



FARM CREDIT

SECOND QUARTER 2020 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

AUGUST 6, 2020

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 Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999.

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
Chairman of the Board

Theresa E. McCabe
President and CEO

Karen R. Brenner
Managing Director — Financial
Management Division

TABLE OF CONTENTS

	<u>Page</u>
Business	3
Other Business Matters	7
Selected Combined Financial Data and Key Financial Ratios	8
Management’s Discussion and Analysis of Financial Condition and Quarterly Results of Operations	10
Index to Condensed Combined Financial Statements and Supplemental Combining and Financial Information	F-1
Index to Supplemental Information	S-1

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 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

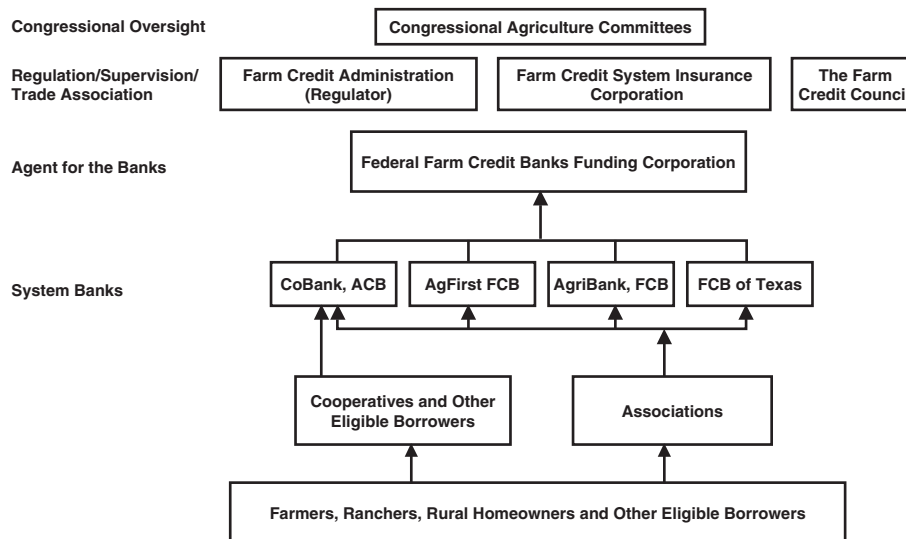
financial services and advice to those individuals and businesses.

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.

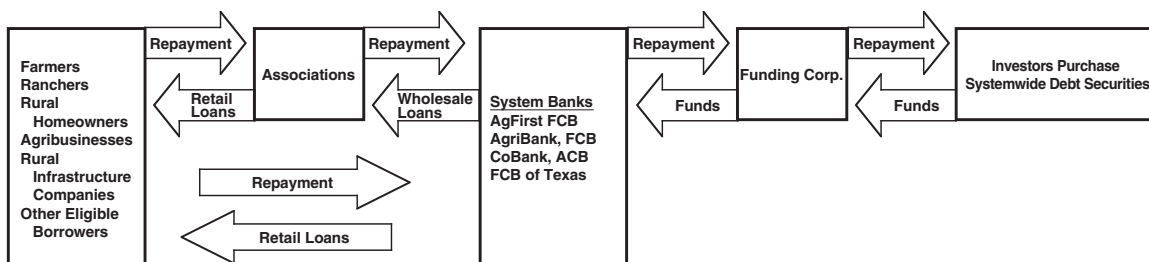
Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as 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 and Associations also purchase loan participations from other System entities 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, food safety, disease, pandemics (including COVID-19) and other unfavorable conditions 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 June 30, 2020, 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 June 30, 2020, 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 *2019 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 *2019 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 six months of 2020. 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 2019 Annual Information Statement.

The COVID-19 global pandemic and the measures implemented to contain the spread of the virus have created, and are expected to continue to create, significant risks and uncertainties for our business and the ultimate impact will depend on future developments that remain highly uncertain and cannot be predicted.

The spread of COVID-19 has created a global public-health crisis that has stifled the global economy, significantly increased unemployment

levels and disrupted global supply and demand chains. Unprecedented actions were and continue to be taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, "stay at home" orders, school closings and travel bans that substantially restricted daily activities and forced many businesses to curtail or cease operations. The actions to contain the pandemic varied by country and by state in the United States.

While state and local governments across the United States have taken steps to re-open their economies by lifting "stay at home" orders and re-opening businesses, a number of state and local governments have needed to pause or slow the re-opening or impose new shut-down orders as the number of new cases of COVID-19 has continued to rise.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition including regulatory capital and liquidity ratios and other regulatory requirements, depend on future developments that remain highly uncertain and cannot be predicted. The scope, duration, extent and severity of the pandemic, the continued response by governments and how quickly "normal" daily activities resume are still unknown. Furthermore, the COVID-19 pandemic could result in deterioration in the credit quality of our loan portfolio, which could result in increases in nonaccrual loans and the allowance for loan losses. The severity of the impact may be worsened by continued outbreaks, which could hinder an economic recovery. In addition, a recurrence causing disruption in global supply and demand chains for agricultural products could adversely impact our borrowers' businesses and ultimately our business. Our business and our borrowers' businesses may also be disrupted by labor shortages if employees are unable to work because of illness, quarantine, social distancing or immigration restrictions.

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 June 30, 2020, 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, 2019 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 six months ended June 30, 2020 and 2019 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.

	June 30,		December 31,		
	2020	2019	2019	2018	2017
	(unaudited)				
Combined Statement of Condition Data			(in millions)		
Loans	\$297,172	\$276,229	\$286,964	\$273,378	\$259,888
Allowance for loan losses	(1,885)	(1,755)	(1,806)	(1,713)	(1,596)
Net loans	295,287	274,474	285,158	271,665	258,292
Cash, Federal funds sold and investments	76,363	66,096	68,266	66,471	60,673
Accrued interest receivable	2,611	2,840	2,864	2,732	2,354
Other property owned	66	80	72	84	55
Total assets	384,676	352,520	365,359	348,992	329,518
Systemwide bonds	281,076	264,279	274,454	258,788	239,573
Systemwide medium-term notes	86	86	86	89	89
Systemwide discount notes	29,051	19,173	18,998	22,582	25,507
Other bonds	2,132	1,571	1,961	1,817	1,950
Total liabilities	319,907	291,295	303,629	290,548	274,136
Capital	64,769	61,225	61,730	58,444	55,382
	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
	(unaudited)				
Combined Statement of Income Data			(in millions)		
Net interest income	\$ 4,405	\$ 4,065	\$ 8,266	\$ 7,976	\$ 7,712
Provision for loan losses	(158)	(66)	(169)	(194)	(197)
Net noninterest expense	(1,284)	(1,248)	(2,548)	(2,324)	(2,288)
Income before income taxes	2,963	2,751	5,549	5,458	5,227
Provision for income taxes	(90)	(83)	(103)	(126)	(38)
Net income	<u>\$ 2,873</u>	<u>\$ 2,668</u>	<u>\$ 5,446</u>	<u>\$ 5,332</u>	<u>\$ 5,189</u>

Combined Key Financial Ratios

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

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
Return on average assets	1.52%	1.53%	1.54%	1.59%	1.62%
Return on average capital	9.05	8.92	8.91	9.29	9.49
Net interest income as a percentage of average earning assets	2.44	2.40	2.42	2.46	2.48
Operating expense as a percentage of net interest income and noninterest income	34.6	35.7	36.2	35.2	35.1
Net loan charge-offs as a percentage of average loans	0.02	0.01	0.02	0.03	0.03
	June 30,		December 31,		
	2020	2019	2019	2018	2017
Nonperforming assets as a percentage of loans and other property owned	0.84%	0.92%	0.82%	0.83%	0.78%
Allowance for loan losses as a percentage of loans outstanding	0.63	0.64	0.63	0.63	0.61
Capital as a percentage of total assets	16.8	17.4	16.9	16.7	16.8
Capital as a percentage of total assets (excluding restricted assets and capital — Insurance Fund) . . .	15.7	16.2	15.7	15.5	15.6
Capital and allowance for loan losses as a percentage of loans outstanding	22.4	22.8	22.1	22.0	21.9
Debt to capital	4.94:1	4.76:1	4.92:1	4.97:1	4.95:1

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

The System's *2019 Annual Information Statement* contains the December 31, 2019 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 six months ended June 30, 2020. This commentary should be read in conjunction with the *2019 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, legal, regulatory, financial market and economic conditions and/or developments in the U.S. and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors;
- adverse weather-related events, food safety, disease, pandemics (including COVID-19) and other unfavorable conditions that periodically occur that impact agricultural productivity and income;

- uncertainties and risks associated with the impact of the COVID-19 pandemic, including its impact on our business, results of operations and financial condition including our various regulatory ratios such as capital and liquidity;
- 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
- outlooks for agricultural conditions.

Overview

Business Operations

As the COVID-19 pandemic unfolded in mid-March and various states enacted “stay at home” orders, System institutions around the country adapted quickly and transitioned the vast majority of their employees to working remotely. The priority was to ensure the health and safety of our employees, while continuing to serve our mission of providing support for rural America and agriculture. As states eased their “stay at home” restrictions, many Associations returned to on-site work at decreased capacity, while the Banks and Funding Corporation are operating remotely. System institutions continue to work with borrowers to offer appropriate solutions to meet their liquidity needs, which may include loan modifications for those borrowers impacted by the COVID-19 pandemic.

Funding

Beginning in early March of 2020, there was unprecedented instability in the global financial markets due to the spread of COVID-19. The U.S. Federal Reserve cut its benchmark federal funds rate to a range of 0.00% to 0.25% and enacted other measures intended to support the economy as it copes with the impact of the COVID-19 pandemic. For several weeks and, in particular, during the early part of second quarter of 2020, responses to limit the spread of COVID-19 negatively impacted the global economy, lowered equity market valuations, decreased liquidity in fixed-income markets, created extreme volatility and disruptions in other financial markets and significantly increased unemployment levels. These negative economic, market and social developments created a high level of uncertainty causing investors to shift toward cash and highly rated cash-like investments. The willingness of investors to purchase longer-dated debt securities declined significantly. This, in turn, reduced our flexibility to issue certain types of debt securities; in particular, intermediate to long-term fixed-rate non-callable debt and callable debt with longer non-call periods. During that period, as investor demand moved to highly rated shorter-term debt instruments, the System maintained access to the short-term debt market. In addition, although less accessible, the System was also able to periodically issue moderate amounts of longer-term debt as market demand allowed. During the latter part of April 2020, the System’s flexibility to fund improved to near normal levels and since has returned to pre-COVID-19 pandemic levels.

Support Programs

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration, other federal banking regulators and the Financial Accounting Standards Board issued guidance that restructurings of loans through loan modifications, such as payment deferrals and extensions of repayment terms, would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster USDA programs. On April 17, 2020, the USDA announced a

\$19 billion Coronavirus Food Assistance Program (CFAP), that provides \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion includes \$9.6 billion of funding targeted to livestock and dairy producers, \$3.9 billion for row crop producers, \$2.1 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion has been allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or fit within the revenue-based sized standard are eligible for PPP loans.

