board of directors approved and distributed the \$66 million of excess funds to System institutions.

At September 30, 2019, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 2.08% of adjusted insured obligations, as compared with 2.00% at December 31, 2018. The Insurance Fund with the allocated amount was 2.03% of the adjusted insured obligations at December 31, 2018. No amounts were allocated as of September 30, 2019.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund were exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each

non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required

to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

System Capitalization

The changes in capital for the nine months ended September 30, 2019 were:

	Capital				
	Combined Banks	Combined Associations	Insurance Fund	Combination Entries	System Combined
			(in millions)		
Balance at December 31, 2018	\$19,183	\$40,504	\$4,954	\$(6,197)	\$58,444
Adjustment to beginning balance due to the change in accounting for leases	10	(1)			9
Balance at January 1, 2019	19,193	40,503	4,954	(6,197)	58,453
Net income	1,532	3,169	234	(880)	4,055
Change in accumulated other comprehensive loss . . .	663	25		42	730
Preferred stock issued		262			262
Preferred stock retired		(225)			(225)
Preferred stock dividends	(115)	(17)			(132)
Capital stock and participation certificates issued . . .	55	60		(55)	60
Capital stock, participation certificates and retained earnings retired	(42)	(51)		3	(90)
Equity issued or recharacterized upon Association combination		26			26
Equity retired or recharacterized upon Association combination		(26)			(26)
Insurance Corporation distributions to System institutions			(66)	66	
Patronage	(522)	(660)		427	(755)
Balance at September 30, 2019	<u>\$20,764</u>	<u>\$43,066</u>	<u>\$5,122</u>	<u>\$(6,594)</u>	<u>\$62,358</u>

Note: System combined capital reflected eliminations of approximately \$5.3 billion and \$5.0 billion of Bank equities held by Associations as of September 30, 2019 and December 31, 2018. System combined capital also reflected net eliminations of transactions between System entities, primarily related to accruals, and retained earnings allocations by certain Banks to their Associations. (See Notes 7 and 13 to the accompanying condensed combined financial statements.)

Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, these amounts can only be used for the benefit of the Banks and Associations. Before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased \$1.749 billion since December 31, 2018 to \$25.886 billion at September 30, 2019. Combined Bank-only capital as a percentage of combined Bank-only assets was 6.7% at September 30, 2019 and 6.3% at December 31, 2018.

Combined Bank-only net income was \$1.532 billion and \$1.677 billion for the nine months ended September 30, 2019 and 2018. The combined Bank-only net income reflects the earnings from investments, Bank wholesale loans to Associations, and retail loans, the majority of which consist of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions. The Banks' wholesale loans to Associations represented 54% and 53% of the assets on the combined Bank-only balance sheet at September 30, 2019 and December 31, 2018. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory framework that includes maintaining certain minimum capital standards, adequate reserves, and prudent

underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

Combined Association capital increased \$2.562 billion since December 31, 2018 to \$43.066 billion at September 30, 2019. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association assets was 20.0% at September 30, 2019 and 19.5% at December 31, 2018. Capital at the Association level reduces the Banks' credit exposure with respect to wholesale loans between the Banks and each of their affiliated Associations.

Accumulated other comprehensive loss, net of tax, at September 30, 2019 and December 31, 2018 was comprised of the following components:

	September 30, 2019	December 31, 2018
	(in millions)	
Unrealized gains/losses on investments available-for-sale, net	\$ 437	\$ (481)
Unrealized gains/losses on cash flow hedges, net	(256)	2
Pension and other benefit plans	(1,186)	(1,256)
	<u>\$(1,005)</u>	<u>\$(1,735)</u>

Accumulated other comprehensive loss decreased \$730 million during the first nine months of 2019 primarily as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank's and Association's board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and

resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal control framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management and internal audit, and higher risk areas receive more scrutiny.

However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and the breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may be inadequate because of changes in conditions, or the compliance with the policies or procedures may deteriorate.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the System or any of its entities. The System could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity, the agricultural industry in general, or government sponsored enterprises.

Given the unique structure of the System, managing reputational risk is the direct responsibility of each System entity. (See “Structural Risk Management” on pages 16 and 17 of this Quarterly Information Statement for a discussion on the structure of the System).

Entities that serve the System at the national level, including the Coordinating Committee, the Presidents’ Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with our mission. (See pages 12, 14 and 15 in the *2018 Annual Information Statement* for additional information).

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System may be significantly affected by federal legislation, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. In addition, our borrowers may also be significantly affected by changes in federal farm policy, agricultural appropriations bills and U.S. trade policy.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Farm Credit Council provides the mechanism for grassroots involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addi-

tion, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in their respective Districts.

Regulatory Matters

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment period ended on June 3, 2019.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System Associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize Associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans and to enhance the ability of Associations to manage risk. The public comment period ends on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System’s capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under CECL are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25% of the System institution’s total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be

eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ends on November 22, 2019.

Recently Adopted or Issued Accounting Pronouncements

See pages F-8 through F-9 to the accompanying condensed combined financial statements for the recently adopted or issued accounting pronouncements.

**INDEX TO CONDENSED COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION
September 30, 2019**

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FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CONDITION
(in millions)

	September 30, 2019	December 31, 2018
	(unaudited)	
A S S E T S		
Cash	\$ 1,454	\$ 2,933
Federal funds sold and securities purchased under resale agreements	4,188	3,379
Investments (Note 2)		
Available-for-sale (amortized cost of \$58,665 and \$58,970, respectively)	59,145	58,476
Other investments held-to-maturity (fair value of \$1,862 and \$1,210, respectively)	1,834	1,216
Other investments available-for-sale (amortized cost of \$442 and \$482, respectively)	449	467
Loans (Note 3)	276,112	273,378
Less: allowance for loan losses (Note 3)	(1,750)	(1,713)
Net loans	274,362	271,665
Accrued interest receivable	3,339	2,732
Premises and equipment	1,440	1,337
Other assets (Note 4)	2,643	1,833
Restricted assets (Note 5)	5,122	4,954
Total assets	\$353,976	\$348,992
L I A B I L I T I E S A N D C A P I T A L		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	\$ 17,738	\$ 22,582
Systemwide bonds and medium-term notes	93,007	86,646
	110,745	109,228
Due after one year:		
Systemwide bonds and medium-term notes	172,116	172,231
Total Systemwide Debt Securities (Note 6)	282,861	281,459
Other bonds	2,085	1,817
Notes payable and other interest-bearing liabilities	1,273	1,161
Accrued interest payable	1,071	1,036
Other liabilities (Note 4)	4,328	5,075
Total liabilities	291,618	290,548
Commitments and contingencies (Note 12)		
Capital (Note 7)		
Preferred stock	3,168	3,131
Capital stock and participation certificates	1,985	1,937
Additional paid-in-capital	3,738	3,712
Restricted capital (Note 5)	5,122	4,954
Accumulated other comprehensive loss, net of tax	(1,005)	(1,735)
Retained earnings	49,350	46,445
Total capital	62,358	58,444
Total liabilities and capital	\$353,976	\$348,992

The accompanying notes are an integral part of these condensed combined financial statements.

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF INCOME
(in millions)

	<u>For the</u> <u>Three Months</u> <u>Ended September 30,</u>		<u>For the</u> <u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(unaudited)			
Interest income				
Investments, Federal funds sold and securities purchased				
under resale agreements	\$ 404	\$ 356	\$ 1,221	\$ 999
Loans	3,384	3,134	10,132	9,030
Total interest income	<u>3,788</u>	<u>3,490</u>	<u>11,353</u>	<u>10,029</u>
Interest expense				
Systemwide bonds and medium-term notes	1,579	1,367	4,804	3,783
Systemwide discount notes	110	97	361	272
Other interest-bearing liabilities	14	11	38	27
Total interest expense	<u>1,703</u>	<u>1,475</u>	<u>5,203</u>	<u>4,082</u>
Net interest income	2,085	2,015	6,150	5,947
Provision for loan losses	29	59	95	146
Net interest income after provision for loan losses	<u>2,056</u>	<u>1,956</u>	<u>6,055</u>	<u>5,801</u>
Noninterest income				
Loan-related fee income	63	70	184	177
Financially related services income	72	61	152	143
Income earned on Insurance Fund assets	23	19	71	53
Mineral income	17	21	49	58
Losses on extinguishment of debt	(18)	(3)	(29)	(9)
Net gains on sales of investments and other assets	2	12	17	52
Other income	15	(7)	50	53
Total noninterest income	<u>174</u>	<u>173</u>	<u>494</u>	<u>527</u>
Noninterest expense				
Salaries and employee benefits	484	460	1,457	1,376
Occupancy and equipment expense	73	66	212	189
Purchased services	58	53	165	147
Other expense	180	169	529	508
Total noninterest expense	<u>795</u>	<u>748</u>	<u>2,363</u>	<u>2,220</u>
Income before income taxes	1,435	1,381	4,186	4,108
Provision for income taxes	48	18	131	96
Net income	<u>\$1,387</u>	<u>\$1,363</u>	<u>\$ 4,055</u>	<u>\$ 4,012</u>

The accompanying notes are an integral part of these condensed combined financial statements.

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
Net income	\$1,387	\$1,363	\$4,055	\$4,012
Other comprehensive income (loss), net of tax:				
Change in unrealized gains/losses on investments available-for-sale not other-than-temporarily impaired, including reclassification adjustments	143	(162)	918	(607)
Change in unrealized gains/losses on other-than-temporarily impaired investments, including reclassification adjustments . . .		(3)		(3)
Change in unrealized gains/losses on cash flow hedges, including reclassification adjustments	(77)	46	(258)	151
Change in net periodic pension benefit cost, including reclassification adjustments	23	31	70	93
Total other comprehensive income (loss)	<u>89</u>	<u>(88)</u>	<u>730</u>	<u>(366)</u>
Comprehensive income	<u>\$1,476</u>	<u>\$1,275</u>	<u>\$4,785</u>	<u>\$3,646</u>

The accompanying notes are an integral part of these condensed combined financial statements.

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	For the Nine Months Ended September 30						
	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in- Capital	Restricted Capital Insurance Fund	Accumulated Other Comprehensive Income (Loss), Net of Tax	Retained Earnings	Total Capital
Balance at December 31, 2017	\$3,052	\$1,879	\$3,712	\$4,848	\$(1,739)	\$43,630	\$55,382
Comprehensive (loss) income					(366)	4,012	3,646
Reclassification of stranded tax effects from accumulated other comprehensive loss to retained earnings					(27)	27	
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				209		(209)	
Insurance Corporation distributions to System institutions				(176)		176	
Preferred stock issued by Banks	100					(1)	99
Preferred stock issued by Associations	364						364
Preferred stock retired by Associations	(339)						(339)
Preferred stock dividends						(128)	(128)
Capital stock and participation certificates issued		62					62
Capital stock and participation certificates retired		(97)					(97)
Patronage:							
Cash						(772)	(772)
Capital stock, participation certificates and retained earnings allocations		75				(75)	
Balance at September 30, 2018	<u>\$3,177</u>	<u>\$1,919</u>	<u>\$3,712</u>	<u>\$4,881</u>	<u>\$(2,132)</u>	<u>\$46,660</u>	<u>\$58,217</u>
Balance at December 31, 2018	\$3,131	\$1,937	\$3,712	\$4,954	\$(1,735)	\$46,445	\$58,444
Adjustment to beginning balance due to the change in accounting for leases						9	9
Balance at January 1, 2019	3,131	1,937	3,712	4,954	(1,735)	46,454	58,453
Comprehensive income					730	4,055	4,785
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				234		(234)	
Insurance Corporation distributions to System institutions				(66)		66	
Preferred stock issued by Associations	262						262
Preferred stock retired by Associations	(225)						(225)
Preferred stock dividends						(132)	(132)
Capital stock and participation certificates issued		60					60
Capital stock and participation certificates retired		(90)					(90)
Equity issued or recharacterized upon Association combination			26				26
Equity retired or recharacterized upon Association combination						(26)	(26)
Patronage:							
Cash						(755)	(755)
Capital stock, participation certificates and retained earnings allocations		78				(78)	
Balance at September 30, 2019	<u>\$3,168</u>	<u>\$1,985</u>	<u>\$3,738</u>	<u>\$5,122</u>	<u>\$(1,005)</u>	<u>\$49,350</u>	<u>\$62,358</u>

The accompanying notes are an integral part of these condensed combined financial statements.