System institutions were approved by the SBA to participate as lenders in the PPP, which commenced on April 3, 2020. Loan applicants who are eligible to receive financing under the Farm Credit Act and Farm Credit Administration regulations are able to borrow from a System institution. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the Paycheck Protection Program and Health Care Enhancement Act that provides \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after

forgiveness. The bill also extends the “covered period” during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirement from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

As of June 30, 2020, 60 System institutions have been approved as PPP lenders and have made \$1.3 billion in loans to approximately 15,000 borrowers. Through June 30, 2020, System institutions have recognized approximately \$30 million in loan-related fee income associated with these loans.

General

The System’s combined net income increased \$205 million or 7.7% to \$2.873 billion for the first six months of 2020, as compared with net income of \$2.668 billion for the same period of 2019. The increase resulted primarily from increases in net interest income of \$340 million and noninterest income of \$48 million, partially offset by increases in the provision for loan losses of \$92 million, non-interest expense of \$84 million and the provision for income taxes of \$7 million.

The System’s net interest income increased 8.4% to \$4.405 billion for the first six months of 2020, as compared to the same period of 2019, primarily from an increase in the net interest spread and a higher level of average earning assets driven largely by increased loan volume. The net interest margin increased four basis points to 2.44% for the first six months of 2020, as compared to the same period of the prior year. Positively impacting net interest margin was an increase in net interest spread of 21 basis points to 2.21%, as compared to the first six months of 2019. The increase in net interest spread was primarily due to lower debt costs as the Banks were able to take advantage of the lower interest rate environment and called debt totaling \$72 billion. The net interest margin was negatively impacted by a 17 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System’s loan portfolio increased \$10.208 billion or 3.6% to \$297.172 billion since year-end 2019. The increase primarily resulted from increases in real estate mortgage, rural infrastructure 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 of the increase in real estate mortgage loans. Rural infrastructure loans increased due to advances to existing borrower in the power and communication sectors. The increase in processing and marketing loans was primarily due to borrowers drawing on their revolving lines of credit to add liquidity to their balance sheets in response to the current economic environment. The decrease in loans to cooperatives resulted from lower seasonal loan volume at grain and farm supply cooperatives, which typically reaches a low in summer or 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 \$140 million to \$2.487 billion at June 30, 2020, as compared with \$2.347 billion at December 31, 2019, representing 0.84% and 0.82% of total loans and other property owned for the corresponding periods.

Agricultural Outlook

Overview

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates and various other factors that affect supply and demand. The System utilizes the U.S. 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 released its initial 2020 forecast on February 5, 2020, which did not take into account the impacts of the COVID-19 pandemic. The forecast estimated net farm income (income after expenses from production in the current year, including both cash and noncash income and expense) of \$96.7 billion for 2020, a \$3.1 billion increase from the 2019 estimate. The 2020 forecast would have marked the highest inflation-adjusted net farm income since 2014 and would have been just \$2.7 billion less than the elevated 10-year average, if met. Despite the increase in net farm income, working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors

within 12 months) was forecasted to continue to decline and be at the lowest level in the past 10 years.

Assumptions used in the initial February forecast are now significantly different given the changes in production, consumption and supply chain implications due to COVID-19. Also, since the initial forecast, the federal government has passed emergency assistance packages for many industries, including agriculture, in response to the COVID-19 pandemic. Government support including the \$19 billion CFAP, PPP and potential additional aid, if approved, should partially offset some of the negative impact of the COVID-19 pandemic on the agricultural sector. Consequently, the upcoming September 2, 2020 USDA revised forecast is expected to show significant revisions.

Rapidly changing consumer patterns due to infection concerns and sheltering orders, paired with supply chain issues due to logistics and processing plant infection outbreaks caused agricultural commodity prices to fall in March and April for many markets. Beef and pork processing plants were impacted by higher infection rates at many plants. By early May of 2020, cattle and hog processing rates fell to just 65% of year ago levels, driving wholesale meat prices to record highs. However, fed animal prices collapsed as the supply of market ready animals backed up due to problems with processing plants. Cattle and hog processing rates have recovered to near last year's levels and processing rates have recovered putting pressure on wholesale meat prices. Fed animal prices have rebounded from the lows; however, spot cattle and hog prices remain depressed relative to a year ago due to the backlog of animals waiting to be processed. Financial performance of individual producers can vary widely based on a variety of factors, including risk management practices and contract relationships with processors.

The dairy market has been especially volatile the first half of 2020. The highly perishable nature of milk, and biological requirement for dairy cows to be milked daily, quickly caused a supply/demand mismatch for the dairy market. Milk prices collapsed as a result of the lack of milk storage, drop in demand, and with some stores implementing purchase limitations. Many co-ops required producers to reduce production as a result, while significant government dairy purchases under the CFAP direct purchase program caused fresh cheddar supplies to quickly tighten. The rapid reversal in the dairy market dynamics supported an all-time record high block

cheese price for June 2020, and a rapid recovery to profitable milk prices. That tightness also supported gains in butter prices, while the milk futures for the balance of the year are implying breakeven-to-profitable margins.

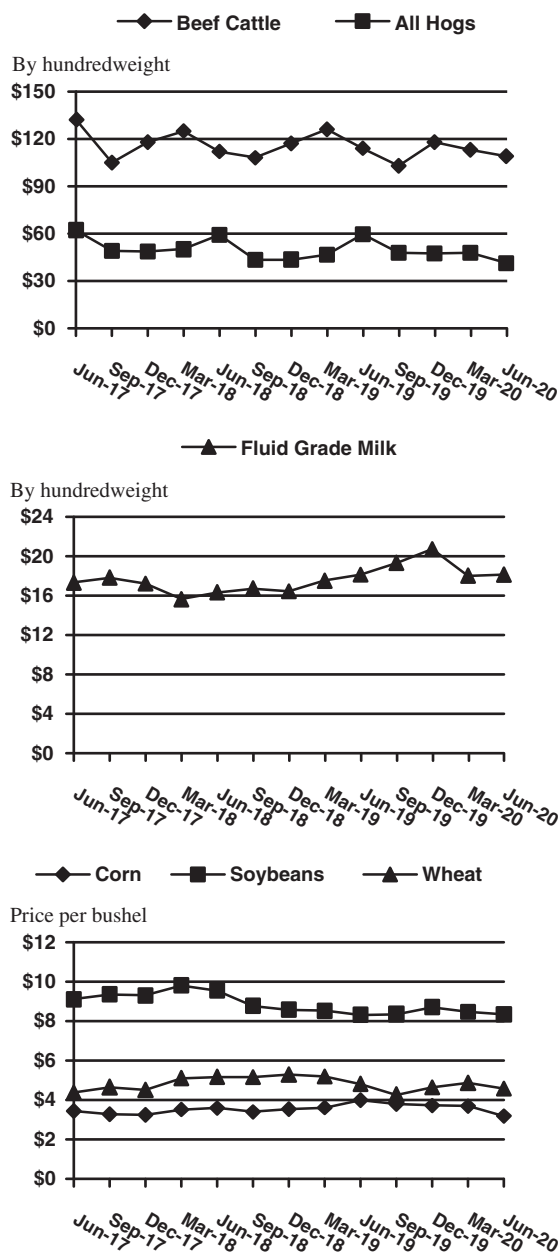
The COVID-19 pandemic pressured corn prices lower due to the decline in gasoline and ethanol consumption, and to a lesser extent due to a lower feed and residual use potential. Falling ethanol prices drove ethanol plant margins down to unprofitable levels during the second quarter and ethanol plants responded by cutting ethanol production by nearly 50 percent from last years' level, significantly reducing corn usage. Ethanol production has since recovered to near 90 percent of year ago levels, which along with a lower 2020 corn area planted outlook and dry weather, has allowed some recovery of corn prices. Soybean prices remain significantly influenced by exports, particularly to China. COVID-19 infections within China early in 2020 and strong Chinese purchases of Brazilian soybeans earlier in the year have been bearish for U.S. soybeans.

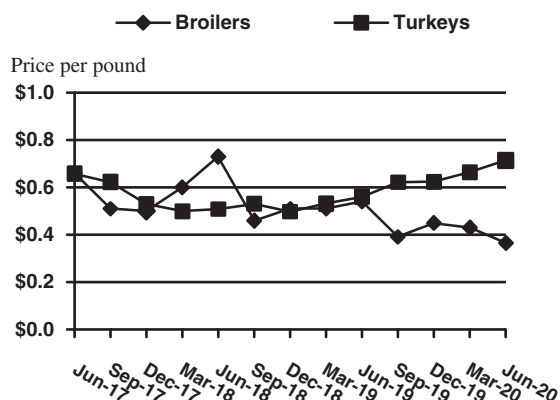
Trade continues to be an area of uncertainty for the agricultural sector. The phase one trade agreement in China was expected to result in a substantial increase in agricultural exports. However, continued political tensions between the United States and China may undermine China's ability and willingness to meet phase one import commitments. Despite the tensions, China has increased purchases of U.S. pork and corn in recent months. Export activity during the second half of 2020 is difficult to predict and, coupled with the COVID-19 pandemic's impact, is another area that could materially impact the financial performance of the agricultural sector in the near term.

Commodity Prices

Global economic conditions influence demand for food and agricultural products, which affects U.S. agricultural trade. Also impacting domestic and global demand, are the uncertainties surrounding the COVID-19 pandemic that have negatively impacted the demand and supply chains for agricultural products.

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 June 30, 2017 to June 30, 2020:





As a result of a negative outlook for agriculture, the System's financial performance and credit quality

may be negatively impacted, but it is expected to remain sound overall due to strong capital levels and favorable credit quality position entering this COVID-19 crisis. Additionally, geographic and commodity diversification across the System coupled with government safety net programs and additional government disaster aid payment for many borrowers help to mitigate the impact of this period of challenging agricultural conditions. While the System benefits overall from diversification, certain System institutions have higher geographic, commodity and borrower concentrations, which, given the impact of the COVID-19 pandemic, may accentuate the negative impact on those institutions' financial performance and credit quality.

Results of Operations

Net Interest Income

Net interest income increased \$175 million or 8.6% to \$2.214 billion and increased \$340 million or 8.4% to \$4.405 billion for the three and six months ended June 30, 2020, as compared with \$2.039 billion and \$4.065 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 six months ended June 30, 2020, 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 June 30, 2020 vs. 2019			For the Six Months Ended June 30, 2020 vs. 2019		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income:						
Loans	\$251	\$(695)	\$(444)	\$414	\$ (925)	\$ (511)
Investments	38	(171)	(133)	53	(242)	(189)
Total interest income	289	(866)	(577)	467	(1,167)	(700)
Interest expense:						
Systemwide Debt Securities and other	180	(932)	(752)	263	(1,303)	(1,040)
Changes in net interest income	<u>\$109</u>	<u>\$ 66</u>	<u>\$ 175</u>	<u>\$204</u>	<u>\$ 136</u>	<u>\$ 340</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				Six Months Ended			
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate
	(\$ in millions)							
Assets								
Real estate mortgage loans	\$135,098	4.54%	\$125,559	5.09%	\$133,250	4.73%	\$125,183	5.06%
Production and intermediate-term loans	54,992	3.80	51,375	5.31	53,947	4.22	50,985	5.27
Agribusiness loans	52,843	3.26	48,951	4.75	52,924	3.68	49,405	4.75
Rural infrastructure loans	32,621	3.52	29,160	4.63	31,482	3.80	29,249	4.61
Rural residential real estate loans	7,259	4.26	7,295	4.57	7,300	4.35	7,282	4.56
Agricultural export finance loans	6,954	2.11	6,430	3.33	6,799	2.35	6,389	3.34
Lease receivables	3,959	3.75	3,520	3.88	3,889	3.87	3,536	3.84
Loans to other financing institutions	862	1.82	781	2.95	854	2.14	794	2.91
Nonaccrual loans	1,906	3.85	1,967	3.39	1,883	5.74	1,915	4.03
Total loans	296,494	3.98	275,038	4.93	292,328	4.27	274,738	4.91
Federal funds sold, investments and other interest-earning assets	70,943	1.57	64,721	2.55	68,496	1.83	64,129	2.55
Total earning assets	367,437	3.51	339,759	4.48	360,824	3.81	338,867	4.46
Allowance for loan losses	(1,857)		(1,774)		(1,835)		(1,752)	
Other noninterest-earning assets	21,148		12,311		18,009		12,321	
Total assets	<u>\$386,728</u>		<u>\$350,296</u>		<u>\$376,998</u>		<u>\$349,436</u>	
Liabilities and Capital								
Systemwide bonds and medium-term notes	\$280,569	1.35%	\$262,720	2.48%	\$276,885	1.66%	\$261,211	2.47%
Systemwide discount notes	32,609	0.76	19,379	2.52	26,967	1.06	20,068	2.50
Other interest-bearing liabilities	3,249	0.49	2,843	1.83	3,101	0.84	2,852	1.68
Total interest-bearing liabilities	316,427	1.28	284,942	2.48	306,953	1.60	284,131	2.46
Noninterest-bearing liabilities	5,950		4,896		6,539		5,510	
Capital	64,351		60,458		63,506		59,795	
Total liabilities and capital	<u>\$386,728</u>		<u>\$350,296</u>		<u>\$376,998</u>		<u>\$349,436</u>	
Net interest spread(1)		2.23		2.00		2.21		2.00
Impact of noninterest-bearing sources		0.18		0.40		0.23		0.40
Net interest margin(2)		2.41%		2.40%		2.44%		2.40%

(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 six months ended June 30, 2020, as compared with the same periods of the prior year. The increase primarily resulted from an increase in the net interest spread and a higher level of average earning assets, driven largely by increased loan volume. Average earning assets increased \$27.678 billion or 8.1% to \$367.437 billion for the three months ended June 30, 2020 and \$21.957 billion or 6.5% to \$360.824 billion for the six months ended June 30, 2020, as compared with the same periods of 2019.

The net interest margin was 2.41% for the three months ended June 30, 2020, as compared with 2.40% for the same period of 2019. The net interest spread increased 23 basis points to 2.23% for the three months ended June 30, 2020 from the comparable prior year period and was partially offset by a 22 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital). For the six-month period ended June 30, 2020, the net interest margin was 2.44%, as compared with 2.40% for the same period of the prior year. The net interest margin was positively impacted

by an increase in the net interest spread of 21 basis points to 2.21% for the six months ended June 30, 2020, as compared with 2.00% for same period of the prior year and was negatively impacted by a 17 basis point decrease in income earned on earning assets funded by non-interest bearing sources. The increases in the net interest spread for the three- and six-month periods of 2020 were primarily due to lower debt costs as the Banks were able to take advantage of the substantial downward move in interest rates across the yield curve and called debt totaling \$72 billion during the first six months of 2020, as compared with \$13 billion for the same period of the prior year.

Provision for Loan Losses

The System recognized provisions for loan losses of \$101 million and \$158 million for the three and six months ended June 30, 2020, as compared with provisions for loan losses of \$1 million and

\$66 million for the three and six months ended June 30, 2019. The provision for loan losses for the three- and six-month periods of 2020 primarily reflected a higher level of overall lending activity and increases in the general reserves due to potential losses inherent in our loan portfolio from the COVID-19 pandemic's impact on the global economy, agriculture and borrowers. The provision for loan losses for these periods also included specific reserves associated with a limited number of customers in the rural infrastructure and agribusiness sectors. The provision for loan losses for the first six months of 2019 primarily reflected a higher level of overall agribusiness lending activity and a modest deterioration in credit quality in the rural infrastructure sector and, to a lesser extent, the agribusiness sector. In addition, the provision for loan losses for the first half of 2019 included industry-specific reserves related to the dairy, grain and cattle industries.

Noninterest Income

Noninterest income consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Loan-related fee income	\$128	\$ 64	\$199	\$121
Financially related services income	40	38	83	80
Income earned on Insurance Fund assets	16	26	38	48
Mineral income	9	17	25	32
Operating lease income	7	7	13	14
Losses on extinguishment of debt	(36)	(6)	(62)	(11)
Net gains on derivative transactions	12	11	34	12
Net gains on sales of investments and other assets	5	12	11	15
Other noninterest income	8	3	27	9
Total noninterest income	<u>\$189</u>	<u>\$172</u>	<u>\$368</u>	<u>\$320</u>

Noninterest income increased \$17 million or 9.9% to \$189 million and \$48 million or 15.0% to \$368 million for the three and six months ended June 30, 2020, as compared with the same periods of the prior year. The increase for both the three- and six-month periods was primarily due to increases in loan-related fee income of \$64 million and \$78 million resulting from loan conversion and other transaction fees, as well as fees recognized in connection with the PPP. Through June 30, 2020, the fees related

to the \$1.3 billion of loans made under the PPP was approximately \$30 million. The increase for the six-month period was also impacted by a \$22 million increase in net gains on derivative transactions. Partially offsetting these increases in noninterest income was a \$30 million and \$51 million increase in losses on extinguishment of debt between the three- and six-month periods. Also offsetting the increase for the three- and six-month periods was a decrease in income earned Insurance Fund assets of \$10 million.

Noninterest Expense

Noninterest expense increased \$32 million or 4.1% to \$818 million and increased \$84 million or 5.4% to \$1.652 billion for the three and six months ended June 30, 2020, as compared with the same periods of the prior year. Noninterest expense consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Salaries and employee benefits	\$517	\$483	\$1,030	\$ 973
Occupancy and equipment expense	71	69	141	139
Purchased services	64	57	120	107
Other operating expense	164	174	360	345
Total operating expense	816	783	1,651	1,564
Net losses on other property owned	2	3	1	4
Total noninterest expense	\$818	\$786	\$1,652	\$1,568

The increase in noninterest expense for the three and six months ended June 30, 2020 was primarily due to increases in salaries and employee benefits and purchased services. Salaries and employee benefits increased \$34 million and \$57 million for the three and six months ended June 30, 2020, 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. Purchased services increased \$7 million and \$13 million for the three and six months ended June 30, 2020, as compared to the same periods of the prior year, primarily due to increases in technology and other consulting services related to various business initiatives. Also impacting non-interest expense was a \$15 million increase in other operating expense during the first six months of 2020 due to increases in technology and various other administrative expenses. However, other operating expense decreased \$10 million during the second quarter of 2020 as travel, training and member relations expenses were lower due to restrictions caused by the COVID-19 pandemic. Operating expense statistics are as follows:

	For the Six Months Ended June 30,	
	2020	2019
	(\$ in millions)	
Excess of net interest income over operating expense	\$2,754	\$2,501
Operating expense as a percentage of net interest income and noninterest income	34.6%	35.7%
Annualized operating expense as a percentage of average earning assets	0.92%	0.92%

Provision for Income Taxes

Provisions for income taxes were \$43 million and \$90 million for the three and six months ended June 30, 2020, as compared with \$44 million and \$83 million for the same periods of the prior year. The effective tax rate was 3.0% for both the six months ended June 30, 2020 and 2019.

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 36.

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:

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

During the first six months of 2020, 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 *2019 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 29 and 30 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 his-

tory, 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 that may reach \$1.25 billion or, in certain limited circumstances, \$1.5 billion. Because 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 both June 30, 2020 and December 31, 2019, no exposures were above \$1.25 billion. Eight exposures at June 30, 2020 and four exposures at December 31, 2019 exceeded \$937.5 million.

For a detailed discussion of our credit risk management practices, see pages 48 through 50 in the *2019 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 *2019 Annual Information Statement*. Bank loans to affili-

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

	June 30, 2020	December 31, 2019
	(in millions)	
Real estate mortgage	\$138,097	\$132,215
Production and intermediate-term	56,200	56,095
Agribusiness:		
Processing and marketing	29,970	28,205
Loans to cooperatives	16,453	17,776
Farm-related business	4,296	4,068
Rural infrastructure:		
Power	20,830	19,432
Communication	9,318	7,847
Water/waste water	2,727	2,390
Rural residential real estate	7,157	7,405
Agricultural export finance	7,062	6,712
Lease receivables	4,196	3,902
Loans to other financing institutions	866	917
Total loans	<u>\$297,172</u>	<u>\$286,964</u>

Loan volume increased \$10.208 billion or 3.6% to \$297.172 billion at June 30, 2020, as compared with \$286.964 billion at December 31, 2019, primarily as a result of increases in real estate mortgage, rural infrastructure and processing and marketing loans offset, in part, by a decrease in loans to cooperatives.

Real estate mortgage loans increased \$5.882 billion or 4.4% during the first six months of 2020. The primary driver of the increase was financing for new and existing customers.

Processing and marketing loans increased \$1.765 billion or 6.3%, as compared with December 31, 2019, primarily due to borrowers drawing on their revolving lines of credit to add liquidity to their balance sheets in response to the current economic environment.

Loans to cooperatives decreased \$1.323 billion or 7.4% during the first six months of 2020, primarily resulting from lower seasonal loan volume at grain and farm supply cooperatives, which typically reaches a low in summer or early fall.

Power loans increased \$1.398 billion or 7.2%, as compared with December 31, 2019, primarily due to advances to existing borrowers in the regulated

utility, generation and transmission and distribution industries.

Communication loans increased \$1.471 billion or 18.7% during the first six months of 2020 as a result of lending to existing borrowers in the wireless communications, cable and local exchange carriers sectors.

System institutions reduce credit risk through certain federal government guarantee programs, such as the Farm Service Agency and Small Business Administration. As of June 30, 2020 and December 31, 2019, \$9.741 billion and \$8.106 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 \$3.113 billion at June 30, 2020, of which \$2.150 billion was provided by Farmer Mac, as compared with total credit guarantees of \$3.280 billion at December 31, 2019, of which \$2.235 billion was provided by Farmer Mac. For additional information on Farmer Mac, see page 12 in the *2019 Annual Information Statement*.