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Nine Months Ended September 30	
	2019	2018
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 4,055	\$ 4,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	95	146
Depreciation and amortization on premises and equipment	117	87
Net gains on sales of investments and other assets	(17)	(52)
Income on Insurance Fund assets, net of operating expenses	(68)	(50)
Increase in accrued interest receivable	(607)	(719)
Increase in accrued interest payable	35	277
Other, net	(336)	47
Net cash provided by operating activities	3,274	3,748
Cash flows from investing activities		
Increase in loans, net	(2,802)	(5,252)
(Increase) decrease in Federal funds sold and securities purchased under resale agreements, net	(809)	544
Investments available-for-sale:		
Purchases	(19,627)	(22,992)
Proceeds from maturities and payments	18,027	19,043
Proceeds from sales	2,051	1,501
Other investments held-to-maturity:		
Purchases	(778)	(202)
Proceeds from maturities and payments	152	209
Other investments available-for-sale:		
Purchases	(46)	(58)
Proceeds from maturities and payments	45	37
Proceeds from sales	41	58
Premiums paid to the Insurance Fund	(213)	(341)
Distributions by Insurance Fund to System institutions	66	176
Other, net	(179)	(149)
Net cash used in investing activities	(4,072)	(7,426)
Cash flows from financing activities		
Systemwide bonds issued	109,013	67,725
Systemwide bonds and medium-term notes retired	(103,045)	(57,885)
Systemwide discount notes issued	161,580	155,640
Systemwide discount notes retired	(166,412)	(162,099)
Other bonds issued, net	268	106
Increase (decrease) in notes payable and other interest-bearing liabilities, net	112	(24)
(Decrease) increase in collateral held from derivative counterparties	(100)	144
Preferred stock issued by Banks		99
Preferred stock issued by Associations, net	37	25
Capital stock and participation certificates issued	60	62
Capital stock, participation certificates and retained earnings retired	(155)	(158)
Preferred stock dividends paid	(116)	(111)
Cash patronage paid	(1,923)	(1,691)
Net cash (used in) provided by financing activities	(681)	1,833
Net decrease in cash	(1,479)	(1,845)
Cash at beginning of period	2,933	2,813
Cash at end of period	\$ 1,454	\$ 968

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CASH FLOWS — (continued)
(in millions)

	For the Nine Months Ended September 30	
	2019	2018
	(unaudited)	
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	\$ 26	\$ 66
Patronage and dividends distributions payable	855	861
Reclassification of stranded tax effects from accumulated other comprehensive loss to retained earnings		(27)
Supplemental non-cash fair value changes related to hedging activities:		
Increase (decrease) in Systemwide bonds and medium-term notes	290	(77)
Other, net	(336)	49
Supplemental disclosure of cash flow information:		
Cash paid during the nine months for:		
Interest	6,044	3,799
Taxes	38	39

The accompanying notes are an integral part of these condensed combined financial statements.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)
(dollars in millions, except as noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Farm Credit System (System) condensed combined financial statements include financial information of: (1) three Farm Credit Banks (AgFirst Farm Credit Bank; AgriBank, FCB; and Farm Credit Bank of Texas) and their affiliated Associations, (2) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (3) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (4) various service and other organizations. Substantially all Associations are structured as Agricultural Credit Associations (ACA) parent companies, with Federal Land Credit Associations (FLCA) and Production Credit Associations (PCA) subsidiaries. ACA parent companies provide financing and related services to customers through their FLCA and PCA subsidiaries. Generally, FLCAs make long-term loans secured by agricultural real estate or rural home loans. PCAs make short- and intermediate-term loans for agricultural production or operating purposes.

The accompanying unaudited condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, these statements should be read in conjunction with the audited combined financial statements for the year ended December 31, 2018, contained in the System's *2018 Annual Information Statement*, as these statements do not include all of the disclosures required by GAAP for annual financial statements.

The accompanying condensed combined financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operation of the System. All significant intra-System transactions and balances have been eliminated in combination. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

A more complete description of System institutions, the significant accounting policies followed by System entities, and the System's combined

financial condition and combined results of operations as of and for the year ended December 31, 2018 are contained in the *2018 Annual Information Statement*.

Recently Adopted or Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The System is evaluating the impact of adoption on the System's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the System's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the System’s financial condition or its results of operations, but will impact the fair value measurements disclosures. The System early adopted the removal and modified disclosures in 2018.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not impact the System’s financial condition or its results of operations, but did impact the derivative products and hedging activities disclosures.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a

methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. System institutions qualify for the delay in the adoption date. The System continues to evaluate the impact of adoption on the System’s financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled “Leases — Targeted Improvements,” which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018. The System adopted this guidance on January 1, 2019. Upon adoption, the System recorded \$183 million in right of use assets, \$191 million in lease liabilities and a \$9 million adjustment to retained earnings.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 2 — INVESTMENTS

Available-for-Sale

The following is a summary of available-for-sale investments held by the Banks for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk:

	September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 6,863	\$ 13	\$ (1)	\$ 6,875	2.47%
U.S. Treasury securities	18,559	222	(14)	18,767	2.08
U.S. agency securities	2,875	72	(4)	2,943	2.38
Mortgage-backed securities	26,465	213	(77)	26,601	2.53
Asset-backed securities	3,903	58	(2)	3,959	2.78
Total	<u>\$58,665</u>	<u>\$578</u>	<u>\$(98)</u>	<u>\$59,145</u>	2.39

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 6,803	\$ 1	\$ (4)	\$ 6,800	2.70%
U.S. Treasury securities	18,946	21	(189)	18,778	1.98
U.S. agency securities	2,501	3	(24)	2,480	2.38
Mortgage-backed securities	27,237	60	(362)	26,935	2.54
Asset-backed securities	3,483	10	(10)	3,483	2.76
Total	<u>\$58,970</u>	<u>\$95</u>	<u>\$(589)</u>	<u>\$58,476</u>	2.39

A summary of the fair value and amortized cost of investments available-for-sale at September 30, 2019 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 6,263		\$ 372		\$ 240				\$ 6,875	2.47%
U.S. Treasury securities	5,597		10,397		2,773				18,767	2.08
U.S. agency securities	141		1,404		1,081		\$ 317		2,943	2.38
Mortgage-backed securities	8		2,350		4,047		20,196		26,601	2.53
Asset-backed securities	53		2,144		479		1,283		3,959	2.78
Total fair value	<u>\$12,062</u>	2.22%	<u>\$16,667</u>	2.18%	<u>\$8,620</u>	2.48%	<u>\$21,796</u>	2.60%	<u>\$59,145</u>	2.39
Total amortized cost	<u>\$12,058</u>		<u>\$16,565</u>		<u>\$8,439</u>		<u>\$21,603</u>		<u>\$58,665</u>	

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter

than contractual maturities because borrowers generally have the right to prepay the underlying mortgage obligations with or without prepayment penalties.

Other Investments Held-to-Maturity

The Banks and Associations may hold other investments for managing risk. The following is a summary of other investments held-to-maturity:

	September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$1,302	\$28	\$(4)	\$1,326	4.06%
Asset-backed securities	457	1	(4)	454	3.13
Other securities	75	7		82	5.98
Total	\$1,834	\$36	\$(8)	\$1,862	3.91

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$1,054	\$ 6	\$(16)	\$1,044	3.91%
Asset-backed securities	83	1	(2)	82	3.01
Other securities	79	5		84	5.96
Total	\$1,216	\$12	\$(18)	\$1,210	3.98

A summary of the fair value and amortized cost of other investments held-to-maturity at September 30, 2019 by contractual maturity is as follows:

	Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities	\$32		\$ 92		\$1,178		\$1,302	4.06%
Asset-backed securities	16		244		197		457	3.13
Other securities	20		4		51		75	5.98
Total amortized cost	\$68	4.09%	\$340	3.38%	\$1,426	4.03%	\$1,834	3.91
Total fair value	\$69		\$338		\$1,455		\$1,862	

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

Other Investments Available-for-Sale

The following is a summary of other investments available-for-sale:

	September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$431	\$8	\$(2)	\$437	3.08%
Other securities	<u>11</u>	<u>1</u>	<u>—</u>	<u>12</u>	5.69
Total	<u>\$442</u>	<u>\$9</u>	<u>\$(2)</u>	<u>\$449</u>	3.15

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$475	\$4	\$(18)	\$461	3.18%
Other securities	<u>7</u>	<u>—</u>	<u>(1)</u>	<u>6</u>	5.68
Total	<u>\$482</u>	<u>\$4</u>	<u>\$(19)</u>	<u>\$467</u>	3.21

A summary of the fair value and amortized cost of other investments available-for-sale at September 30, 2019 by contractual maturity is as follows:

	Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities	\$12		\$18		\$407		\$437	3.08%
Other securities	<u>3</u>		<u>—</u>		<u>9</u>		<u>12</u>	5.69
Total fair value	<u>\$15</u>	4.87%	<u>\$18</u>	5.20%	<u>\$416</u>	3.00%	<u>\$449</u>	3.15
Total amortized cost	<u>\$15</u>		<u>\$19</u>		<u>\$408</u>		<u>\$442</u>	

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

Other-Than-Temporarily Impaired Investments Evaluation

The following tables show the gross unrealized losses and fair value of the System's investment securities that have been in a continuous unrealized loss position. An investment is considered impaired if

its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2019				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 1,672	\$ (1)		
U.S. Treasury securities	3,608	(6)	\$ 2,260	\$ (8)
U.S. agency securities	264	(1)	679	(3)
Mortgage-backed securities	6,423	(17)	7,577	(66)
Asset-backed securities	685	(4)	439	(2)
Total	\$12,652	\$(29)	\$10,955	\$(79)

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 3,725	\$ (3)	\$ 57	\$ (2)
U.S. Treasury securities	3,749	(5)	11,817	(184)
U.S. agency securities	154	(1)	1,583	(23)
Mortgage-backed securities	4,557	(19)	16,209	(377)
Asset-backed securities	1,108	(3)	788	(9)
Total	\$13,293	\$(31)	\$30,454	\$(595)

As more fully discussed in Note 2 of the 2018 *Annual Information Statement*, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

System institutions perform an evaluation quarterly on a security-by-security basis considering all available information. If a Bank or Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between

amortized cost and fair value of the security. When a Bank or Association does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. A Bank or Association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding consisted of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Real estate mortgage	\$129,197	\$126,310
Production and intermediate-term*	57,690	57,077
Agribusiness	45,490	46,113
Rural infrastructure	29,265	29,160
Rural residential real estate ..	7,395	7,308
Other**	<u>7,075</u>	<u>7,410</u>
Total loans	<u>\$276,112</u>	<u>\$273,378</u>

* Includes lease receivables.

** Includes agricultural export finance loans and loans to other financing institutions.

The Farm Credit Administration Uniform Loan Classification System includes five categories: acceptable, other assets especially mentioned (OAEM), substandard, doubtful and loss. The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage

of total loans and related accrued interest receivable by loan type as of:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Real estate mortgage		
Acceptable	92.6%	92.9%
OAEM	3.6	3.4
Substandard/doubtful	3.8	3.7
	<u>100.0</u>	<u>100.0</u>
Production and intermediate-term		
Acceptable	88.1	89.4
OAEM	5.8	4.9
Substandard/doubtful	6.1	5.7
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	94.2	95.7
OAEM	3.1	1.9
Substandard/doubtful	2.7	2.4
	<u>100.0</u>	<u>100.0</u>
Rural infrastructure		
Acceptable	96.8	97.8
OAEM	1.2	1.1
Substandard/doubtful	2.0	1.1
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	96.8	96.8
OAEM	1.1	1.2
Substandard/doubtful	2.1	2.0
	<u>100.0</u>	<u>100.0</u>
Other		
Acceptable	99.0	98.5
OAEM	1.0	1.5
Substandard/doubtful	0.0	0.0
	<u>100.0</u>	<u>100.0</u>
Total Loans		
Acceptable	92.6	93.4
OAEM	3.6	3.1
Substandard/doubtful	3.8	3.5
	<u>100.0</u>	<u>100.0</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

Impaired loans (which consist of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due) are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the

loan. The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans.

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Nonaccrual loans:		
Current as to principal and interest	\$1,142	\$1,229
Past due	<u>906</u>	<u>654</u>
Total nonaccrual loans	<u>2,048</u>	<u>1,883</u>
Impaired accrual loans:		
Restructured accrual loans	291	272
Accrual loans 90 days or more past due	<u>129</u>	<u>43</u>
Total impaired accrual loans	<u>420</u>	<u>315</u>
Total impaired loans	<u><u>\$2,468</u></u>	<u><u>\$2,198</u></u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

The following table reflects nonperforming assets (which consist of impaired loans and other property owned) in a more detailed manner than the previous table.