Nonperforming Assets

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

	June 30, 2020	December 31, 2019
	(in millions)	
Nonaccrual loans:		
Real estate mortgage	\$ 928	\$ 912
Production and intermediate-term	546	548
Agribusiness	284	315
Rural infrastructure	82	55
Rural residential real estate	52	50
Lease receivables	31	30
Total nonaccrual loans	<u>1,923</u>	<u>1,910</u>
Accruing restructured loans:		
Real estate mortgage	190	198
Production and intermediate-term	84	82
Agribusiness	12	5
Rural infrastructure	2	2
Rural residential real estate	7	7
Total accruing restructured loans	<u>293</u>	<u>294</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	152	53
Production and intermediate-term	45	10
Agribusiness	2	4
Rural infrastructure	2	2
Rural residential real estate	2	2
Lease receivables	4	2
Total accruing loans 90 days or more past due	<u>205</u>	<u>71</u>
Total nonperforming loans	2,421	2,275
Other property owned	66	72
Total nonperforming assets	<u>\$2,487</u>	<u>\$2,347</u>
	June 30, 2020	December 31, 2019
Nonaccrual loans as a percentage of total loans	0.65%	0.67%
Nonperforming assets as a percentage of total loans and other property owned	0.84	0.82
Nonperforming assets as a percentage of capital	3.84	3.80

The following table presents the nonaccrual loan activity:

	For the Six Months Ended June 30,	
	2020	2019
	(in millions)	
Balance at beginning of period	\$1,910	\$1,883
Additions:		
Gross amounts transferred into nonaccrual	536	578
Recoveries	17	13
Advances	132	338
Other, net	7	
Reductions:		
Charge-offs	(49)	(30)
Transfers to other property owned (book value)	(22)	(16)
Returned to accrual status	(56)	(44)
Repayments	(552)	(657)
Other, net		(2)
Balance at end of period	<u>\$1,923</u>	<u>\$2,063</u>

Nonaccrual loans remained relatively unchanged at \$1.923 billion, as compared with December 31, 2019. Nonaccrual loans that were current as to principal and interest were 52.6% of total nonaccrual loans at June 30, 2020, as compared with 60.1% at December 31, 2019. Accruing loans 90 days or more past due increased \$134 million to \$205 million at June 30, 2020. This increase was primarily concentrated in USDA guaranteed loans and loans for crop inputs that generally contain recourse agreements with third parties. 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 0.37% at June 30, 2020, as compared with 0.36% at June 30, 2019. 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:

	June 30, 2020	December 31, 2019
Acceptable	93.2%	92.9%
Other assets especially mentioned	3.5	3.6
Substandard/doubtful	<u>3.3</u>	<u>3.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

During the latter part of March 2020, economic conditions rapidly deteriorated due to the spread of

COVID-19. Labor availability, supply chains and consumer demand for agricultural products were abruptly disrupted. System institutions began to help borrowers meeting certain conditions preserve liquidity while dealing with unemployment in the general economy, low commodity prices and supply and demand chain disruptions.

On April 1, 2020, the Farm Credit Administration issued an informational memorandum on accounting for reporting troubled debt restructurings (TDR) for customers affected by the COVID-19 pandemic. Pursuant to this guidance, borrowers experiencing short-term economic difficulties arising from the COVID-19 pandemic and who receive loan modifications, including payment deferrals, fee waivers or other extensions of repayment terms, are not required to be accounted for and reported as TDRs. This guidance covers the period beginning March 1, 2020, and ending on December 31, 2020, or 60 days after termination of the COVID-19 national emergency, whichever is earlier.

Most System institutions have implemented payment modification and loan deferral programs that are specific to the COVID-19 pandemic. As of June 30, 2020, the System modified approximately 3% of total loans pursuant to these programs, the majority of which were short-term loan deferrals not accounted for as troubled-debt restructurings.

Allowance for Loan Losses

The allowance for loan losses was \$1.885 billion at June 30, 2020 and \$1.806 billion at December 31, 2019. Net loan charge-offs of \$26 million and \$32 million were recorded during the three and six months ended June 30, 2020, respectively, as compared with net loan charge-offs of \$6 million and \$17 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, including the impact of the COVID-19 pandemic.

System borrowers are facing additional challenges due to a rapidly changing economic environment due to the COVID-19 pandemic and already low commodity prices for certain commodities. Helping to mitigate these current conditions are the System's underwriting standards, which among other things, 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 June 30, 2020, \$646 million of the System's \$2.421 billion of nonperforming loans had specific reserves (representing probable losses) of \$217 million. The remaining \$1.775 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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(\$ in millions)			
Balance at beginning of period	\$1,847	\$1,768	\$1,806	\$1,713
Charge-offs:				
Real estate mortgage	(6)	(1)	(8)	(3)
Production and intermediate-term	(19)	(10)	(31)	(23)
Agribusiness			(1)	
Rural infrastructure	(8)		(8)	
Rural residential real estate				(1)
Lease receivables		(1)	(1)	(3)
Total charge-offs	<u>(33)</u>	<u>(12)</u>	<u>(49)</u>	<u>(30)</u>
Recoveries:				
Real estate mortgage	1	1	3	3
Production and intermediate-term	4	4	11	7
Agribusiness		1	1	2
Rural residential real estate				1
Agricultural export finance	1		1	
Lease receivables	1		1	
Total recoveries	<u>7</u>	<u>6</u>	<u>17</u>	<u>13</u>
Net charge-offs	(26)	(6)	(32)	(17)
Provision for loan losses	101	1	158	66
Reclassification (to) from reserve for unfunded commitments*	(37)	(8)	(47)	(7)
Balance at end of period	<u>\$1,885</u>	<u>\$1,755</u>	<u>\$1,885</u>	<u>\$1,755</u>
Annualized ratio of net charge-offs during the period to average loans outstanding during the period	<u>0.04%</u>	<u>0.01%</u>	<u>0.02%</u>	<u>0.01%</u>

* 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:

	June 30, 2020		December 31, 2019	
	Amount	%	Amount	%
	(\$ in millions)			
Real estate mortgage	\$ 525	27.8%	\$ 492	27.2%
Production and intermediate-term	509	27.0	493	27.3
Agribusiness	524	27.8	508	28.1
Rural infrastructure	222	11.8	219	12.2
Rural residential real estate	18	1.0	18	1.0
Agricultural export finance	27	1.4	22	1.2
Lease receivables	59	3.1	53	2.9
Loans to other financing institutions	1	0.1	1	0.1
Total	<u>\$1,885</u>	<u>100.0%</u>	<u>\$1,806</u>	<u>100.0%</u>

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:

	June 30, 2020	December 31, 2019
Allowance for loan losses as a percentage of:		
Total loans	0.63%	0.63%
Nonperforming assets	75.8	76.9
Nonaccrual loans	98.0	94.6

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 the System's net interest income and the long-term value of the System's capital position. 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. Loan features that provide the borrower with flexibility frequently introduce a risk exposure to the lender. For example, a fixed-rate loan 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 no measures are taken to hedge the rate guarantee, System institutions may realize a lower spread than expected when the loan is funded.

Borrowers may also have the option to repay a 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, under normal market conditions, significant 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 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, 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 June 30, 2020. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, cash flows, interest 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	\$ 61,536	\$ 417	\$ 681	\$ 502	\$ 63,136
Administered-rate loans	49,797				49,797
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	5,239	3,846	17,346	17,829	44,260
Fixed-rate without prepayment or conversion fees	44,401	26,230	50,950	16,475	138,056
Nonaccrual loans				1,923	1,923
Total gross loans	160,973	30,493	68,977	36,729	297,172
Federal funds sold, investments and other interest-earning assets	41,198	4,996	19,638	8,549	74,381
Total earning assets	202,171	35,489	88,615	45,278	371,553
Interest-bearing liabilities:					
Callable bonds and notes	28,642	16,940	21,903	5,267	72,752
Noncallable bonds and notes	151,831	18,977	47,441	19,212	237,461
Other interest-bearing liabilities	3,423		250	5	3,678
Total interest-bearing liabilities	183,896	35,917	69,594	24,484	313,891
Effect of interest rate swaps and other derivatives	11,187	(3,087)	(8,292)	192	
Total interest-bearing liabilities adjusted for swaps and other derivatives	195,083	32,830	61,302	24,676	313,891
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	\$ 7,088	\$ 2,659	\$27,313	\$20,602	\$ 57,662
Cumulative gap	\$ 7,088	\$ 9,747	\$37,060	\$57,662	
Cumulative gap as a percentage of total earning assets	1.91%	2.62%	9.97%	15.52%	

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 June 30, 2020 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 earning 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 3.21% at December 31, 2019 to 1.91% at June 30, 2020.

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 manage interest rate risk including 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 7 basis points at June 30, 2020 and 78 basis points at December 31, 2019. Under these simulations, the System’s sensitivity to interest rate changes (sum of Districts’ sensitivity analyses) was:

	June 30, 2020		
	<u>-7</u>	<u>+100</u>	<u>+200</u>
Change in net interest income	0.00%	0.54%	1.69%
Change in market value of equity	0.13%	-2.45%	-6.09%

	December 31, 2019		
	<u>-78</u>	<u>+100</u>	<u>+200</u>
Change in net interest income	0.11%	1.59%	3.04%
Change in market value of equity	2.21%	-3.65%	-7.52%

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 *2019 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 0.8 months at June 30, 2020 and a positive 3.9 months at December 31, 2019. 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 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 process and supplement our issuance of debt securities in the capital markets. Derivative financial instruments are used as hedges to manage interest rate and liquidity risks and to lower the overall cost of funds. System institutions do not hold or enter into derivative transactions for trading purposes. Derivative products are subject to regulatory compliance obligations, including, among other things, accounting, 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 *2019 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 \$7.722 billion to \$53.492 billion at June 30, 2020, as compared with \$45.770 billion at December 31, 2019. 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, System institutions are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obliga-

tions 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 money on early termination of the derivative, thus creating credit risk. When the fair value of the derivative is negative, we would owe the counterparty money on early termination of the derivative, and, therefore, assume no credit risk.

The System clears a significant portion of 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. 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 and include bilateral collateral agreements requiring the exchange of collateral to offset credit risk exposure. 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. For additional information related to derivatives, see pages 68 through 70 in the *2019 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 interest rate 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 June 30, 2020 and December 31, 2019 were:

	June 30, 2020					December 31, 2019				
	Number of Counterparties	Notional Principal	Credit Exposure	Collateral Held	Exposure, Net of Collateral	Number of Counterparties	Notional Principal	Credit Exposure	Collateral Held	Exposure, Net of Collateral
(\$ in millions)										
Bilateral derivatives:										
Aa2	4	\$ 9,272				4	\$10,487			
Aa3	3	4,013				4	4,752	\$1		\$1
A1	2	174				2	175			
A2	1	883				2	959			
A3	1	1,819				1	1,801			
Cleared derivatives(1)	2	26,523	\$8		\$8	2	18,298	4		4
Total	13	\$42,684	\$8	\$0	\$8	15	\$36,472	\$5	\$0	\$5

(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 \$93 million and \$92 million at June 30, 2020 and December 31, 2019 related to cleared derivative transactions.