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Nonaccrual loans:		
Real estate mortgage	\$ 922	\$ 830
Production and intermediate-term	613	523
Agribusiness	396	398
Rural infrastructure	65	79
Rural residential real estate	<u>52</u>	<u>53</u>
Total nonaccrual loans	<u>2,048</u>	<u>1,883</u>
Accruing restructured loans:		
Real estate mortgage	173	173
Production and intermediate-term	86	86
Agribusiness	25	5
Rural residential real estate	<u>7</u>	<u>8</u>
Total accruing restructured loans	<u>291</u>	<u>272</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	73	31
Production and intermediate-term	53	11
Agribusiness		1
Rural infrastructure	2	
Rural residential real estate	<u>1</u>	
Total accruing loans 90 days or more past due	<u>129</u>	<u>43</u>
Total nonperforming loans	2,468	2,198
Other property owned	<u>81</u>	<u>84</u>
Total nonperforming assets	<u>\$2,549</u>	<u>\$2,282</u>

The following table reflects certain related credit quality statistics:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Nonaccrual loans as a percentage of total loans	0.74%	0.69%
Nonperforming assets as a percentage of total loans and other property owned	0.92	0.83
Nonperforming assets as a percentage of capital	4.09	3.90

Commitments to lend additional funds to borrowers whose loans were classified as impaired were \$85 million at September 30, 2019 and \$103 million at December 31, 2018.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

Additional impaired loan information by class is as follows:

	September 30, 2019			December 31, 2018		
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Recorded Investment*	Unpaid Principal Balance**	Related Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	\$ 110	\$ 119	\$ 31	\$ 116	\$ 124	\$ 31
Production and intermediate-term	243	273	70	225	257	74
Agribusiness	262	311	84	214	245	101
Rural infrastructure	65	72	33	78	84	34
Rural residential real estate	7	7	1	7	8	2
Total	687	782	219	640	718	242
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	1,058	1,199		918	1,060	
Production and intermediate-term	509	702		395	606	
Agribusiness	159	200		190	237	
Rural infrastructure	2	9		1	8	
Rural residential real estate	53	62		54	63	
Total	1,781	2,172		1,558	1,974	
Total impaired loans:						
Real estate mortgage	1,168	1,318	31	1,034	1,184	31
Production and intermediate-term	752	975	70	620	863	74
Agribusiness	421	511	84	404	482	101
Rural infrastructure	67	81	33	79	92	34
Rural residential real estate	60	69	1	61	71	2
Total	\$2,468	\$2,954	\$219	\$2,198	\$2,692	\$242

* The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

** Unpaid principal balance represents the contractual principal balance of the loan.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)

(dollars in millions, except as noted)

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:								
Real estate mortgage	\$ 114		\$ 130	\$ 1	\$ 114	\$ 1	\$ 128	\$ 2
Production and intermediate-term	255	\$ 1	255	1	237	2	239	3
Agribusiness	266		230		249		202	2
Rural infrastructure	66		83		68	1	72	
Rural residential real estate	7		9		7		6	
Other	—		1		—		3	
Total	<u>708</u>	<u>1</u>	<u>708</u>	<u>2</u>	<u>675</u>	<u>4</u>	<u>650</u>	<u>7</u>
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	1,022	12	981	14	992	34	964	36
Production and intermediate-term	502	6	413	11	475	26	408	25
Agribusiness	152	4	206	3	152	6	124	6
Rural infrastructure	2				1			8
Rural residential real estate	51	1	50		51	2	53	2
Total	<u>1,729</u>	<u>23</u>	<u>1,650</u>	<u>28</u>	<u>1,671</u>	<u>68</u>	<u>1,549</u>	<u>77</u>
Total impaired loans:								
Real estate mortgage	1,136	12	1,111	15	1,106	35	1,092	38
Production and intermediate-term	757	7	668	12	712	28	647	28
Agribusiness	418	4	436	3	401	6	326	8
Rural infrastructure	68		83		69	1	72	8
Rural residential real estate	58	1	59		58	2	59	2
Other	—		1		—		3	
Total	<u>\$2,437</u>	<u>\$24</u>	<u>\$2,358</u>	<u>\$30</u>	<u>\$2,346</u>	<u>\$72</u>	<u>\$2,199</u>	<u>\$84</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

The following tables provide an aging analysis of past due loans (including accrued interest) by portfolio segment:

	September 30, 2019					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$445	\$401	\$ 846	\$130,286	\$131,132	\$ 73
Production and intermediate-term	305	342	647	57,887	58,534	53
Agribusiness	108	31	139	45,553	45,692	
Rural infrastructure		23	23	29,344	29,367	2
Rural residential real estate	48	17	65	7,360	7,425	1
Other				7,111	7,111	
Total	<u>\$906</u>	<u>\$814</u>	<u>\$1,720</u>	<u>\$277,541</u>	<u>\$279,261</u>	<u>\$129</u>

	December 31, 2018					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$471	\$307	\$ 778	\$127,014	\$127,792	\$31
Production and intermediate-term	370	235	605	57,182	57,787	11
Agribusiness	28	16	44	46,275	46,319	1
Rural infrastructure	1	21	22	29,240	29,262	
Rural residential real estate	70	19	89	7,247	7,336	
Other				7,443	7,443	
Total	<u>\$940</u>	<u>\$598</u>	<u>\$1,538</u>	<u>\$274,401</u>	<u>\$275,939</u>	<u>\$43</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

A summary of changes in the allowance for loan losses and the recorded investment for loans outstanding by portfolio segment follows:

	Real estate mortgage	Production and intermediate- term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Allowance for Loan Losses:							
Balance at June 30, 2019	\$478	\$523	\$485	\$230	\$19	\$20	\$1,755
Charge-offs	(2)	(14)	(5)				(21)
Recoveries	2	5					7
Provision for loan losses (loan loss reversal)	(3)	36	(3)	(1)			29
Reclassification (to) from reserve for unfunded commitments*	(1)	(3)	(17)	1			(20)
Balance at September 30, 2019	<u>\$474</u>	<u>\$547</u>	<u>\$460</u>	<u>\$230</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,750</u>
Balance at June 30, 2018	\$462	\$492	\$468	\$205	\$20	\$19	\$1,666
Charge-offs	(3)	(13)	(18)		(1)		(35)
Recoveries		6		1			7
Provision for loan losses	16	34	5	3		1	59
Reclassification (to) from reserve for unfunded commitments*	2	(2)	(16)	1			(15)
Balance at September 30, 2018	<u>\$477</u>	<u>\$517</u>	<u>\$439</u>	<u>\$210</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,682</u>
Balance at December 31, 2018	\$481	\$501	\$475	\$217	\$19	\$20	\$1,713
Charge-offs	(5)	(40)	(5)		(1)		(51)
Recoveries	5	12	2		1		20
Provision for loan losses (loan loss reversal)	(3)	79	8	11			95
Reclassification (to) from reserve for unfunded commitments*	(4)	(5)	(20)	2			(27)
Balance at September 30, 2019	<u>\$474</u>	<u>\$547</u>	<u>\$460</u>	<u>\$230</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,750</u>
Balance at December 31, 2017	\$450	\$489	\$420	\$200	\$20	\$17	\$1,596
Charge-offs	(9)	(38)	(23)	(3)	(2)		(75)
Recoveries	5	14	1	1	1		22
Provision for loan losses	31	53	52	7		3	146
Reclassification (to) from reserve for unfunded commitments*		(1)	(11)	5			(7)
Balance at September 30, 2018	<u>\$477</u>	<u>\$517</u>	<u>\$439</u>	<u>\$210</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,682</u>
Ending Balance at September 30, 2019:							
Individually evaluated for impairment	\$ 31	\$ 70	\$ 84	\$ 33	\$ 1		\$ 219
Collectively evaluated for impairment	443	477	376	197	18	\$20	1,531
Balance at September 30, 2019	<u>\$474</u>	<u>\$547</u>	<u>\$460</u>	<u>\$230</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,750</u>
Ending Balance at December 31, 2018:							
Individually evaluated for impairment	\$ 31	\$ 74	\$101	\$ 34	\$ 2		\$ 242
Collectively evaluated for impairment	450	427	374	183	17	\$20	1,471
Balance at December 31, 2018	<u>\$481</u>	<u>\$501</u>	<u>\$475</u>	<u>\$217</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,713</u>

* Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	Real estate mortgage	Production and intermediate- term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Recorded Investments in Loans Outstanding:							
Ending balance at September 30, 2019:							
Loans individually evaluated for impairment	\$ 1,357	\$ 770	\$ 428	\$ 65	\$1,109	\$ 75	\$ 3,804
Loans collectively evaluated for impairment	<u>129,775</u>	<u>57,764</u>	<u>45,264</u>	<u>29,302</u>	<u>6,316</u>	<u>7,036</u>	<u>275,457</u>
Balance at September 30, 2019	<u>\$131,132</u>	<u>\$58,534</u>	<u>\$45,692</u>	<u>\$29,367</u>	<u>\$7,425</u>	<u>\$7,111</u>	<u>\$279,261</u>
Ending balance at December 31, 2018:							
Loans individually evaluated for impairment	\$ 1,236	\$ 633	\$ 409	\$ 79	\$1,319	\$ 110	\$ 3,786
Loans collectively evaluated for impairment	<u>126,556</u>	<u>57,154</u>	<u>45,910</u>	<u>29,183</u>	<u>6,017</u>	<u>7,333</u>	<u>272,153</u>
Balance at December 31, 2018	<u>\$127,792</u>	<u>\$57,787</u>	<u>\$46,319</u>	<u>\$29,262</u>	<u>\$7,336</u>	<u>\$7,443</u>	<u>\$275,939</u>

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Concessions vary by program and are borrower-specific and may include interest

rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our impaired loans under nonaccrual or accruing restructured loans.

The following table presents additional information regarding troubled debt restructurings that occurred during the following periods:

	For the Three Months Ended September 30, 2019		For the Three Months Ended September 30, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	\$32	\$32	\$ 9	\$ 9
Production and intermediate-term	25	25	18	14
Agribusiness	25	25	68	61
Rural residential real estate	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
Total	<u>\$82</u>	<u>\$82</u>	<u>\$96</u>	<u>\$85</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	For the Nine Months Ended September 30, 2019		For the Nine Months Ended September 30, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	\$ 58	\$ 58	\$ 35	\$ 35
Production and intermediate-term	77	77	51	47
Agribusiness	25	25	193	186
Rural residential real estate	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u>\$162</u>	<u>\$162</u>	<u>\$281</u>	<u>\$270</u>

* Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The System had no significant troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the first nine months of 2019 and 2018.

The following table provides information on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as Troubled Debt Restructurings		Troubled Debt Restructurings in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	\$267	\$242	\$ 94	\$ 69
Production and intermediate-term	178	141	92	55
Agribusiness	192	179	167	174
Rural residential real estate	<u>12</u>	<u>12</u>	<u>5</u>	<u>4</u>
Total	<u>\$649</u>	<u>\$574</u>	<u>\$358</u>	<u>\$302</u>

* Represents the portion of loans modified as troubled debt restructurings that are in nonaccrual status.

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were \$30 million at September 30, 2019 and \$51 million at December 31, 2018.

Loans held for sale were \$49 million and \$23 million at September 30, 2019 and December 31, 2018. Such loans are included in other assets and are carried at the lower of cost or fair value.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 4 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	September 30, 2019	December 31, 2018
Equipment held for lease	\$ 667	\$ 662
Interest rate swaps and other derivatives	505	284
Accounts receivable	283	212
Collateral pledged to derivative counterparties	232	8
Assets held in non-qualified benefits trusts	194	179
Operating lease right-of-use assets	185	
Investments in rural business investment companies	133	101
Equity investments in other System institutions	129	131
Other property owned	81	84
Prepaid expenses	70	58
Loans held for sale	49	23
Net deferred tax assets	13	13
Other	102	78
Total	<u>\$2,643</u>	<u>\$1,833</u>

Other liabilities consisted of the following:

	September 30, 2019	December 31, 2018
Pension and other postretirement benefit plan liabilities	\$1,053	\$1,138
Patronage and dividends payable	731	1,915
Accounts payable	565	512
Interest rate swaps and other derivatives	470	183
Net deferred tax liabilities	414	331
Accrued salaries and employee benefits	234	283
Operating lease liabilities	198	
Reserve for unfunded commitments	179	152
Liabilities held in non-qualified benefit trusts	117	109
Bank drafts payable	89	129
Collateral held from derivative counterparties	1	101
Other	277	222
Total	<u>\$4,328</u>	<u>\$5,075</u>

NOTE 5 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's condensed combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for purposes specified in the Farm Credit Act of 1971, as amended (Farm Credit Act), all of which benefit Banks and Associations. The Insurance Fund is under the direct control of the Farm Credit System Insurance Corporation (Insurance Corporation), an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2020, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

At September 30, 2019, total assets in the Insurance Fund totaled \$5.122 billion and consisted of cash, investments and related accrued interest receivable of \$4.956 billion and of premiums receivable from System institutions of \$166 million accrued on the basis of adjusted outstanding insured

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

debt during the first nine months of 2019. Investments held by the Insurance Fund must be obligations of the United States or obligations guaranteed as to principal and interest by the United States. During the first nine months of 2019, income earned on assets in the Insurance Fund and premiums accrued by the Insurance Corporation totaled \$234 million, net of administrative expenses.

As further discussed in the *2018 Annual Information Statement*, pursuant to the Farm Credit Act, as amended, the Insurance Corporation may distribute excess funds above the secure base amount to System institutions. At December 31, 2018, the assets in the Insurance Fund exceeded the secure base amount by \$66 million (after deduction of pro-

spective operating expenses for 2019) and the excess was transferred to the Allocated Insurance Reserves Accounts. In March 2019, the Insurance Corporation's board of directors approved and distributed the \$66 million of excess funds to System institutions.

At September 30, 2019, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 2.08% of adjusted insured obligations, as compared with 2.00% at December 31, 2018. The Insurance Fund with the allocated amount was 2.03% of the adjusted insured obligations at December 31, 2018. No amounts were allocated as of September 30, 2019.