Note: Due to 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 \$10.712 billion and \$9.284 billion notional amount of derivative financial instruments at June 30, 2020 and December 31, 2019 related to interest rate swaps that two Banks entered into with certain of their customers. Also excluded is \$96 million and \$14 million in notional amount of derivative financial instruments at June 30, 2020 and December 31, 2019 related to forward commitments that one Bank and one Association have entered into to hedge interest rate risk on interest rate locks.

At June 30, 2020 and December 31, 2019, the Banks' counterparties were not required to post any collateral with us. At June 30, 2020 and December 31, 2019, three Banks had posted collateral with respect to its obligations under these agreements of \$451 million and \$152 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 has been uncertain whether LIBOR will continue to be quoted after 2021. The Financial Conduct Authority has announced that it intends to make a formal announcement about the timing and the manner of cessation prior to year-end 2021, and potentially as early as November of 2020. The Financial Conduct Authority has not elaborated on the content of such statement, but it has the authority and may announce that LIBOR, as of a future date, will no longer be representative of the underlying funding markets. If the announcement includes a statement to that effect, certain agreements that include contractual language providing that such a statement be a triggering event for the purposes of LIBOR cessation may require that the parties, as of such future date, cease use of

LIBOR as their reference rate and apply a fallback rate, which will be determined in the manner provided in such agreement. 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, financial instruments held by System institutions. The LIBOR transition could result in System institutions paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, the financial 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 financial 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.

Each Bank and Association has established and is in the process of implementing a LIBOR transition plan and will continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational and compliance risks.

At this time, we are unable to predict when LIBOR will cease to be available or becomes unrepresentative, or if SOFR will become the only 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, our borrowers, our investors, and System institutions' customers and counterparties.

The following is a summary of variable-rate Systemwide Debt Securities and other financial instruments impacted by the LIBOR transition:

	June 30, 2020
	(in millions)
Variable-rate Systemwide Debt Securities by interest-rate index	
LIBOR	\$ 62,648
SOFR	29,557
Other	28,377
Total	<u>\$120,582</u>
LIBOR-indexed Systemwide Debt Securities by contractual maturity	
Due in 2020	\$ 25,541
Due in 2021	34,951
Due in 2022 and thereafter	2,156
Total	<u>\$ 62,648</u>

LIBOR-indexed variable-rate financial instruments at June 30, 2020:

	Due in 2020	Due in 2021	Due in 2022 and thereafter	Total
	(in millions)			
Investments	\$ 255	\$ 238	\$10,196	\$10,689
Loans	6,530	9,641	43,127	59,298
Preferred stock			274	274
Derivatives (notional amount)	4,657	8,491	35,444	48,592

Note: Excluded from this table are preferred stock issuances totaling \$1.845 billion that currently have fixed dividend rates but convert to LIBOR-indexed variable-rates in the future. The \$274 million of preferred stock is perpetual and may be redeemed in 2022 or thereafter. For additional information regarding preferred stock, see Note 12 in the 2019 Annual Information Statement.

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 loans and other funding commitments, and the ability to fund operations all within a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks and 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 address 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 cash, selling investment 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 Sep-

tember 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. The Banks continually raise funds to support the mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, build liquidity and meet other obligations. As government-sponsored enterprises, the Banks have had access to the global capital markets. This access has traditionally provided 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. During the month of March 2020, as a result of the unprecedented global COVID-19 pandemic and the instability in the global financial markets, the System issued short-term debt securities as necessary and held higher liquidity reserves. Investor's willingness to purchase long-term fixed-rate non-callable and callable debt during this period declined.

During the second quarter of 2020, the capital debt markets settled back into a normal environment with the Banks having the ability to issue fixed-rate non-callable and callable debt as needed.

Investments

As more fully described on page 73 in the *2019 Annual Information Statement*, by regulation, 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 and managing short-term surplus funds and reducing interest rate risk and, in so doing, they may enhance profitability. At June 30, 2020, no Bank exceeded the 35% limit.

In addition, the Associations are authorized to hold securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. 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>June 30, 2020</u>	<u>Eligible Investments</u>				<u>Total</u>
	<u>AAA/Aaa</u>	<u>A1/P1/F1</u>	<u>Split Rated(1)</u> (in millions)	<u>A/A</u>	
Federal funds sold and securities purchased under resale agreements		\$3,739	\$ 150		\$ 3,889
Commercial paper, bankers' acceptances, certificates of deposit and other securities		5,246	1,778	\$46	7,070
U.S. Treasury securities			25,304		25,304
U.S. agency securities			3,012		3,012
Mortgage-backed securities:					
Agency collateralized			26,179		26,179
Agency whole-loan pass through			1,112		1,112
Private label-FHA/VA			38		38
Asset-backed securities	\$2,369	4	1,862		4,235
Total	\$2,369	\$8,989	\$59,435	\$46	\$70,839

<u>December 31, 2019</u>	<u>Eligible Investments</u>				<u>Total</u>
	<u>AAA/Aaa</u>	<u>A1/P1/F1</u>	<u>Split Rated(1)</u> (in millions)	<u>A/A</u>	
Federal funds sold and securities purchased under resale agreements		\$3,434	\$ 450		\$ 3,884
Commercial paper, bankers' acceptances, certificates of deposit and other securities			4,629	2,078	6,707
U.S. Treasury securities				19,222	19,222
U.S. agency securities				3,054	3,054
Mortgage-backed securities:					
Agency collateralized				24,639	24,639
Agency whole-loan pass through				1,266	1,266
Private label-FHA/VA				40	40
Asset-backed securities	\$2,565	8	1,656		4,229
Total	\$2,565	\$8,071	\$52,405		\$63,041

(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 regulatory 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 statutory 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 June 30, 2020, the Farm Credit Administration has not required

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

	June 30, 2020			December 31, 2019		
	Amortized Cost	Fair Value	Unrealized Gains/(Losses)	Amortized Cost	Fair Value	Unrealized Gains/(Losses)
	(in millions)					
Mortgage-backed securities:						
Agency collateralized	\$25,680	\$26,179	\$499	\$24,611	\$24,639	\$28
Agency whole-loan pass through	1,073	1,112	39	1,241	1,266	25
Private label-FHA/VA	135	128	(7)	144	140	(4)
Total mortgage-backed securities	<u>\$26,888</u>	<u>\$27,419</u>	<u>\$531</u>	<u>\$25,996</u>	<u>\$26,045</u>	<u>\$49</u>
Asset-backed securities:						
Small business loans	\$ 1,861	1,940	\$ 79	\$ 1,708	\$ 1,737	\$29
Auto loans	1,478	1,491	13	1,816	1,823	7
Credit card receivables	657	666	9	565	566	1
Equipment loans	122	124	2	102	102	
Other	13	14	1	1	1	
Total asset-backed securities	<u>\$ 4,131</u>	<u>\$ 4,235</u>	<u>\$104</u>	<u>\$ 4,192</u>	<u>\$ 4,229</u>	<u>\$37</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.

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 \$462 million at June 30, 2020 and \$474 million at December 31, 2019 and represented 0.6% and 0.7% of Federal funds and available-for-sale investments at June 30, 2020 and December 31, 2019.

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

	June 30, 2020	December 31, 2019
	(in millions)	
Small Business Administration and other government guaranteed securities	\$ 986	\$ 815
Farmer Mac securities	804	909
Rural America bonds and Agricultural Rural Community bonds	64	73
Total	<u>\$1,854</u>	<u>\$1,797</u>

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

	June 30, 2020	December 31, 2019
	(in millions)	
U.S. Treasury securities	\$529	\$ 15
Rural home loan securities	311	392
Farmer Mac securities	25	29
Other securities	22	14
Total	<u>\$887</u>	<u>\$450</u>

The Banks and Associations rely on third party pricing providers for their investment valuations. Third party pricing providers were able to appropriately price all investment securities at June 30, 2020 using the same processes as year-end 2019.

An investment is considered impaired if its fair value is less than its amortized cost. The Banks and Associations performed other-than-temporary impairment assessments on impaired securities based on evaluations of both current and future market and credit conditions. Each Bank and Association has its own model that includes relevant assumptions and inputs such as housing prices, unemployment, delinquencies and loss severity trends. Subsequent changes in market or credit conditions could change these evaluations. An impaired available-for-sale security in an unrealized loss position is considered to be other-than-temporarily impaired if a Bank (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis even if the entity does not intend to sell. If a Bank or Association intends to sell an impaired debt security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, then the impairment is other-than-temporary and the difference between amortized cost and fair value of the impaired security should be recognized currently in earnings. As of June 30, 2020, the Banks and Associations did not intend to sell available-for-sale securities in unrealized loss positions and it is not more likely than not that they will be required to sell these securities.

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 a supplemental liquidity buffer, 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 June 30, 2020, each Bank met the individual tiers' minimums of the liquidity reserve and exceeded the aggregate regulatory minimum 90 days of liquidity. Due to the volatility in the debt capital markets and the potential needs for liquidity by our borrowers due to the COVID-19 pandemic, each Bank increased its liquidity position at June 30, 2020 by holding more cash and overnight securities. Each Bank's liquidity position ranged from 180 to 223 days at June 30, 2020. The System's liquidity position was 182 days at June 30, 2020, as compared with 177 days at December 31, 2019. (See Note 13 to the accompanying condensed combined financial statements for each Bank's liquidity position at June 30, 2020 and December 31, 2019.)

Cash provided by the System's operating activities (primarily generated from net interest income in excess of operating expenses) of \$2.422 billion and \$2.331 billion for the first six months of 2020 and 2019 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 June 30, 2020, retained earnings totaled \$51.1 billion and represented 78.9% of capital, as compared with \$49.0 billion and 79.4% at December 31, 2019. Capital as a percentage of assets decreased to 16.8% at June 30, 2020, as compared with 16.9% at December 31, 2019.

Farm Credit Administration Capital Requirements

The following sets forth the regulatory capital ratio requirements and ratios at June 30, 2020:

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%	9.2% - 17.5%	11.8% - 36.4%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%	14.4% - 17.9%	11.8% - 36.4%
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%	15.0% - 18.0%	12.4% - 37.5%
Tier 1 Leverage**	Tier 1 Capital	Total assets	4.0%	5.0%	5.4% - 6.9%	10.6% - 34.9%
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	14.5% - 17.9%	12.9% - 36.8%
Other requirements:						
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	N/A	2.7% - 5.6%	7.8% - 35.5%

* See Note 13 to the accompanying condensed combined financial statements for each Bank's Total Capital ratio and Tier 1 Leverage ratio at June 30, 2020 and December 31, 2019.

** 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 June 30, 2020, the assets in the Insurance Fund totaled \$5.281 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, 2019, the assets in the Insurance Fund exceeded the secure base amount by \$63 million (after deduction of prospective operating expenses for 2020) and the excess was transferred to the Allocated Insurance Reserves Accounts. In March 2020, the Insurance Corporation's board of directors approved and distributed the \$63 million of excess funds to System institutions.

At June 30, 2020, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 1.98% of adjusted insured obligations, as compared with 2.00% at December 31, 2019. The Insurance Fund with the allocated amount was 2.03% of the adjusted insured obligations at December 31, 2019. No amounts were allocated as of June 30, 2020.