NOTE 6 — SYSTEMWIDE DEBT SECURITIES

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at September 30, 2019:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in 1 year or less	\$ 93,007	2.09%			\$17,738	2.20%	\$110,745	2.11%
Due after 1 year through 2 years	69,579	2.17	\$ 4	7.35%			69,583	2.17
Due after 2 years through 3 years	27,693	2.18					27,693	2.18
Due after 3 years through 4 years	16,495	2.27					16,495	2.27
Due after 4 years through 5 years	13,330	2.40					13,330	2.40
Due after 5 years	44,933	2.96	82	5.77			45,015	2.97
Total	<u>\$265,037</u>	2.29	<u>\$86</u>	5.84	<u>\$17,738</u>	2.20	<u>\$282,861</u>	2.29

NOTE 7 — CAPITAL STRUCTURE

Capital consisted of the following at September 30, 2019:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	\$ 2,499	\$ 669		\$ 3,168
Capital stock and participation certificates	6,701	587	\$(5,303)	1,985
Additional paid-in-capital	59	3,679		3,738
Restricted capital — Insurance Fund			5,122	5,122
Accumulated other comprehensive (loss) income, net of tax . . .	104	(125)	(984)	(1,005)
Retained earnings	<u>11,401</u>	<u>38,256</u>	<u>(307)</u>	<u>49,350</u>
Total capital	<u>\$20,764</u>	<u>\$43,066</u>	<u>\$(1,472)</u>	<u>\$62,358</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

Preferred stock issued and outstanding reflects the issuance by four Banks and six Associations. Combined System retained earnings reflected net eliminations of \$307 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to \$5.3 billion

were owned by the Associations. These amounts have been eliminated in the accompanying condensed combined financial statements. Restricted capital is only available for statutorily authorized purposes and is not available for payment of dividends or patronage distributions.

Accumulated other comprehensive loss was comprised of the following components:

	September 30, 2019			December 31, 2018		
	Before Tax	Deferred Tax	Net of Tax	Before Tax	Deferred Tax	Net of Tax
Unrealized gains/losses on investments available-for-sale, net	\$ 486	\$(49)	\$ 437	\$ (509)	\$28	\$ (481)
Unrealized gains/losses on cash flow hedges, net	(265)	9	(256)	(6)	8	2
Pension and other benefit plans	(1,206)	20	(1,186)	(1,277)	21	(1,256)
Total	<u>\$ (985)</u>	<u>\$(20)</u>	<u>\$(1,005)</u>	<u>\$(1,792)</u>	<u>\$57</u>	<u>\$(1,735)</u>

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component for the three and nine months ended September 30, 2019 and 2018:

	Unrealized gains on investments available-for-sale, net	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2019	\$294	\$(179)	\$(1,209)	\$(1,094)
Other comprehensive income before reclassifications	143	(80)		63
Amounts reclassified from accumulated other comprehensive loss to income		3	23	26
Net current period other comprehensive income (loss)	<u>143</u>	<u>(77)</u>	<u>23</u>	<u>89</u>
Balance at September 30, 2019	<u>\$437</u>	<u>\$(256)</u>	<u>\$(1,186)</u>	<u>\$(1,005)</u>

	Unrealized losses on investments available-for-sale, net	Unrealized gains on other-than-temporarily impaired investments available-for-sale	Unrealized gains on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2018	\$(731)	\$ 3	\$48	\$(1,364)	\$(2,044)
Other comprehensive income before reclassifications	(158)		24		(134)
Amounts reclassified from accumulated other comprehensive loss to income	(4)	(3)	22	31	46
Net current period other comprehensive (loss) income	<u>(162)</u>	<u>(3)</u>	<u>46</u>	<u>31</u>	<u>(88)</u>
Balance at September 30, 2018	<u>\$(893)</u>	<u>\$ 0</u>	<u>\$94</u>	<u>\$(1,333)</u>	<u>\$(2,132)</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	Unrealized gains/ losses on investments available- for-sale, net	Unrealized gains/ losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2018	\$(481)	\$ 2	\$(1,256)	\$(1,735)
Other comprehensive income before reclassifications	926	(264)		662
Amounts reclassified from accumulated other comprehensive loss to income	(8)	6	70	68
Net current period other comprehensive income (loss)	<u>918</u>	<u>(258)</u>	<u>70</u>	<u>730</u>
Balance at September 30, 2019	<u>\$ 437</u>	<u>\$(256)</u>	<u>\$(1,186)</u>	<u>\$(1,005)</u>

	Unrealized losses on investments available- for-sale, net	Unrealized gains on other-than- temporarily impaired investments available-for- sale	Unrealized gains/ losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2017	\$(276)	\$ 3	\$ (53)	\$(1,413)	\$(1,739)
Reclassification of stranded tax effects from accumulated other comprehensive loss to retained earnings	(10)	—	(4)	(13)	(27)
Balance at January 1, 2018	(286)	3	(57)	(1,426)	(1,766)
Other comprehensive income before reclassifications ..	(565)	3	128		(434)
Amounts reclassified from accumulated other comprehensive loss to income	(42)	(6)	23	93	68
Net current period other comprehensive (loss) income ...	<u>(607)</u>	<u>(3)</u>	<u>151</u>	<u>93</u>	<u>(366)</u>
Balance at September 30, 2018	<u>\$(893)</u>	<u>\$ 0</u>	<u>\$ 94</u>	<u>\$(1,333)</u>	<u>\$(2,132)</u>

Only the Banks are statutorily liable for the payment of principal and interest on Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other debt securities issued under Section 4.2(d) of the Farm Credit Act (collectively, Systemwide Debt Securities). Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most

cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies and agreements.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

Capital regulations issued by the System's regulator, the Farm Credit Administration, require that the Banks and Associations maintain regulatory minimums for the following capital ratios:

Ratio	Minimum Requirement	Minimum Requirement with Buffer
Common Equity Tier 1		
Capital	4.5%	7.0%
Tier 1 Capital	6.0%	8.5%
Total Capital	8.0%	10.5%
Tier 1 Leverage*	4.0%	5.0%
Unallocated Retained		
Earnings (URE) and		
URE Equivalents		
(UREE) Leverage	1.5%	N/A
Permanent Capital	7.0%	N/A

* Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

The capital requirements have a three-year phase-in of the capital conservation buffer applied to these capital ratios, beginning January 1, 2017, except for the Tier 1 Leverage ratio that has no phase-in. The buffer amounts shown reflect the full capital conservation buffer.

At September 30, 2019, all System institutions complied with these standards.

NOTE 8 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and certain affiliated Associations, generally have governmental plans that cover many System institutions and as such cannot be attributed to any individual entity. Thus, these plans are generally recorded at the combined District level. Although these plans are aggregated in the System's combined financial statements, the plan assets are particular to each plan's obligations. These retirement plans are non-contributory and benefits are based on salary and years of service. The Banks and Associations have closed their defined benefit pension plans to new participants and offer defined contribution retirement plans to all employees hired subsequent to the close of their respective defined benefit pension plans. In

addition, certain System institutions provide health-care and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other post-retirement benefits if they reach normal retirement age while working for the System.

The following table summarizes the components of net periodic benefit cost for the three months ended September 30:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Service cost	\$ 14	\$ 18	\$ 1	\$ 1
Interest cost	41	37	4	3
Expected return on plan assets	(49)	(50)		
Net amortization and deferral	<u>25</u>	<u>32</u>	<u>(1)</u>	<u>1</u>
Net periodic benefit cost	<u>\$ 31</u>	<u>\$ 37</u>	<u>\$ 4</u>	<u>\$ 5</u>

The following table summarizes the components of net periodic benefit cost for the nine months ended September 30:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Service cost	\$ 44	\$ 54	\$ 2	\$ 3
Interest cost	123	111	10	9
Expected return on plan assets	(147)	(149)		
Net amortization and deferral	<u>75</u>	<u>94</u>	<u>(2)</u>	<u>3</u>
Net periodic benefit cost	<u>\$ 95</u>	<u>\$ 110</u>	<u>\$ 10</u>	<u>\$ 15</u>

The components of net periodic benefit cost other than the service cost component are included in the line item other expense in the Condensed Combined Statement of Income.

As of September 30, 2019, \$115 million and \$9 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional \$79 million to fund their pension plans and \$4 million to fund their other postretirement benefit plans during the fourth quarter of 2019.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 9 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most

advantageous market for the asset or liability. See Note 2 — Summary of Significant Accounting Policies in the *2018 Annual Information Statement* for additional information.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2019 and December 31, 2018 for each of the fair value hierarchy levels are summarized below:

	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
September 30, 2019				
Assets:				
Federal funds sold and securities purchased under resale agreements . .		\$ 4,188		\$ 4,188
Commercial paper, bankers' acceptances, certificates of deposit and other securities		6,875	\$ 12	6,887
U.S. Treasury securities		18,767		18,767
U.S. agency securities		2,943		2,943
Mortgage-backed securities		26,906	132	27,038
Asset-backed securities		3,959		3,959
Derivative assets		505		505
Assets held in non-qualified benefits trusts	\$194			194
Total assets	<u>\$194</u>	<u>\$64,143</u>	<u>\$144</u>	<u>\$64,481</u>
Liabilities:				
Derivative liabilities		\$ 470		\$ 470
Collateral liabilities		1		1
Standby letters of credit			\$ 12	12
Total liabilities	<u>\$ 0</u>	<u>\$ 471</u>	<u>\$ 12</u>	<u>\$ 483</u>
	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
December 31, 2018				
Assets:				
Federal funds sold and securities purchased under resale agreements . .		\$ 3,379		\$ 3,379
Commercial paper, bankers' acceptances, certificates of deposit and other securities		6,800	\$ 6	6,806
U.S. Treasury securities		18,778		18,778
U.S. agency securities		2,480		2,480
Mortgage-backed securities		27,247	149	27,396
Asset-backed securities		3,477	6	3,483
Derivative assets		284		284
Assets held in non-qualified benefits trusts	\$179			179
Total assets	<u>\$179</u>	<u>\$62,445</u>	<u>\$161</u>	<u>\$62,785</u>
Liabilities:				
Derivative liabilities		\$ 183		\$ 183
Collateral liabilities	\$ 2	99		101
Standby letters of credit			\$ 12	12
Total liabilities	<u>\$ 2</u>	<u>\$ 282</u>	<u>\$ 12</u>	<u>\$ 296</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
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The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2019 and 2018:

	<u>Commercial paper, bankers' acceptances certificates of deposit and other securities</u>	<u>Mortgage-backed securities</u>	<u>Asset-backed securities</u>	<u>Standby letters of credit</u>
Balance at June 30, 2019	\$ 8	\$178	\$0	\$12
Total gains or (losses) realized/unrealized:				
Included in other comprehensive loss	1			
Purchases	3	22		
Sales		(22)		
Issuances				5
Settlements		(6)		(5)
Transfers from Level 3 into Level 2		(40)		
Balance at September 30, 2019	<u>\$12</u>	<u>\$132</u>	<u>\$0</u>	<u>\$12</u>

	<u>Commercial paper, bankers' acceptances certificates of deposit and other securities</u>	<u>Mortgage-backed securities</u>	<u>Asset-backed securities</u>	<u>Standby letters of credit</u>
Balance at June 30, 2018	\$8	\$290	\$ 25	\$11
Total gains or (losses) realized/unrealized:				
Included in earnings		(1)	8	
Included in other comprehensive loss			(7)	
Purchases		24		
Sales		(24)	(19)	
Issuances	1			2
Settlements		(9)	(1)	(1)
Balance at September 30, 2018	<u>\$9</u>	<u>\$280</u>	<u>\$ 6</u>	<u>\$12</u>

There were no losses included in earnings during either the third quarter of 2019 or 2018 that were attributable to the change in unrealized gains or

losses relating to assets or liabilities still held at September 30, 2019 and 2018.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
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The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2019 and 2018:

	<u>Commercial paper, bankers' acceptances certificates of deposit and other securities</u>	<u>Mortgage-backed securities</u>	<u>Asset-backed securities</u>	<u>Standby letters of credit</u>
Balance at December 31, 2018	\$ 6	\$149	\$ 6	\$12
Total gains or (losses) realized/unrealized:				
Included in other comprehensive loss	1	2		
Purchases	5	134	25	
Sales		(41)	(5)	
Issuances				9
Settlements		(19)	(1)	(9)
Transfers from Level 3 into Level 2		(93)	(25)	
Balance at September 30, 2019	<u>\$12</u>	<u>\$132</u>	<u>\$ 0</u>	<u>\$12</u>

	<u>Commercial paper, bankers' acceptances certificates of deposit and other securities</u>	<u>Mortgage-backed securities</u>	<u>Asset-backed securities</u>	<u>Standby letters of credit</u>
Balance at December 31, 2017	\$12	\$ 574	\$ 27	\$13
Total gains or (losses) realized/unrealized:				
Included in earnings		37	8	
Included in other comprehensive loss		(19)	(8)	
Purchases		150		
Sales		(320)	(19)	
Issuances	3			6
Settlements	(6)	(50)	(2)	(7)
Transfers from Level 3 into Level 2		(92)		
Balance at September 30, 2018	<u>\$ 9</u>	<u>\$ 280</u>	<u>\$ 6</u>	<u>\$12</u>

There were no losses included in earnings during the first nine months of 2019 and 2018 that were attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2019 and 2018.

The transfers between Level 3 and Level 2 during the first nine months ended September 30, 2019

and 2018 were due to changes in the sources of pricing information.