In June 2020, the Insurance Corporation reviewed the level of the secure base amount and determined that it would increase its assessment of premiums from 8 basis points to 11 basis points on adjusted insured obligations starting in July 2020 and for the remainder of the year as well as continue the

assessment of an additional 10 basis points on non-accrual loans and other-than-temporarily impaired investments. The increase in the premium assessment will allow the Insurance Fund to remain near or at the required 2% of the adjusted insured obligations at year-end based on anticipated growth of insured debt.

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 six months ended June 30, 2020 were:

	Capital				
	Combined Banks	Combined Associations	Insurance Fund	Combination Entries	System Combined
			(in millions)		
Balance at December 31, 2019	\$20,665	\$42,688	\$5,202	\$(6,825)	\$61,730
Net income	1,243	2,207	142	(719)	2,873
Change in accumulated other comprehensive loss . . .	858	27		40	925
Preferred stock issued		180			180
Preferred stock retired		(138)			(138)
Preferred stock dividends	(80)	(7)			(87)
Capital stock and participation certificates issued . . .	438	68		(452)	54
Capital stock, participation certificates and retained earnings retired	(162)	(168)		133	(197)
Insurance Corporation distributions to System institutions			(63)	63	
Patronage	(525)	(527)		481	(571)
Balance at June 30, 2020	<u>\$22,437</u>	<u>\$44,330</u>	<u>\$5,281</u>	<u>\$(7,279)</u>	<u>\$64,769</u>

Note: System combined capital reflected eliminations of approximately \$5.8 billion and \$5.5 billion of Bank equities held by Associations as of June 30, 2020 and December 31, 2019. 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 \$1.851 billion since December 31, 2019 to \$27.718 billion at June 30, 2020. Combined Bank-only capital as a percentage of combined Bank-only assets was 6.6% at June 30, 2020 and 6.5% at December 31, 2019.

Combined Bank-only net income was \$1.243 billion and \$1.027 billion for the six months ended June 30, 2020 and 2019. 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 53% of the assets on the combined Bank-only balance sheet at June 30, 2020. 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 \$1.642 billion since December 31, 2019 to \$44.330 billion at June 30, 2020. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association assets was 19.4% at June 30, 2020 and 19.3% at December 31, 2019. 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 June 30, 2020 and December 31, 2019 was comprised of the following components:

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	(in millions)	
Unrealized gains on investments available-for-sale, net	\$ 1,350	\$ 285
Unrealized losses on cash flow hedges, net	(405)	(195)
Pension and other benefit plans	<u>(1,360)</u>	<u>(1,430)</u>
	<u>\$ (415)</u>	<u>\$(1,340)</u>

Accumulated other comprehensive loss decreased \$925 million during the first six months of 2020 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 stan-

dards 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. Exposure to operational risk is typically identified by senior management with the assistance of 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 a 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 page 19 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 and 15 in the *2019 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 addition, 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

As previously discussed in the "Overview — Support Programs" section, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. Among other provisions, the CARES Act provided funding and authority to bolster USDA programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program with \$16 billion in direct support for agricultural producers where prices

and market supply chains have been impacted and \$3 billion for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. On April 23, 2020, Congress passed the Paycheck Protection Program and Health Care Enhancement Act that provides \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provides an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On April 9, 2020, the Farm Credit Administration voted to delay publication of certain rules in the Federal Register that were previously approved until at least June 8, 2020 to allow both the Farm Credit Administration and the System to focus their efforts on responding to the COVID-19 pandemic. On June 1, 2020, the Farm Credit Administration extended the regulatory pause until at least July 10 and on July 16, it was determined that some regulatory activities would resume. Accordingly, the Farm Credit Administration will seek to publish its final rule on criteria to reinstate nonaccrual loans this summer. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises 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 Farm Credit Administration will also seek to publish final rules to: (1) amend the investment eligibility regulations to allow System institutions to invest in certain USDA loan guarantees, (2) amend regulations governing the amortization limits for Associations and (3) amend regulations governing how the Banks present Association financial information in their annual report to shareholders.

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 the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" 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 ended on November 22, 2019.

Recently Adopted or Issued Accounting Pronouncements

See pages F-8 through F-10 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
June 30, 2020**

	<u>Page</u>
Condensed Combined Statement of Condition	F-2
Condensed Combined Statement of Income	F-3
Condensed Combined Statement of Comprehensive Income	F-4
Condensed Combined Statement of Changes in Capital	F-5
Condensed Combined Statement of Cash Flows	F-6
Notes to Condensed Combined Financial Statements	F-8
Supplemental Combining Information	F-47
Supplemental Financial Information	F-54

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	<u>(unaudited)</u>	
A S S E T S		
Cash	\$ 2,321	\$ 2,504
Federal funds sold and securities purchased under resale agreements	3,889	3,884
Investments (Note 2)		
Available-for-sale (amortized cost of \$65,942 and \$59,312, respectively)	67,412	59,631
Other investments held-to-maturity (fair value of \$1,928 and \$1,827, respectively)	1,854	1,797
Other investments available-for-sale (amortized cost of \$874 and \$444, respectively)	887	450
Loans (Note 3)	297,172	286,964
Less: allowance for loan losses (Note 3)	(1,885)	(1,806)
Net loans	<u>295,287</u>	<u>285,158</u>
Accrued interest receivable	2,611	2,864
Premises and equipment	1,537	1,489
Other assets (Note 4)	3,597	2,380
Restricted assets (Note 5)	5,281	5,202
Total assets	<u>\$384,676</u>	<u>\$365,359</u>
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	\$ 29,051	\$ 18,998
Systemwide bonds and medium-term notes	96,214	95,129
	<u>125,265</u>	<u>114,127</u>
Due after one year:		
Systemwide bonds and medium-term notes	184,948	179,411
Total Systemwide Debt Securities (Note 6)	310,213	293,538
Other bonds	2,132	1,961
Notes payable and other interest-bearing liabilities	1,546	1,155
Accrued interest payable	800	1,023
Other liabilities (Note 4)	5,216	5,952
Total liabilities	<u>319,907</u>	<u>303,629</u>
Commitments and contingencies (Note 12)		
Capital (Note 7)		
Preferred stock	3,163	3,121
Capital stock and participation certificates	1,920	2,009
Additional paid-in-capital	3,738	3,738
Restricted capital (Note 5)	5,281	5,202
Accumulated other comprehensive loss, net of tax	(415)	(1,340)
Retained earnings	51,082	49,000
Total capital	<u>64,769</u>	<u>61,730</u>
Total liabilities and capital	<u>\$384,676</u>	<u>\$365,359</u>

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(unaudited)			
Interest income				
Investments, Federal funds sold and securities purchased under resale agreements	\$ 279	\$ 412	\$ 628	\$ 817
Loans	2,948	3,392	6,237	6,748
Total interest income	3,227	3,804	6,865	7,565
Interest expense				
Systemwide bonds and medium-term notes	947	1,630	2,304	3,225
Systemwide discount notes	62	122	143	251
Other interest-bearing liabilities	4	13	13	24
Total interest expense	1,013	1,765	2,460	3,500
Net interest income	2,214	2,039	4,405	4,065
Provision for loan losses	101	1	158	66
Net interest income after provision for loan losses	2,113	2,038	4,247	3,999
Noninterest income				
Loan-related fee income	128	64	199	121
Financially related services income	40	38	83	80
Income earned on Insurance Fund assets	16	26	38	48
Mineral income	9	17	25	32
Losses on extinguishment of debt	(36)	(6)	(62)	(11)
Net gains on derivative transactions	12	11	34	12
Net gains on sales of investments and other assets	5	12	11	15
Other income	15	10	40	23
Total noninterest income	189	172	368	320
Noninterest expense				
Salaries and employee benefits	517	483	1,030	973
Occupancy and equipment expense	71	69	141	139
Purchased services	64	57	120	107
Other expense	166	177	361	349
Total noninterest expense	818	786	1,652	1,568
Income before income taxes	1,484	1,424	2,963	2,751
Provision for income taxes	43	44	90	83
Net income	\$1,441	\$1,380	\$2,873	\$2,668

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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
		<i>(unaudited)</i>		
Net income	\$1,441	\$1,380	\$2,873	\$2,668
Other comprehensive income, net of tax:				
Change in unrealized gains/losses on investments available-for-sale, including reclassification adjustments	316	474	1,065	775
Change in unrealized gains/losses on cash flow hedges, including reclassification adjustments	(2)	(107)	(210)	(181)
Change in net periodic pension benefit cost, including reclassification adjustments	35	23	70	47
Total other comprehensive income	<u>349</u>	<u>390</u>	<u>925</u>	<u>641</u>
Comprehensive income	<u>\$1,790</u>	<u>\$1,770</u>	<u>\$3,798</u>	<u>\$3,309</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 Six Months Ended June 30						
	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in- Capital	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss), Net of Tax	Retained Earnings	Total Capital
				(unaudited)			
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					641	2,668	3,309
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				159		(159)	
Insurance Corporation distributions to System institutions				(66)		66	
Preferred stock issued by Associations . . .	210						210
Preferred stock retired by Associations . . .	(160)						(160)
Preferred stock dividends						(92)	(92)
Capital stock and participation certificates issued		44					44
Capital stock and participation certificates retired		(75)					(75)
Patronage:							
Cash						(464)	(464)
Capital stock, participation certificates and retained earnings allocations		53				(53)	
Balance at June 30, 2019	<u>\$3,181</u>	<u>\$1,959</u>	<u>\$3,712</u>	<u>\$5,047</u>	<u>\$(1,094)</u>	<u>\$48,420</u>	<u>\$61,225</u>
Balance at December 31, 2019	\$3,121	\$2,009	\$3,738	\$5,202	\$(1,340)	\$49,000	\$61,730
Comprehensive income					925	2,873	3,798
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				142		(142)	
Insurance Corporation distributions to System institutions				(63)		63	
Preferred stock issued by Associations . . .	180						180
Preferred stock retired by Associations . . .	(138)						(138)
Preferred stock dividends						(87)	(87)
Capital stock and participation certificates issued		54					54
Capital stock and participation certificates retired		(197)					(197)
Patronage:							
Cash						(571)	(571)
Capital stock, participation certificates and retained earnings allocations		54				(54)	
Balance at June 30, 2020	<u>\$3,163</u>	<u>\$1,920</u>	<u>\$3,738</u>	<u>\$5,281</u>	<u>\$ (415)</u>	<u>\$51,082</u>	<u>\$64,769</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 Six Months Ended June 30,	
	2020	2019
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 2,873	\$ 2,668
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	158	66
Depreciation and amortization on premises and equipment	82	78
Net gains on sales of investments and other assets	(11)	(15)
Income on Insurance Fund assets, net of operating expenses	(36)	(44)
Decrease (increase) in accrued interest receivable	253	(108)
(Decrease) increase in accrued interest payable	(223)	21
Other, net	(674)	(335)
Net cash provided by operating activities	<u>2,422</u>	<u>2,331</u>
Cash flows from investing activities		
Increase in loans, net	(10,267)	(2,894)
(Increase) decrease in Federal funds sold and securities purchased under resale agreements, net	(5)	61
Investments available-for-sale:		
Purchases	(24,699)	(12,989)
Proceeds from maturities and payments	18,474	11,902
Proceeds from sales		901
Other investments held-to-maturity:		
Purchases	(259)	(721)
Proceeds from maturities and payments	224	96
Other investments available-for-sale:		
Purchases	(551)	(21)
Proceeds from maturities and payments	36	28
Proceeds from sales	63	19
Premiums paid to the Insurance Fund	(223)	(213)
Distributions by Insurance Fund to System institutions	63	66
Other, net	(111)	(120)
Net cash used in investing activities	<u>(17,255)</u>	<u>(3,885)</u>
Cash flows from financing activities		
Systemwide bonds issued	123,149	60,758
Systemwide bonds and medium-term notes retired	(116,812)	(55,503)
Systemwide discount notes issued	104,142	102,802
Systemwide discount notes retired	(94,085)	(106,223)
Other bonds issued (retired), net	171	(246)
Increase in notes payable and other interest-bearing liabilities, net	391	140
Decrease in collateral held from derivative counterparties		(95)
Preferred stock issued by Associations, net	42	50
Capital stock and participation certificates issued	54	44
Capital stock, participation certificates and retained earnings retired	(241)	(117)
Preferred stock dividends paid	(89)	(86)
Cash patronage paid	(2,072)	(1,816)
Net cash provided by (used in) financing activities	<u>14,650</u>	<u>(292)</u>
Net decrease in cash	(183)	(1,846)
Cash at beginning of period	2,504	2,933
Cash at end of period	<u>\$ 2,321</u>	<u>\$ 1,087</u>

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

	For the Six Months Ended June 30,	
	2020	2019
	(unaudited)	
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	\$ 22	\$ 18
Patronage and dividends distributions payable	668	554
Supplemental non-cash fair value changes related to hedging activities:		
Increase in Systemwide bonds and medium-term notes	291	241
Other, net	(342)	(292)
Supplemental disclosure of cash flow information:		
Cash paid during the six months for:		
Interest	2,705	3,467
Taxes	3	26

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 United States of America (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, 2019, contained in the System's *2019 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, 2019 are contained in the *2019 Annual Information Statement*.

Recently Adopted or Issued Accounting Pronouncements

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020 through December 31, 2022. The System is evaluating the impact of adoption on the System's financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra-period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business

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

combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the System adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the System's financial condition or results of operations; nor will the guidance impact the presentation of taxes for prior periods in the 2020 interim or year-end financial statements.

In August 2018, the 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The System adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the System's financial condition or 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.

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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The System early adopted the removal and modified disclosures in 2018. The System adopted the remainder of this guidance on January 1, 2020. The adoption of this guidance did not impact the System's financial condition or its results of operations, but did impact the fair value measurements 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. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. 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.

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:

	June 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 7,426	\$ 21	\$ (5)	\$ 7,442	1.19%
U.S. Treasury securities	24,648	656		25,304	1.32
U.S. agency securities	2,849	172	(9)	3,012	1.97
Mortgage-backed securities	26,888	560	(29)	27,419	1.68
Asset-backed securities	4,131	106	(2)	4,235	2.10
Total	<u>\$65,942</u>	<u>\$1,515</u>	<u>\$(45)</u>	<u>\$67,412</u>	1.53

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 7,068	\$ 14	\$ (1)	\$ 7,081	2.14%
U.S. Treasury securities	19,052	186	(16)	19,222	1.99
U.S. agency securities	3,004	59	(9)	3,054	2.29
Mortgage-backed securities	25,996	145	(96)	26,045	2.37
Asset-backed securities	4,192	42	(5)	4,229	2.62
Total	<u>\$59,312</u>	<u>\$446</u>	<u>\$(127)</u>	<u>\$59,631</u>	2.23

A summary of the fair value and amortized cost of investments available-for-sale at June 30, 2020 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	\$ 6,853		\$ 344		\$ 245				\$ 7,442	1.19%
U.S. Treasury securities	13,317		9,469		2,518				25,304	1.32
U.S. agency securities	116		1,449		1,188		\$ 259		3,012	1.97
Mortgage-backed securities			2,799		5,873		18,747		27,419	1.68
Asset-backed securities	172		2,122		411		1,530		4,235	2.10
Total fair value	<u>\$20,458</u>	0.88%	<u>\$16,183</u>	1.71%	<u>\$10,235</u>	1.84%	<u>\$20,536</u>	1.89%	<u>\$67,412</u>	1.53
Total amortized cost	<u>\$20,553</u>		<u>\$15,591</u>		<u>\$ 9,701</u>		<u>\$20,097</u>		<u>\$65,942</u>	

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

A large portion of 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:

	June 30, 2020				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Mortgage-backed securities	\$1,136	\$66	\$ (4)	\$1,198	3.59%
Asset-backed securities	654	7	(6)	655	1.61
Other securities	64	11		75	6.11
Total	<u><u>\$1,854</u></u>	<u><u>\$84</u></u>	<u><u>\$(10)</u></u>	<u><u>\$1,928</u></u>	2.98

	December 31, 2019				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Mortgage-backed securities	\$1,260	\$28	\$(3)	\$1,285	4.02%
Asset-backed securities	464	1	(3)	462	2.93
Other securities	73	7		80	5.97
Total	<u><u>\$1,797</u></u>	<u><u>\$36</u></u>	<u><u>\$(6)</u></u>	<u><u>\$1,827</u></u>	3.82

A summary of the fair value and amortized cost of other investments held-to-maturity at June 30, 2020 by contractual maturity is as follows:

	<u>Due in 1 Year or Less</u>		<u>Due After 1 Year Through 5 Years</u>		<u>Due After 5 Years Through 10 Years</u>		<u>Due After 10 Years</u>		<u>Total</u>	
	<u>Amount</u>	<u>Weighted Average Yield</u>	<u>Amount</u>	<u>Weighted Average Yield</u>	<u>Amount</u>	<u>Weighted Average Yield</u>	<u>Amount</u>	<u>Weighted Average Yield</u>	<u>Amount</u>	<u>Weighted Average Yield</u>
Mortgage-backed securities	\$12		\$26		\$ 73		\$1,025		\$1,136	3.59%
Asset-backed securities			8		353		293		654	1.61
Other securities	2		9		3		50		64	6.11
Total amortized cost	<u><u>\$14</u></u>	2.92%	<u><u>\$43</u></u>	4.53%	<u><u>\$429</u></u>	1.85%	<u><u>\$1,368</u></u>	3.29%	<u><u>\$1,854</u></u>	2.98
Total fair value	<u><u>\$14</u></u>		<u><u>\$44</u></u>		<u><u>\$431</u></u>		<u><u>\$1,439</u></u>		<u><u>\$1,928</u></u>	

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:

	June 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$325	\$11		\$336	2.25%
U.S. Treasury securities	527	2		529	0.43
Other securities	22			22	3.41
Total	<u>\$874</u>	<u>\$13</u>	<u>\$0</u>	<u>\$887</u>	1.19

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$415	\$8	\$(2)	\$421	3.13%
U.S. Treasury securities	15			15	1.72
Other securities	14			14	5.34
Total	<u>\$444</u>	<u>\$8</u>	<u>\$(2)</u>	<u>\$450</u>	3.15

A summary of the fair value and amortized cost of other investments available-for-sale at June 30, 2020 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
Mortgage-backed securities			\$ 7		\$18		\$311		\$336	2.25%
U.S. Treasury securities	\$502		27						529	0.43
Other securities	11				3		8		22	3.41
Total fair value	<u>\$513</u>	0.41%	<u>\$34</u>	2.17%	<u>\$21</u>	4.24%	<u>\$319</u>	2.15%	<u>\$887</u>	1.19
Total amortized cost	<u>\$513</u>		<u>\$32</u>		<u>\$21</u>		<u>\$308</u>		<u>\$874</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.

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
June 30, 2020				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$2,264	\$ (5)		
U.S. agency securities	238	(4)	\$ 349	\$ (5)
Mortgage-backed securities	2,031	(6)	4,139	(27)
Asset-backed securities	399	(5)	170	(3)
Total	<u>\$4,932</u>	<u>\$(20)</u>	<u>\$4,658</u>	<u>\$(35)</u>

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2019				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 1,241	\$ (1)		
U.S. Treasury securities	2,394	(9)	\$ 3,569	\$ (7)
U.S. agency securities	577	(6)	648	(3)
Mortgage-backed securities	7,948	(34)	7,233	(67)
Asset-backed securities	1,091	(6)	316	(2)
Total	<u>\$13,251</u>	<u>\$(56)</u>	<u>\$11,766</u>	<u>\$(79)</u>

As more fully discussed in Note 2 of the 2019 *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 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:

	June 30, 2020	December 31, 2019
Real estate mortgage	\$138,097	\$132,215
Production and intermediate-term*	60,396	59,997
Agribusiness	50,719	50,049
Rural infrastructure	32,875	29,669
Rural residential real estate ...	7,157	7,405
Other**	7,928	7,629
Total loans	<u>\$297,172</u>	<u>\$286,964</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:

	June 30, 2020	December 31, 2019
Real estate mortgage		
Acceptable	93.2%	92.8%
OAEM	3.4	3.6
Substandard/doubtful	3.4	3.6
	<u>100.0</u>	<u>100.0</u>
Production and intermediate-term		
Acceptable	89.6	88.9
OAEM	5.4	5.5
Substandard/doubtful	5.0	5.6
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	93.9	94.4
OAEM	3.9	3.1
Substandard/doubtful	2.2	2.5
	<u>100.0</u>	<u>100.0</u>
Rural infrastructure		
Acceptable	96.7	96.6
OAEM	1.1	1.6
Substandard/doubtful	2.2	1.8
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	96.9	96.9
OAEM	1.1	1.1
Substandard/doubtful	2.0	2.0
	<u>100.0</u>	<u>100.0</u>
Other		
Acceptable	99.0	99.3
OAEM	1.0	0.7
Substandard/doubtful	0.0	0.0
	<u>100.0</u>	<u>100.0</u>
Total Loans		
Acceptable	93.2	92.9
OAEM	3.5	3.6
Substandard/doubtful	3.3	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>June 30, 2020</u>	<u>December 31, 2019</u>
Nonaccrual loans:		
Current as to principal and interest	\$1,011	\$1,147
Past due	<u>912</u>	<u>763</u>
Total nonaccrual loans	<u>1,923</u>	<u>1,910</u>
Impaired accrual loans:		
Restructured accrual loans	293	294
Accrual loans 90 days or more past due	<u>205</u>	<u>71</u>
Total impaired accrual loans	<u>498</u>	<u>365</u>
Total impaired loans	<u>\$2,421</u>	<u>\$2,275</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>June 30, 2020</u>	<u>December 31, 2019</u>
Nonaccrual loans:		
Real estate mortgage	\$ 928	\$ 912
Production and intermediate-term	577	578
Agribusiness	284	315
Rural infrastructure	82	55
Rural residential real estate	<u>52</u>	<u>50</u>
Total nonaccrual loans	<u>1,923</u>	<u>1,910</u>
Accruing restructured loans:		
Real estate mortgage	190	198
Production and intermediate-term	84	82
Agribusiness	12	5
Rural infrastructure		2
Rural residential real estate	<u>7</u>	<u>7</u>
Total accruing restructured loans	<u>293</u>	<u>294</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	152	53
Production and intermediate-term	49	12
Agribusiness	2	4
Rural infrastructure		2
Rural residential real estate	<u>2</u>	<u> </u>
Total accruing loans 90 days or more past due	<u>205</u>	<u>71</u>
Total nonperforming loans	2,421	2,275
Other property owned	<u>66</u>	<u>72</u>
Total nonperforming assets	<u>\$2,487</u>	<u>\$2,347</u>

The following table reflects certain related credit quality statistics:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Nonaccrual loans as a percentage of total loans	0.65%	0.67%
Nonperforming assets as a percentage of total loans and other property owned	0.84	0.82
Nonperforming assets as a percentage of capital	3.84	3.80

Commitments to lend additional funds to borrowers whose loans were classified as impaired were \$101 million at June 30, 2020 and \$91 million at December 31, 2019.