Level 3 assets measured at fair value on a non-recurring basis included loans of \$511 million and other property owned of \$89 million at September 30, 2019, as compared to \$430 million and \$91 million at December 31, 2018.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
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Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Condensed Combined Statement of Condition for each of the fair value hierarchy levels are summarized as follows:

	September 30, 2019				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 1,454	\$1,454			\$ 1,454
Other investments held-to-maturity	1,834		\$108	\$ 1,754	1,862
Net loans	<u>274,362</u>			<u>284,231</u>	<u>284,231</u>
Total assets	<u>\$277,650</u>	<u>\$1,454</u>	<u>\$108</u>	<u>\$285,985</u>	<u>\$287,547</u>
Liabilities:					
Systemwide Debt Securities	\$282,861			\$285,628	\$285,628
Other bonds	2,085			2,085	2,085
Other interest bearing liabilities	1,273		\$ 7	1,290	1,297
Total liabilities	<u>\$286,219</u>	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$289,003</u>	<u>\$289,010</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 189</u>	<u>\$ 189</u>

	December 31, 2018				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 2,933	\$2,933			\$ 2,933
Other investments held-to-maturity	1,216		\$117	\$ 1,093	1,210
Net loans	<u>271,665</u>		<u>9</u>	<u>276,362</u>	<u>276,371</u>
Total assets	<u>\$275,814</u>	<u>\$2,933</u>	<u>\$126</u>	<u>\$277,455</u>	<u>\$280,514</u>
Liabilities:					
Systemwide Debt Securities	\$281,459			\$279,719	\$279,719
Other bonds	1,817			1,817	1,817
Other interest bearing liabilities	1,161		\$ 4	1,167	1,171
Total liabilities	<u>\$284,437</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$282,703</u>	<u>\$282,707</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 173</u>	<u>\$ 173</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
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Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the

assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range of Inputs	
	September 30, 2019	December 31, 2018			September 30, 2019	December 31, 2018
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 12	\$ 6	Discounted cash flow	Prepayment rate	0.0%	0.0%
Mortgage-backed securities	\$ 30	\$ 36	Discounted cash flow	Prepayment rate	2.3%-38.0%	2.3%-38.0%
	102	113	Vendor priced			
	<u>\$132</u>	<u>\$149</u>				
Asset-backed securities	\$ 0	\$ 6	Vendor priced			
Standby letters of credit	\$ 12	\$ 12	Discounted cash flow	Rate of funding	50.0%	50.0%
				Risk-adjusted spread	0.1%-1.3%	0.1%-1.5%

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and

other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

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NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
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Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	<u>Valuation Technique(s)</u>	<u>Input</u>
Federal funds sold and securities purchased under resale agreements	Carrying value	Par/principal and appropriate interest yield
Investment securities available-for-sale . . .	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices	Price for similar security
Interest rate swaps, caps and floors	Discounted cash flow	Annualized volatility Counterparty credit risk Company's own credit risk

Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, in the *2018 Annual Information Statement*, FASB guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the System for assets and liabilities measured at fair value:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include, but not limited to, U.S. Treasury, U.S. agency and the substantial majority of mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 primarily consist of certain mortgage-backed securities including private label-FHA/VA securities and those issued by Farmer Mac.

To estimate the fair value of the majority of the investments held, the Banks and Associations obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain non-agency securities, the Banks and Associations utilize either a third party cash flow model or an internal model. The significant inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including the LIBOR and Overnight Index Swap curves and volatility assumptions about future interest rate movements.

FARM CREDIT SYSTEM

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Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the market-place.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but, in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Collateral Liabilities

Derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached or are cleared through a futures commission merchant, with a clearinghouse (i.e., a central counterparty). The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

NOTE 10 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

The Banks and Associations maintain an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged 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 the gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The strategic use of derivatives is considered to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

In addition, derivative transactions, particularly interest rate swaps, are entered into to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps allow us to issue medium-term debt at fixed

FARM CREDIT SYSTEM

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(unaudited)

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rates, which are then swapped to floating rates that are lower than those available if floating rate debt was issued directly. Under interest rate swap arrangements, the parties agree to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Banks may enter into derivatives with their customers, including Associations, as a service to enable customers to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset the market risk by concurrently entering into offsetting agreements with non-System institutional counterparties.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing

liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, interest rate swaps that pay floating rate and receive fixed rate (receive-fixed swaps) are used to reduce the impact of market fluctuations on net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, swaps that receive floating rate and pay fixed rate (pay-fixed swaps) are used to reduce net positions.

Interest rate options may be purchased in order to reduce the impact of rising interest rates on floating-rate debt (interest rate caps) or to reduce the impact of falling interest rates on floating-rate assets (interest rate floors). The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the nine months ended September 30, 2019 and 2018 are summarized in the following tables:

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay- Fixed Swaps	Floating-for- Floating and Amortizing Floating-for- Floating	Interest Rate Caps and Floors	Other Derivatives	Total
Balance at December 31, 2018	\$13,947	\$10,656	\$2,500	\$4,306	\$ 7,893	\$ 39,302
Additions	3,727	2,424		2,261	6,286	14,698
Maturities/amortization	(2,799)	(1,477)	(100)	(221)	(5,153)	(9,750)
Terminations		(494)			(494)	(988)
Balance at September 30, 2019	<u>\$14,875</u>	<u>\$11,109</u>	<u>\$2,400</u>	<u>\$6,346</u>	<u>\$ 8,532</u>	<u>\$ 43,262</u>

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay- Fixed Swaps	Floating-for- Floating and Amortizing Floating-for- Floating	Interest Rate Caps and Floors	Other Derivatives	Total
Balance at December 31, 2017	\$14,845	\$ 8,947	\$2,700	\$5,080	\$ 6,955	\$ 38,527
Additions	3,115	1,629		182	5,152	10,078
Maturities/amortization	(4,342)	(507)	(200)	(140)	(5,024)	(10,213)
Terminations		(219)		(600)	(220)	(1,039)
Balance at September 30, 2018	<u>\$13,618</u>	<u>\$ 9,850</u>	<u>\$2,500</u>	<u>\$4,522</u>	<u>\$ 6,863</u>	<u>\$ 37,353</u>

FARM CREDIT SYSTEM

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Use of derivatives creates exposure to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes us, thus creating a repayment (credit) risk. When the fair value of the derivative contract is negative, we owe the counterparty and, therefore, assume no repayment risk.

To minimize the risk of credit losses, credit standing and levels of exposure to individual counterparties are monitored and derivative transactions are almost exclusively entered into with non-customer counterparties that have an investment grade or better credit rating from a major rating agency. Nonperformance by any of these counterparties is not anticipated. We typically enter into master agreements that contain netting provisions. These provisions require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of the derivative contracts are supported by collateral arrangements with counterparties. The System held \$1 million of cash collateral and had no net exposure to counterparties at September 30, 2019, as compared with \$101 million of cash collateral and \$20 million net exposure to counterparties at December 31, 2018.

Derivative transactions may also be cleared through a futures commission merchant (FCM) with a clearinghouse (i.e., a central counterparty (CCP)). When the swap is cleared by the two parties, the 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 margin, member capital contributions, and FCM guarantees

of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP.

Derivative activities are monitored by an Asset-Liability Management Committee (ALCO) at the various System institutions as part of its oversight of asset/liability and treasury functions. Each ALCO is responsible for approving hedging strategies that are developed within parameters established by the board of directors through analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The System includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. As of September 30, 2019, the following amounts were recorded on the Condensed Combined Statement of Condition related to cumulative basis adjustments for fair value hedges:

	Carrying Amount of the Hedged Item	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item
	September 30, 2019	September 30, 2019
Systemwide debt securities	\$13,262	\$220

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Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in “other income” in the Condensed Combined Statement of Income.

Fair Values of Derivative Instruments

The following table represents the fair value of derivative instruments:

	Balance Sheet Classification Assets	Fair Value September 30, 2019	Fair Value December 31, 2018	Balance Sheet Classification Liabilities	Fair Value September 30, 2019	Fair Value December 31, 2018
Derivatives designated as hedging instruments:						
Receive-fixed swaps	Other assets	\$ 235	\$ 35	Other liabilities	\$ 11	\$105
Pay-fixed and amortizing pay-fixed swaps	Other assets	1	66	Other liabilities	189	35
Interest rate caps and floors	Other assets	43	43			
Floating-for-floating and amortizing floating-for-floating swaps				Other liabilities	4	3
Foreign exchange contracts	Other assets	<u>1</u>	<u>1</u>			
Total derivatives designated as hedging instruments		<u>280</u>	<u>145</u>		<u>204</u>	<u>143</u>
Derivatives not designated as hedging instruments:						
Pay-fixed and amortizing pay-fixed swaps	Other assets	1	4	Other liabilities	3	
Derivatives entered into on behalf of customers	Other assets	378	165	Other liabilities	316	131
Other derivative products	Other assets	<u>—</u>	<u>11</u>			
Total derivatives not designated as hedging instruments		379	180		319	131
Variation margin settlement		<u>(148)</u>	<u>(12)</u>		<u>(47)</u>	<u>(62)</u>
Total derivatives		<u>\$ 511</u>	<u>\$313</u>		<u>\$476</u>	<u>\$212</u>

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NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
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The following table sets forth the effect of derivative instruments in cash flow hedging relationships:

Derivatives — Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives		Location of Gain or (Loss) Reclassification from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	
	September 30, 2019	September 30, 2018		September 30, 2019	September 30, 2018
Pay-fixed and amortizing pay-fixed swaps . . .	\$(214)	\$111	Interest expense	\$ 3	\$ (5)
Floating-for-floating and amortizing floating-for-floating swaps	(2)	1	Interest expense	(1)	(1)
Interest rate caps and floors	(48)	11	Interest expense	(8)	(18)
Foreign exchange contracts		5	Interest income		2
Other derivative products			Interest income		(1)
Total	<u>\$(264)</u>	<u>\$128</u>		<u>\$(6)</u>	<u>\$(23)</u>

The following table sets forth the effect of fair value and cash flow hedge accounting on the Condensed Combined Statement of Income:

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships
	For the Nine Months Ended September 30, 2019
	Interest Expense
Total amount of the expense line item in which the effects of fair value or cash flow hedges are recorded	\$5,203
Effects of fair value and cash flow hedging:	
Fair value hedges:	
Receive-fixed swaps	(293)
Systemwide Debt Securities	290
Cash flow hedges:	
Pay-fixed and amortizing pay-fixed swaps	(3)
Floating-for-floating and amortizing floating-for-floating swaps	1
Interest rate caps and floors	8

The following table sets forth the amount of gains or losses recognized in the Condensed Combined Statement of Income related to derivatives not designated as hedging instruments:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss)	For the Nine Months Ended	
		September 30, 2019	September 30, 2018
Pay-fixed and amortizing pay-fixed swaps	Noninterest income	\$ (6)	\$ 2
Derivatives entered into on behalf of customers . . .	Noninterest income	28	(16)
Other derivative products	Noninterest income	(9)	3
Total		<u>\$13</u>	<u>\$(11)</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

NOTE 11 — ASSET/LIABILITY OFFSETTING

The following tables represent the offsetting of financial assets and liabilities:

	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Combined Statement of Condition	Net Amounts Presented in the Condensed Combined Statement of Condition	Gross Amounts Not Offset in the Condensed Combined Statement of Condition			Net Amount
				Securities Received/ Pledged	Cash Collateral Received/Pledged	Cleared Derivative Initial Margin Pledged	
September 30, 2019							
Assets:							
Interest rate swaps and other derivatives . . .	\$ 511	\$(6)	\$ 505		\$ (1)	\$ 32	\$ 536
Federal Funds sold and securities purchased under resale agreements	4,188		4,188	\$(825)			3,363
Liabilities:							
Interest rate swaps and other derivatives . . .	476	(6)	470		(232)	(95)	143
December 31, 2018							
Assets:							
Interest rate swaps and other derivatives . . .	\$ 313	\$(29)	\$ 284		\$(101)	\$ 21	\$ 204
Federal Funds sold and securities purchased under resale agreements	3,379		3,379	\$(100)			3,279
Liabilities:							
Interest rate swaps and other derivatives . . .	212	(29)	183		(8)	(47)	128

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 12 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Banks and Associations have various commitments and contingent liabilities, such as certain letters of credit and commitments to extend credit, which are not reflected in the accompanying condensed combined financial statements. No material losses are anticipated as a result of these transactions.

A summary of the contractual amount of credit-related instruments is as follows:

	September 30, 2019
Commitments to extend credit	\$83,809
Standby letters of credit	1,984
Commercial and other letters of credit	126

On at least a quarterly basis, System institutions assess their liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable the institution will incur a loss and the amount can be reasonably estimated, the institution would establish an accrual for the loss. Once established, the accrual would be adjusted as appropriate to reflect any relevant developments. For matters where a loss is not probable or the amount of loss cannot be estimated, no accrual would be established.

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% 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.

In November 2016, an alleged class action complaint was filed in New York state court against AgriBank by a purported beneficial owner of some of AgriBank’s 9.125% subordinated notes due in 2019 (“Subordinated Notes”). The plaintiff asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that AgriBank impermissibly redeemed the Subordinated Notes. AgriBank removed the lawsuit to federal court in the Southern District of New York. Plaintiff requested damages in an amount to be determined at trial, reasonable attorneys’ fees, and other relief. In October 2017, AgriBank filed an answer to the lawsuit. On July 31, 2018, the plaintiff filed an amended complaint adding a second named plaintiff. On August 30, 2018, AgriBank filed an answer to the amended complaint. On February 1, 2019, the plaintiffs filed a motion to certify the class and appoint the plaintiffs as co-class representatives. On March 18, 2019, AgriBank filed a motion opposing the plaintiffs’ motion for class certification and appointment as class representatives. On September 11, 2019, the court issued an order denying Plaintiffs’ joint motion to certify a class action on behalf of all purchasers of the notes and to appoint them as co-class representatives. AgriBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

At September 30, 2019, various other lawsuits were pending or threatened against System institutions. Each System institution to which a pending or threatened lawsuit relates intends to vigorously defend against such action. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System’s combined results of operations or financial condition.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

NOTE 13 — COMBINING BANK-ONLY INFORMATION

The following condensed combining statements include the statement of condition, statement of comprehensive income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

**Combining Bank-Only
Statement of Condition
September 30, 2019**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 557	\$ 328	\$ 43	\$ 308		\$ 1,236
Federal funds sold and securities purchased under resale agreements	825	1,518	282	1,563		4,188
Investments (Note 2)	7,934	14,628	5,544	31,447		59,553
Loans						
To Associations(1)	16,805	86,597	12,842	52,156		168,400
To others(2)	8,131	9,145	6,391	49,742	\$(338)	73,071
Less: allowance for loan losses	(20)	(30)	(11)	(621)		(682)
Net loans	24,916	95,712	19,222	101,277	(338)	240,789
Accrued interest receivable	95	762	80	452		1,389
Other assets	232	157	369	1,323	57	2,138
Total assets	<u>\$34,559</u>	<u>\$113,105</u>	<u>\$25,540</u>	<u>\$136,370</u>	<u>\$(281)</u>	<u>\$309,293</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 6):						
Due within one year	\$12,638	\$ 32,657	\$ 9,143	\$ 56,307		\$110,745
Due after one year	19,206	72,317	14,190	66,403		172,116
Total Systemwide Debt Securities	31,844	104,974	23,333	122,710		282,861
Accrued interest payable	102	431	91	447		1,071
Other liabilities	66	1,591	213	2,766	\$ (39)	4,597
Total liabilities	<u>32,012</u>	<u>106,996</u>	<u>23,637</u>	<u>125,923</u>	<u>(39)</u>	<u>288,529</u>
Capital						
Preferred stock	49	250	700	1,500		2,499
Capital stock and participation certificates	316	2,807	363	3,468	(253)	6,701
Additional paid-in-capital	59					59
Accumulated other comprehensive income (loss)	83	(115)	(56)	204	(12)	104
Retained earnings	2,040	3,167	896	5,275	23	11,401
Total capital	<u>2,547</u>	<u>6,109</u>	<u>1,903</u>	<u>10,447</u>	<u>(242)</u>	<u>20,764</u>
Total liabilities and capital	<u>\$34,559</u>	<u>\$113,105</u>	<u>\$25,540</u>	<u>\$136,370</u>	<u>\$(281)</u>	<u>\$309,293</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Condition**

December 31, 2018

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 422	\$ 546	\$ 130	\$ 1,368		\$ 2,466
Federal funds sold and securities purchased under resale agreements	100	1,698	281	1,300		3,379
Investments (Note 2)	7,981	13,998	5,715	31,293		58,987
Loans						
To Associations(1)	16,414	83,807	11,787	50,586		162,594
To others(2)	7,862	8,910	6,270	53,908	\$(366)	76,584
Less: allowance for loan losses	(18)	(26)	(12)	(622)		(678)
Net loans	24,258	92,691	18,045	103,872	(366)	238,500
Accrued interest receivable	91	707	76	454		1,328
Other assets	226	132	282	729	68	1,437
Total assets	<u>\$33,078</u>	<u>\$109,772</u>	<u>\$24,529</u>	<u>\$139,016</u>	<u>\$(298)</u>	<u>\$306,097</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 6):						
Due within one year	\$11,304	\$ 31,643	\$ 8,466	\$ 57,815		\$109,228
Due after one year	19,078	70,538	14,031	68,584		172,231
Total Systemwide Debt Securities	30,382	102,181	22,497	126,399		281,459
Accrued interest payable	110	406	87	433		1,036
Other liabilities	362	1,297	168	2,649	\$ (57)	4,419
Total liabilities	30,854	103,884	22,752	129,481	(57)	286,914
Capital						
Preferred stock	49	250	700	1,500		2,499
Capital stock and participation certificates ...	318	2,551	362	3,416	(247)	6,400
Additional paid-in-capital	59					59
Accumulated other comprehensive loss	(52)	(50)	(82)	(363)	(12)	(559)
Retained earnings	1,850	3,137	797	4,982	18	10,784
Total capital	2,224	5,888	1,777	9,535	(241)	19,183
Total liabilities and capital	<u>\$33,078</u>	<u>\$109,772</u>	<u>\$24,529</u>	<u>\$139,016</u>	<u>\$(298)</u>	<u>\$306,097</u>

(1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory risk-adjusted capital ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially AgFirst, AgriBank and Texas, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of CoBank, just over 50% of its loans are retail loans to cooperatives and other eligible borrowers.

(2) Loans to others represent retail loans held by the Banks. The Banks may purchase participations in loans to eligible borrowers made by Associations, other Banks and non-System lenders.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

Combining Bank-Only
Statement of Comprehensive Income
For the Nine Months Ended September 30,

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
2019						
Interest income	\$ 845	\$ 2,383	\$ 604	\$ 3,425	\$ 3	\$ 7,260
Interest expense	(545)	(1,886)	(408)	(2,379)	27	(5,191)
Net interest income	300	497	196	1,046	30	2,069
(Provision for loan losses) loan loss reversal	(1)	(8)	1	(26)		(34)
Noninterest income	(2)	67	24	169	(61)	197
Noninterest expense	(105)	(103)	(79)	(291)	(25)	(603)
Provision for income taxes				(97)		(97)
Net income	192	453	142	801	(56)	1,532
Other comprehensive income (loss)	135	(65)	26	567		663
Comprehensive income	<u>\$ 327</u>	<u>\$ 388</u>	<u>\$ 168</u>	<u>\$ 1,368</u>	<u>\$(56)</u>	<u>\$ 2,195</u>
2018						
Interest income	\$ 738	\$ 1,939	\$ 499	\$ 2,947	\$ 11	\$ 6,134
Interest expense	(430)	(1,495)	(313)	(1,863)	27	(4,074)
Net interest income	308	444	186	1,084	38	2,060
Provision for loan losses	(3)	(2)	(5)	(43)		(53)
Noninterest income	23	86	30	234	(73)	300
Noninterest expense	(101)	(94)	(75)	(261)	(22)	(553)
Provision for income taxes				(77)		(77)
Net income	227	434	136	937	(57)	1,677
Other comprehensive (loss) income	(69)	55	(43)	(396)		(453)
Comprehensive income	<u>\$ 158</u>	<u>\$ 489</u>	<u>\$ 93</u>	<u>\$ 541</u>	<u>\$(57)</u>	<u>\$ 1,224</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Changes in Capital**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2017	\$2,243	\$5,642	\$1,668	\$ 9,060	\$(215)	\$18,398
Comprehensive income	158	489	93	541	(57)	1,224
Preferred stock issued, net			99			99
Preferred stock dividends	(1)	(13)	(33)	(65)		(112)
Capital stock and participation certificates issued		45	8		(1)	52
Capital stock, participation certificates, and retained earnings retired	(4)	(14)	(4)	(31)		(53)
Patronage		(294)	(9)	(447)	46	(704)
Balance at September 30, 2018	<u>\$2,396</u>	<u>\$5,855</u>	<u>\$1,822</u>	<u>\$ 9,058</u>	<u>\$(227)</u>	<u>\$18,904</u>
Balance at December 31, 2018	\$2,224	\$5,888	\$1,777	\$ 9,535	\$(241)	\$19,183
Adjustment to beginning balance due to the change in accounting for leases		1		9		10
Balance at January 1, 2019	2,224	5,889	1,777	9,544	(241)	19,193
Comprehensive income	327	388	168	1,368	(56)	2,195
Preferred stock dividends	(1)	(13)	(35)	(66)		(115)
Capital stock and participation certificates issued		55	1		(1)	55
Capital stock, participation certificates, and retained earnings retired	(3)			(44)	5	(42)
Patronage		(210)	(8)	(355)	51	(522)
Balance at September 30, 2019	<u>\$2,547</u>	<u>\$6,109</u>	<u>\$1,903</u>	<u>\$10,447</u>	<u>\$(242)</u>	<u>\$20,764</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)
(unaudited)
(dollars in millions, except as noted)

Certain Bank-only ratios and other information is as follows:

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB
For the nine months ended:				
<u>September 30, 2019</u>				
Return on average assets	0.77%	0.55%	0.76%	0.77%
Return on average capital	10.70%	10.02%	10.22%	10.67%
<u>September 30, 2018</u>				
Return on average assets	0.94%	0.55%	0.78%	0.95%
Return on average capital	13.02%	10.04%	10.51%	13.84%
For the period ended:				
<u>September 30, 2019</u>				
Nonperforming assets as a percentage of loans and other property owned	0.17%	0.09%	0.11%	0.31%
Allowance for loan losses as a percentage of loans	0.08%	0.03%	0.06%	0.61%
Capital as a percentage of total assets	7.37%	5.40%	7.45%	7.66%
Tier 1 Leverage ratio	6.98%	5.53%	7.21%	7.55%
Total Capital ratio	19.1%	18.1%	16.2%	16.1%
Permanent capital ratio	19.0%	18.0%	16.1%	15.2%
Liquidity in days	232	149	227	171
Average liquidity in days during 2019	230	150	230	175
<u>December 31, 2018</u>				
Nonperforming assets as a percentage of loans and other property owned	0.18%	0.06%	0.12%	0.31%
Allowance for loan losses as a percentage of loans	0.07%	0.03%	0.07%	0.60%
Capital as a percentage of total assets	6.72%	5.36%	7.24%	6.86%
Tier 1 Leverage ratio	7.53%	5.50%	7.39%	7.53%
Total Capital ratio	21.8%	18.6%	16.4%	15.6%
Permanent capital ratio	21.7%	18.5%	16.3%	14.7%
Liquidity in days	217	160	241	177
Average liquidity in days during 2018	223	152	229	176

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations.

Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 7.

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is triggered, the Farm Credit Administration is required to make “calls” to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank’s available collateral (collateral in excess of the aggregate of the Bank’s collateral-

ized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank’s remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

NOTE 14 — SUBSEQUENT EVENTS

The Banks and Associations have evaluated subsequent events through November 8, 2019, which is the date the financial statements were issued and determined that there were no other events requiring disclosure.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

The following condensed Combining Statements of Condition and Comprehensive Income present Combined Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining proc-

ess, all significant transactions between the Banks and the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION — (Condensed)
September 30, 2019
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 64,977	\$ 2,093		\$ 67,070		\$ 67,070
Loans	241,471	203,086	\$(168,445)	276,112		276,112
Less: allowance for loan losses	(682)	(1,068)		(1,750)		(1,750)
Net loans	240,789	202,018	(168,445)	274,362		274,362
Other assets	3,527	10,916	(7,021)	7,422		7,422
Restricted assets					\$5,122	5,122
Total assets	<u>\$309,293</u>	<u>\$215,027</u>	<u>\$(175,466)</u>	<u>\$348,854</u>	<u>\$5,122</u>	<u>\$353,976</u>
Systemwide Debt Securities	\$282,861			\$282,861		\$282,861
Other liabilities	5,668	\$171,961	\$(168,872)	8,757		8,757
Total liabilities	<u>288,529</u>	<u>171,961</u>	<u>(168,872)</u>	<u>291,618</u>		<u>291,618</u>
Capital						
Preferred stock	2,499	669		3,168		3,168
Capital stock and participation certificates	6,701	587	(5,303)	1,985		1,985
Additional paid-in-capital	59	3,679		3,738		3,738
Restricted capital					\$5,122	5,122
Accumulated other comprehensive (loss) income	104	(125)	(984)	(1,005)		(1,005)
Retained earnings	11,401	38,256	(307)	49,350		49,350
Total capital	<u>20,764</u>	<u>43,066</u>	<u>(6,594)</u>	<u>57,236</u>	<u>5,122</u>	<u>62,358</u>
Total liabilities and capital	<u>\$309,293</u>	<u>\$215,027</u>	<u>\$(175,466)</u>	<u>\$348,854</u>	<u>\$5,122</u>	<u>\$353,976</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

COMBINING STATEMENT OF CONDITION — (Condensed)
December 31, 2018
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 64,832	\$ 1,639		\$ 66,471		\$ 66,471
Loans	239,178	196,809	\$(162,609)	273,378		273,378
Less: allowance for loan losses	(678)	(1,035)		(1,713)		(1,713)
Net loans	238,500	195,774	(162,609)	271,665		271,665
Other assets	2,765	10,211	(7,074)	5,902		5,902
Restricted assets					\$4,954	4,954
Total assets	<u>\$306,097</u>	<u>\$207,624</u>	<u>\$(169,683)</u>	<u>\$344,038</u>	<u>\$4,954</u>	<u>\$348,992</u>
Systemwide Debt Securities	\$281,459			\$281,459		\$281,459
Other liabilities	5,455	\$167,120	\$(163,486)	9,089		9,089
Total liabilities	<u>286,914</u>	<u>167,120</u>	<u>(163,486)</u>	<u>290,548</u>		<u>290,548</u>
Capital						
Preferred stock	2,499	632		3,131		3,131
Capital stock and participation certificates	6,400	578	(5,041)	1,937		1,937
Additional paid-in-capital	59	3,653		3,712		3,712
Restricted capital					\$4,954	4,954
Accumulated other comprehensive loss	(559)	(150)	(1,026)	(1,735)		(1,735)
Retained earnings	10,784	35,791	(130)	46,445		46,445
Total capital	<u>19,183</u>	<u>40,504</u>	<u>(6,197)</u>	<u>53,490</u>	<u>4,954</u>	<u>58,444</u>
Total liabilities and capital	<u>\$306,097</u>	<u>\$207,624</u>	<u>\$(169,683)</u>	<u>\$344,038</u>	<u>\$4,954</u>	<u>\$348,992</u>

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act

providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to timely pay the principal or interest on the insured debt obligation.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

COMBINING STATEMENT OF COMPREHENSIVE INCOME — (Condensed)
For the Nine Months Ended September 30, 2019
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	\$2,069	\$ 4,079	\$ 2	\$ 6,150			\$ 6,150
Provision for loan losses	(34)	(61)		(95)			(95)
Noninterest income	197	1,249	(957)	489	\$237	\$(232)(a)(b)	494
Noninterest expense	(603)	(2,064)	141	(2,526)	(3)	166 (a)	(2,363)
Provision for income taxes	(97)	(34)		(131)			(131)
Net income	1,532	3,169	(814)	3,887	234	(66)	4,055
Other comprehensive income . . .	663	25	42	730			730
Comprehensive income	<u>\$2,195</u>	<u>\$ 3,194</u>	<u>\$(772)</u>	<u>\$ 4,617</u>	<u>\$234</u>	<u>\$ (66)</u>	<u>\$ 4,785</u>

For the Nine Months Ended September 30, 2018
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	\$2,060	\$ 3,887		\$ 5,947			\$ 5,947
Provision for loan losses	(53)	(93)		(146)			(146)
Noninterest income	300	1,172	\$(822)	650	\$212	\$(335)(a)(b)	527
Noninterest expense	(553)	(1,956)	133	(2,376)	(3)	159 (a)	(2,220)
Provision for income taxes . . .	(77)	(19)		(96)			(96)
Net income	1,677	2,991	(689)	3,979	209	(176)	4,012
Other comprehensive (loss) income	(453)	5	82	(366)			(366)
Comprehensive income	<u>\$1,224</u>	<u>\$ 2,996</u>	<u>\$(607)</u>	<u>\$ 3,613</u>	<u>\$209</u>	<u>\$(176)</u>	<u>\$ 3,646</u>

Combination entry (a) eliminates the Insurance Fund premiums expensed by the Banks in the first nine months of 2019 and 2018 of \$166 million and \$159 million and the related income recognized by the Insurance Corporation.

Combination entry (b) eliminates \$66 million and \$176 million of income recognized by System institutions for excess funds that were returned during the first quarters of 2019 and 2018.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

The Banks and their affiliated Associations are referred to as Districts. Each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful to investors in

Systemwide Debt Securities than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

STATEMENT OF CONDITION — (Condensed)
September 30, 2019
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 9,389	\$ 18,262	\$ 5,969	\$ 33,458	\$ (8)	\$ 67,070
Loans	30,449	111,938	25,946	113,037	(5,258)	276,112
Less: allowance for loan losses	(214)	(498)	(87)	(951)		(1,750)
Net loans	30,235	111,440	25,859	112,086	(5,258)	274,362
Other assets	723	2,938	804	3,024	(67)	7,422
Restricted assets					5,122	5,122
Total assets	<u>\$40,347</u>	<u>\$132,640</u>	<u>\$32,632</u>	<u>\$148,568</u>	<u>\$ (211)</u>	<u>\$353,976</u>
Systemwide Debt Securities	\$31,844	\$104,974	\$23,333	\$122,710		\$282,861
Other liabilities	1,550	2,922	4,464	4,627	\$(4,806)	8,757
Total liabilities	<u>33,394</u>	<u>107,896</u>	<u>27,797</u>	<u>127,337</u>	<u>(4,806)</u>	<u>291,618</u>
Capital						
Preferred stock	49	350	720	2,049		3,168
Capital stock and participation certificates	166	386	113	1,672	(352)	1,985
Additional paid-in-capital	83	2,085	225	1,345		3,738
Restricted capital					5,122	5,122
Accumulated other comprehensive loss	(214)	(563)	(129)	(66)	(33)	(1,005)
Retained earnings	6,869	22,486	3,906	16,231	(142)	49,350
Total capital	<u>6,953</u>	<u>24,744</u>	<u>4,835</u>	<u>21,231</u>	<u>4,595</u>	<u>62,358</u>
Total liabilities and capital	<u>\$40,347</u>	<u>\$132,640</u>	<u>\$32,632</u>	<u>\$148,568</u>	<u>\$ (211)</u>	<u>\$353,976</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

STATEMENT OF CONDITION — (Condensed)
December 31, 2018
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 8,601	\$ 17,463	\$ 6,151	\$ 34,261	\$ (5)	\$ 66,471
Loans	29,593	109,082	24,852	115,149	(5,298)	273,378
Less: allowance for loan losses	(210)	(491)	(82)	(930)		(1,713)
Net loans	29,383	108,591	24,770	114,219	(5,298)	271,665
Other assets	642	2,545	648	2,124	(57)	5,902
Restricted assets					4,954	4,954
Total assets	<u>\$38,626</u>	<u>\$128,599</u>	<u>\$31,569</u>	<u>\$150,604</u>	<u>\$ (406)</u>	<u>\$348,992</u>
Systemwide Debt Securities	\$30,382	\$102,181	\$22,497	\$126,399		\$281,459
Other liabilities	1,770	2,928	4,541	4,692	\$(4,842)	9,089
Total liabilities	<u>32,152</u>	<u>105,109</u>	<u>27,038</u>	<u>131,091</u>	<u>(4,842)</u>	<u>290,548</u>
Capital						
Preferred stock	49	350	720	2,012		3,131
Capital stock and participation certificates	159	379	112	1,627	(340)	1,937
Additional paid-in-capital	83	2,085	225	1,319		3,712
Restricted capital					4,954	4,954
Accumulated other comprehensive loss	(371)	(522)	(163)	(645)	(34)	(1,735)
Retained earnings	6,554	21,198	3,637	15,200	(144)	46,445
Total capital	<u>6,474</u>	<u>23,490</u>	<u>4,531</u>	<u>19,513</u>	<u>4,436</u>	<u>58,444</u>
Total liabilities and capital	<u>\$38,626</u>	<u>\$128,599</u>	<u>\$31,569</u>	<u>\$150,604</u>	<u>\$ (406)</u>	<u>\$348,992</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

STATEMENT OF COMPREHENSIVE INCOME — (Condensed)
For the Nine Months Ended September 30,
(in millions)

	<u>AgFirst District Combined</u>	<u>AgriBank District Combined</u>	<u>Texas District Combined</u>	<u>CoBank District Combined</u>	<u>Insurance Fund and Combination Entries</u>	<u>System Combined</u>
2019						
Net interest income	\$ 781	\$2,428	\$ 605	\$2,304	\$ 32	\$ 6,150
Provision for loan losses	(9)	(24)	(8)	(54)		(95)
Noninterest income	35	203	49	292	(85)	494
Noninterest expense	(393)	(943)	(290)	(875)	138	(2,363)
Provision for income taxes	—	(31)	—	(100)	—	(131)
Net income	414	1,633	356	1,567	85	4,055
Other comprehensive income (loss)	157	(41)	34	579	1	730
Comprehensive income	<u>\$ 571</u>	<u>\$1,592</u>	<u>\$ 390</u>	<u>\$2,146</u>	<u>\$ 86</u>	<u>\$ 4,785</u>
2018						
Net interest income	\$ 772	\$2,300	\$ 588	\$2,245	\$ 42	\$ 5,947
Provision for loan losses	(14)	(72)	(4)	(56)		(146)
Noninterest income	66	271	60	345	(215)	527
Noninterest expense	(374)	(903)	(273)	(797)	127	(2,220)
Provision for income taxes	(1)	(16)	—	(79)	—	(96)
Net income	449	1,580	371	1,658	(46)	4,012
Other comprehensive (loss) income	(45)	89	(33)	(380)	3	(366)
Comprehensive income	<u>\$ 404</u>	<u>\$1,669</u>	<u>\$ 338</u>	<u>\$1,278</u>	<u>\$ (43)</u>	<u>\$ 3,646</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION — (continued)
(unaudited)

STATEMENT OF CHANGES IN CAPITAL — (Condensed)
For the Nine Months Ended September 30
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Balance at December 31, 2017	\$6,249	\$22,080	\$4,279	\$18,432	\$4,342	\$55,382
Comprehensive income	404	1,669	338	1,278	(43)	3,646
Preferred stock issued, net			99	25		124
Capital stock and participation certificates issued	23	30	7	6	(4)	62
Capital stock, participation certificates, and retained earnings retired	(28)	(25)	(7)	(37)		(97)
Patronage and dividends	(92)	(316)	(101)	(452)	61	(900)
Balance at September 30, 2018	<u>\$6,556</u>	<u>\$23,438</u>	<u>\$4,615</u>	<u>\$19,252</u>	<u>\$4,356</u>	<u>\$58,217</u>
Balance at December 31, 2018	\$6,474	\$23,490	\$4,531	\$19,513	\$4,436	\$58,444
Adjustment to beginning balance due to the change in accounting for leases	(1)	1		9		9
Balance at January 1, 2019	6,473	23,491	4,531	19,522	4,436	58,453
Comprehensive income	571	1,592	390	2,146	86	4,785
Preferred stock issued, net				37		37
Capital stock and participation certificates issued	26	26	7	6	(5)	60
Capital stock, participation certificates, and retained earnings retired	(19)	(19)	(6)	(49)	3	(90)
Equity issued or recharacterized upon Association combination				26		26
Equity retired or recharacterized upon Association combination				(26)		(26)
Patronage and dividends	(98)	(346)	(87)	(431)	75	(887)
Balance at September 30, 2019	<u>\$6,953</u>	<u>\$24,744</u>	<u>\$4,835</u>	<u>\$21,231</u>	<u>\$4,595</u>	<u>\$62,358</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

COMBINED BANK AND ASSOCIATION (DISTRICT)
SELECTED KEY FINANCIAL RATIOS

The following combined key financial ratios related to each District are intended for the purpose of additional analysis.

	<u>AgFirst District Combined</u>	<u>AgriBank District Combined</u>	<u>Texas District Combined</u>	<u>CoBank District Combined</u>
For the nine months ended:				
<u>September 30, 2019</u>				
Return on average assets	1.41%	1.68%	1.48%	1.39%
Return on average capital	8.17%	9.05%	10.03%	10.22%
Net interest margin	2.71%	2.54%	2.58%	2.08%
Net loan charge-offs as a % of average loans	0.02%	0.02%	0.02%	0.01%
Operating expense as a % of net interest income and noninterest income	48.08%	35.69%	44.13%	33.75%
<u>September 30, 2018</u>				
Return on average assets	1.59%	1.72%	1.63%	1.55%
Return on average capital	9.29%	9.25%	11.04%	11.72%
Net interest margin	2.79%	2.54%	2.64%	2.12%
Net loan charge-offs as a % of average loans	0.02%	0.02%	0.03%	0.03%
Operating expense as a % of net interest income and noninterest income	44.61%	35.03%	42.32%	30.78%
At the period ended:				
<u>September 30, 2019</u>				
Nonperforming assets as a % of loans and other property owned ..	1.46%	0.98%	0.72%	0.73%
Allowance for loan losses as a % of loans	0.70%	0.44%	0.34%	0.84%
Capital as a % of total assets	17.23%	18.66%	14.82%	14.29%
Capital and allowance for loan losses as a % of loans	23.54%	22.55%	18.97%	19.62%
Debt to capital	4.80:1	4.36:1	5.75:1	6.00:1
<u>December 31, 2018</u>				
Nonperforming assets as a % of loans and other property owned ..	1.40%	0.87%	0.63%	0.66%
Allowance for loan losses as a % of loans	0.71%	0.45%	0.33%	0.81%
Capital as a % of total assets	16.76%	18.27%	14.35%	12.96%
Capital and allowance for loan losses as a % of loans	22.59%	21.98%	18.56%	17.75%
Debt to capital	4.97:1	4.47:1	5.97:1	6.72:1

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

The table below reflects the combined results of each District's measurement under market value of equity and net interest income sensitivity analysis in accordance with their respective asset/liability management policies and District limits.

District	Change in Market Value of Equity				Change in Net Interest Income			
	September 30, 2019				September 30, 2019			
	-91	+100	+200		-91	+100	+200	
AgFirst	3.36%	-3.62%	-8.04%		2.85%	3.85%	5.63%	
AgriBank	0.99	-2.85	-6.58		-1.82	1.21	2.73	
Texas	4.09	-5.16	-11.10		3.75	2.00	3.20	
CoBank	2.26	-3.03	-6.24		0.24	-1.15	-2.30	

District	Change in Market Value of Equity				Change in Net Interest Income			
	December 31, 2018				December 31, 2018			
	-120	-100	+100	+200	-120	-100	+100	+200
AgFirst	4.35%	3.58%	-4.02%	-8.19%	-2.01%	-1.91%	1.45%	2.22%
AgriBank	6.66	5.24	-3.70	-7.05	-2.41	-2.03	0.25	1.72
Texas	7.78	6.38	-6.04	-11.84	-0.23	-0.69	1.35	2.54
CoBank	3.63	3.11	-3.24	-6.34	-2.73	-2.40	2.69	5.29

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their affiliated Associations. Accordingly, in addition to the supplemental District information provided on pages F-50 to F-53, selected financial information regarding Associations with asset size greater than \$1.5 billion is provided below for the purpose of additional analysis.

	At September 30, 2019				For the Nine Months Ended September 30, 2019			
	Total Assets	Gross Loans	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Total Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
(\$ in millions)								
AgFirst District								
MidAtlantic Farm Credit, ACA	\$ 2,902	\$ 2,841	1.16%	2.96%	21.79%	1.78%	7.81%	2.61%
First South Farm Credit, ACA	2,390	2,276	0.66	0.43	17.68	1.45	7.57	2.62
AgChoice Farm Credit, ACA	2,131	2,088	0.74	0.62	18.39	2.09	10.29	2.75
AgCredit, ACA	2,011	1,926	0.62	1.32	20.92	2.33	12.88	2.77
AgSouth Farm Credit, ACA	1,901	1,825	0.89	1.40	21.69	2.30	10.96	3.44
Farm Credit of the Virginias, ACA	1,845	1,799	0.86	1.57	23.63	2.09	8.77	2.97
Carolina Farm Credit, ACA	1,662	1,588	0.48	1.61	21.37	2.14	10.09	3.33
AgriBank District								
Farm Credit Services of America, ACA	30,347	28,820	0.56	1.07	17.29	2.17	11.38	2.71
Farm Credit Mid-America, ACA	24,419	22,875	0.33	1.43	21.24	1.85	9.17	2.22
Compeer Financial, ACA	21,383	19,083	0.38	0.88	15.90	1.85	10.53	2.40
GreenStone FCS, ACA	9,321	8,992	0.99	0.98	17.44	2.22	11.76	2.63
AgCountry, ACA	7,983	7,561	0.36	0.78	18.80	1.84	8.20	2.63
FCS Financial, ACA	4,411	4,214	0.36	0.31	18.35	1.91	9.39	2.54
Farm Credit of Illinois, ACA	4,334	4,105	0.20	0.17	20.03	1.70	7.37	2.32
AgHeritage Farm Credit Services, ACA	1,567	1,503	0.47	0.64	18.18	1.93	9.11	2.86
Texas District								
Capital Farm Credit, ACA	7,989	7,709	0.38	1.08	15.19	2.30	13.79	3.11
AgTexas Farm Credit Services	2,178	2,002	0.29	0.92	13.51	1.58	12.21	2.34
Lone Star, ACA	1,663	1,620	0.44	0.26	20.17	1.82	8.31	2.94
CoBank District								
Northwest Farm Credit Services, ACA	12,301	11,649	0.67	0.78	18.76	2.30	10.66	2.93
American AgCredit, ACA	11,851	11,120	0.21	0.60	13.88	1.70	8.58	2.85
Farm Credit West, ACA	10,824	10,285	0.71	1.16	14.91	2.48	11.40	2.98
Farm Credit East, ACA	7,569	7,265	1.16	0.75	19.18	2.54	12.44	3.18
Yosemite Farm Credit, ACA	3,279	3,095	0.27	1.35	14.10	2.01	11.90	2.83
Frontier Farm Credit, ACA	2,094	1,961	0.46	0.66	19.09	2.12	9.39	2.81
Farm Credit of New Mexico, ACA	1,863	1,765	0.76	2.28	22.41	1.70	7.43	2.94
Golden State, ACA	1,734	1,617	0.25	0.27	15.81	1.92	9.80	2.83

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

	At December 31, 2018					For the Nine Months Ended September 30, 2018		
	Total Assets	Gross Loans	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Total Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
(\$ in millions)								
AgFirst District								
MidAtlantic Farm Credit, ACA	\$ 2,882	\$ 2,803	1.07%	2.36%	21.09%	1.84%	8.22%	2.59%
First South Farm Credit, ACA	2,200	2,073	0.67	0.44	18.29	1.54	7.86	2.66
AgCredit, ACA	2,059	1,960	0.56	0.66	20.25	2.47	14.12	2.77
AgChoice Farm Credit, ACA	2,007	1,946	0.74	0.62	18.99	2.09	9.95	2.79
Farm Credit of the Virginias, ACA	1,910	1,851	0.83	1.50	23.10	2.13	9.13	3.05
AgSouth Farm Credit, ACA	1,885	1,793	0.86	1.32	20.92	2.34	11.54	3.47
Carolina Farm Credit, ACA	1,611	1,531	0.46	1.27	21.12	2.01	9.35	3.32
AgriBank District								
Farm Credit Services of America, ACA	29,849	28,387	0.55	0.84	16.63	2.00	10.67	2.72
Farm Credit Mid-America, ACA	23,361	22,318	0.46	1.44	21.39	1.63	8.03	2.22
Compeer Financial, ACA	20,754	18,754	0.32	0.71	15.63	1.90	10.77	2.50
GreenStone FCS, ACA	8,919	8,620	0.98	1.20	17.34	1.96	10.41	2.62
AgCountry, ACA	7,641	7,250	0.25	0.51	18.42	1.94	8.92	2.74
Farm Credit of Illinois, ACA	4,416	4,193	0.21	0.16	19.16	1.59	7.04	2.44
FCS Financial, ACA	4,254	4,076	0.39	0.23	18.81	1.88	9.12	2.55
Texas District								
Capital Farm Credit, ACA	7,636	7,389	0.35	0.82	15.14	2.60	15.80	3.16
AgTexas Farm Credit Services	2,046	1,958	0.23	0.83	13.40	1.70	12.67	2.47
Lone Star, ACA	1,594	1,559	0.55	0.37	20.44	1.83	8.82	3.00
CoBank District								
Northwest Farm Credit Services, ACA	11,987	11,346	0.69	0.81	18.46	2.57	12.06	2.99
American AgCredit, ACA	10,914	10,215	0.21	0.49	14.94	1.84	8.56	2.84
Farm Credit West, ACA	10,615	10,113	0.61	1.12	14.66	2.53	11.71	2.84
Farm Credit East, ACA	7,263	6,964	1.13	0.72	18.92	2.61	12.97	3.05
Yosemite Farm Credit, ACA	3,186	3,006	0.25	0.90	14.38	2.21	12.93	2.81
Frontier Farm Credit, ACA	2,113	1,977	0.45	0.56	18.00	2.04	9.39	2.79
Farm Credit of New Mexico, ACA	1,826	1,728	0.72	0.99	22.16	1.92	8.23	2.82
Golden State, ACA	1,615	1,515	0.27	0.24	16.35	2.07	10.68	2.81

INDEX TO SUPPLEMENTAL INFORMATION

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CONTROLS AND PROCEDURES

As of September 30, 2019, managements of System institutions carried out an evaluation with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of their respective disclosure controls and procedures⁽¹⁾ with respect to the System's quarterly information statement. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the principal executive officer and principal financial officer of each System institution, as well as incremental procedures performed by the Funding Corporation over the combining process. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the annual and quarterly information statements it files or submits to the Farm Credit Administration.

There have been no significant changes in the System's internal control over financial reporting⁽²⁾ that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

⁽¹⁾ For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this quarterly information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

⁽²⁾ For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executive officers and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's condensed combined financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's condensed combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's condensed combined financial statements.

CERTIFICATION

I, Theresa E. McCabe, certify that:

1. I have reviewed the *Third Quarter 2019 Quarterly Information Statement of the Farm Credit System*.

2. Based on my knowledge, this quarterly information statement 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 quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures⁽¹⁾ and internal control over financial reporting⁽²⁾ for the System 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 System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement 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 System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's registered public accounting firm and the System Audit Committee:

(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 System'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 System's internal control over financial reporting.



Theresa E. McCabe
President and CEO

Date: November 8, 2019

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *Third Quarter 2019 Quarterly Information Statement of the Farm Credit System*.

2. Based on my knowledge, this quarterly information statement 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 quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures⁽¹⁾ and internal control over financial reporting⁽²⁾ for the System 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 System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement 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 System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's registered public accounting firm and the System Audit Committee:

(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 System'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 System's internal control over financial reporting.



Karen R. Brenner
Managing Director — Financial
Management Division

Date: November 8, 2019

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

FARM CREDIT SYSTEM ENTITIES (As of September 30, 2019)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
30 East 7th Street
Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

CERTAIN OTHER ENTITIES

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

Federal Farm Credit Banks
Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, N.W., Suite 900
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

Ag Credit, ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610

AgChoice Farm Credit, ACA
300 Winding Creek Blvd
Mechanicsburg, PA 17050

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625

Central Kentucky, ACA
640 S. Broadway, Room 108
Lexington, KY 40588

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of Florida, ACA
11903 Southern Blvd.
Suite 200
Royal Palm Beach, FL 33411

Farm Credit of Northwest Florida, ACA
5052 Highway 90
East Marianna, FL 32446

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401

First South Farm Credit, ACA
574 Highland Colony Parkway,
Suite 100
Ridgeland, MS 39157

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157

Puerto Rico Farm Credit, ACA
213 Manuel V. Domenech Avenue
Hato Rey, PR 00918

River Valley AgCredit, ACA
328 East Broadway
Mayfield, KY 42066

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817

AgriBank District

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590

Delta Agricultural Credit Association
118 E. Speedway
Dermott, AR 71638

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853

Farm Credit Mid-America, ACA
1601 UPS Drive
Louisville, KY 40223

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 South 118th Street
Omaha, NE 68137

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554

Farm Credit Services of North Dakota, ACA
3100 10th Street, S.W.
Minot, ND 58702

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

Farm Credit Southeast Missouri, ACA
1116 N. Main Street
Sikeston, MO 63801

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823

CoBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
400 Aviation Boulevard
Suite 100
Santa Rosa, CA 95403

Farm Credit East, ACA
240 South Road
Enfield, CT 06082

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113

Farm Credit of Southern Colorado, ACA
5110 Edison Avenue
Colorado Springs, CO 80915

Farm Credit of Western Kansas, ACA
 1190 South Range Avenue
 Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
 3302 Williams Avenue
 Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA
 605 Jay Street
 Colusa, CA 95932

Farm Credit West, ACA
 3755 Atherton Road
 Rocklin, CA 95765

Fresno-Madera Farm Credit, ACA
 4635 West Spruce Ave.
 Fresno, CA 93722

Frontier Farm Credit, ACA
 5015 South 118th Street
 Omaha, NE 68137

Golden State Farm Credit, ACA
 1580 Ellis Street
 Kingsburg, CA 93631

High Plains Farm Credit, ACA
 605 Main
 Larned, KS 67550

Idaho AgCredit, ACA
 188 West Judicial Street
 Blackfoot, ID 83221

Northwest Farm Credit Services, ACA
 2001 South Flint Road
 Spokane, WA 99224

Oklahoma AgCredit, ACA
 601 E. Kenosha Street
 Broken Arrow, OK 74012

Premier Farm Credit, ACA
 202 Poplar Street
 Sterling, CO 80751

Western AgCredit, ACA
 10980 South Jordan Gateway
 South Jordan, UT 84095

Yankee Farm Credit, ACA
 289 Hurricane Lane, Suite 102
 Williston, VT 05495

Yosemite Farm Credit, ACA
 806 West Monte Vista Avenue
 Turlock, CA 95382

Texas District

Ag New Mexico, Farm Credit Services, ACA
 4501 N. Prince Street
 Clovis, NM 88101

AgTexas Farm Credit Services
 5004 N. Loop 289
 Lubbock, TX 79416

Alabama Ag Credit, ACA
 2660 Eastchase Lane, Suite 401
 Montgomery, AL 36117

Alabama Farm Credit, ACA
 1740 Eva Road NE
 Cullman, AL 35055

Capital Farm Credit, ACA
 3000 Briarcrest Drive, Suite 601
 Bryan, TX 77802

Central Texas Farm Credit, ACA
 1026 Early Boulevard
 Early, TX 76802

Heritage Land Bank, ACA
 4608 Kinsey Drive, Suite 100
 Tyler, TX 75703

Legacy Ag Credit, ACA
 303 Connally Street
 Sulphur Springs, TX 75482

Lone Star, ACA
 1612 Summit Avenue, Suite 300
 Fort Worth, TX 76102

Louisiana Land Bank, ACA
 2413 Tower Drive
 Monroe, LA 71201

Mississippi Land Bank, ACA
 5509 Highway 51 North
 Senatobia, MS 38668

Plains Land Bank, FLCA
 5625 Fulton Drive
 Amarillo, TX 79109

Southern AgCredit, ACA
 402 West Parkway Place
 Ridgeland, MS 39157

Texas Farm Credit Services
 545 South Highway 77
 Robstown, TX 78380