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:

	June 30, 2020			December 31, 2019		
	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	\$ 115	\$ 128	\$ 33	\$ 103	\$ 112	\$ 29
Production and intermediate-term	231	264	69	239	266	69
Agribusiness	216	259	84	248	296	85
Rural infrastructure	77	85	30	55	71	25
Rural residential real estate	7	7	1	7	7	1
Total	<u>646</u>	<u>743</u>	<u>217</u>	<u>652</u>	<u>752</u>	<u>209</u>
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	1,155	1,301		1,060	1,207	
Production and intermediate-term	479	665		433	619	
Agribusiness	82	131		76	127	
Rural infrastructure	5	31		4	11	
Rural residential real estate	54	62		50	59	
Total	<u>1,775</u>	<u>2,190</u>		<u>1,623</u>	<u>2,023</u>	
Total impaired loans:						
Real estate mortgage	1,270	1,429	33	1,163	1,319	29
Production and intermediate-term	710	929	69	672	885	69
Agribusiness	298	390	84	324	423	85
Rural infrastructure	82	116	30	59	82	25
Rural residential real estate	61	69	1	57	66	1
Total	<u>\$2,421</u>	<u>\$2,933</u>	<u>\$217</u>	<u>\$2,275</u>	<u>\$2,775</u>	<u>\$209</u>

* 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 Six Months Ended			
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
	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	\$ 123	\$ 1	\$ 120	\$ 1	\$ 118	\$ 1	\$ 121	\$ 1
Production and intermediate-term . .	262		249		247	1	230	1
Agribusiness	230		250		228		246	
Rural infrastructure	78		66		68		68	1
Rural residential real estate	7		7		7		7	
Total	<u>700</u>	<u>1</u>	<u>692</u>	<u>1</u>	<u>668</u>	<u>2</u>	<u>672</u>	<u>3</u>
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	1,110	12	1,011	5	1,091	25	968	22
Production and intermediate-term . .	451	9	478	15	448	19	461	20
Agribusiness	64	1	139	1	73	17	147	2
Rural infrastructure	12		1		7		1	
Rural residential real estate	50		50		50	1	50	1
Total	<u>1,687</u>	<u>22</u>	<u>1,679</u>	<u>21</u>	<u>1,669</u>	<u>62</u>	<u>1,627</u>	<u>45</u>
Total impaired loans:								
Real estate mortgage	1,233	13	1,131	6	1,209	26	1,089	23
Production and intermediate-term . .	713	9	727	15	695	20	691	21
Agribusiness	294	1	389	1	301	17	393	2
Rural infrastructure	90		67		75		69	1
Rural residential real estate	57		57		57	1	57	1
Total	<u>\$2,387</u>	<u>\$23</u>	<u>\$2,371</u>	<u>\$22</u>	<u>\$2,337</u>	<u>\$64</u>	<u>\$2,299</u>	<u>\$48</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:

	June 30, 2020					
	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	\$ 559	\$494	\$1,053	\$138,551	\$139,604	\$152
Production and intermediate-term	373	345	718	60,262	60,980	49
Agribusiness	46	76	122	50,769	50,891	2
Rural infrastructure	40	5	45	32,921	32,966	
Rural residential real estate	44	20	64	7,119	7,183	2
Other				7,952	7,952	
Total	<u>\$1,062</u>	<u>\$940</u>	<u>\$2,002</u>	<u>\$297,574</u>	<u>\$299,576</u>	<u>\$205</u>

	December 31, 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	\$523	\$341	\$ 864	\$132,923	\$133,787	\$53
Production and intermediate-term	311	246	557	60,175	60,732	12
Agribusiness	21	60	81	50,172	50,253	4
Rural infrastructure	31	15	46	29,720	29,766	2
Rural residential real estate	97	16	113	7,319	7,432	
Other				7,659	7,659	
Total	<u>\$983</u>	<u>\$678</u>	<u>\$1,661</u>	<u>\$287,968</u>	<u>\$289,629</u>	<u>\$71</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 March 31, 2020	\$495	\$543	\$549	\$218	\$18	\$24	\$1,847
Charge-offs	(6)	(19)		(8)			(33)
Recoveries	1	5				1	7
Provision for loan losses (loan loss reversal)	46	47	(7)	12		3	101
Reclassification (to) from reserve for unfunded commitments*	(11)	(8)	(18)				(37)
Balance at June 30, 2020	<u>\$525</u>	<u>\$568</u>	<u>\$524</u>	<u>\$222</u>	<u>\$18</u>	<u>\$28</u>	<u>\$1,885</u>
Balance at March 31, 2019	\$472	\$517	\$512	\$227	\$19	\$21	\$1,768
Charge-offs	(1)	(11)					(12)
Recoveries	1	4	1				6
Provision for loan losses (loan loss reversal)	8	13	(22)	3		(1)	1
Reclassification (to) from reserve for unfunded commitments*	(2)		(6)				(8)
Balance at June 30, 2019	<u>\$478</u>	<u>\$523</u>	<u>\$485</u>	<u>\$230</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,755</u>
Balance at December 31, 2019	\$492	\$546	\$508	\$219	\$18	\$23	\$1,806
Charge-offs	(8)	(32)	(1)	(8)			(49)
Recoveries	3	12	1			1	17
Provision for loan losses	59	51	33	11		4	158
Reclassification (to) from reserve for unfunded commitments*	(21)	(9)	(17)				(47)
Balance at June 30, 2020	<u>\$525</u>	<u>\$568</u>	<u>\$524</u>	<u>\$222</u>	<u>\$18</u>	<u>\$28</u>	<u>\$1,885</u>
Balance at December 31, 2018	\$481	\$501	\$475	\$217	\$19	\$20	\$1,713
Charge-offs	(3)	(26)			(1)		(30)
Recoveries	3	7	2		1		13
Provision for loan losses		43	11	12			66
Reclassification (to) from reserve for unfunded commitments*	(3)	(2)	(3)	1			(7)
Balance at June 30, 2019	<u>\$478</u>	<u>\$523</u>	<u>\$485</u>	<u>\$230</u>	<u>\$19</u>	<u>\$20</u>	<u>\$1,755</u>
Ending Balance at June 30, 2020:							
Individually evaluated for impairment	\$ 33	\$ 69	\$ 84	\$ 30	\$ 1		\$ 217
Collectively evaluated for impairment	492	499	440	192	17	\$28	1,668
Balance at June 30, 2020	<u>\$525</u>	<u>\$568</u>	<u>\$524</u>	<u>\$222</u>	<u>\$18</u>	<u>\$28</u>	<u>\$1,885</u>
Ending Balance at December 31, 2019:							
Individually evaluated for impairment	\$ 29	\$ 69	\$ 85	\$ 25	\$ 1		\$ 209
Collectively evaluated for impairment	463	477	423	194	17	\$23	1,597
Balance at December 31, 2019	<u>\$492</u>	<u>\$546</u>	<u>\$508</u>	<u>\$219</u>	<u>\$18</u>	<u>\$23</u>	<u>\$1,806</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 June 30, 2020:							
Loans individually evaluated for impairment	\$ 1,430	\$ 713	\$ 310	\$ 82	\$ 982	\$ 83	\$ 3,600
Loans collectively evaluated for impairment	<u>138,174</u>	<u>60,267</u>	<u>50,581</u>	<u>32,884</u>	<u>6,201</u>	<u>7,869</u>	<u>295,976</u>
Balance at June 30, 2020	<u>\$139,604</u>	<u>\$60,980</u>	<u>\$50,891</u>	<u>\$32,966</u>	<u>\$7,183</u>	<u>\$7,952</u>	<u>\$299,576</u>
Ending balance at December 31, 2019:							
Loans individually evaluated for impairment	\$ 1,342	\$ 680	\$ 327	\$ 56	\$1,068	\$ 103	\$ 3,576
Loans collectively evaluated for impairment	<u>132,445</u>	<u>60,052</u>	<u>49,926</u>	<u>29,710</u>	<u>6,364</u>	<u>7,556</u>	<u>286,053</u>
Balance at December 31, 2019	<u>\$133,787</u>	<u>\$60,732</u>	<u>\$50,253</u>	<u>\$29,766</u>	<u>\$7,432</u>	<u>\$7,659</u>	<u>\$289,629</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 June 30, 2020		For the Three Months Ended June 30, 2019	
	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	\$28	\$28	\$22	\$22
Production and intermediate-term	19	21	32	32
Agribusiness	1	1		
Rural residential real estate			1	1
Total	<u>\$48</u>	<u>\$50</u>	<u>\$55</u>	<u>\$55</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	For the Six Months Ended June 30, 2020		For the Six Months Ended June 30, 2019	
	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	\$39	\$39	\$26	\$26
Production and intermediate-term	31	33	52	52
Agribusiness	12	12		
Rural residential real estate	1	1	2	2
Total	<u>\$83</u>	<u>\$85</u>	<u>\$80</u>	<u>\$80</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 following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment	
	June 30, 2020	June 30, 2019
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	\$19	\$4
Production and intermediate-term	16	2
Agribusiness	2	—
Total	<u>\$37</u>	<u>\$6</u>

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*	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Real estate mortgage	\$299	\$291	\$109	\$ 93
Production and intermediate-term	166	165	82	83
Agribusiness	144	155	132	150
Rural infrastructure	2	2	2	
Rural residential real estate	12	12	5	5
Total	<u>\$623</u>	<u>\$625</u>	<u>\$330</u>	<u>\$331</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 \$59 million and \$54 million at June 30, 2020 and December 31, 2019.

Loans held for sale were \$138 million and \$36 million at June 30, 2020 and December 31, 2019. 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:

	June 30, 2020	December 31, 2019
Interest rate swaps and other derivatives	\$1,138	\$ 385
Equipment held for lease	667	606
Collateral pledged to derivative counterparties	451	152
Accounts receivable	249	318
Assets held in non-qualified benefits trusts	195	204
Operating lease right-of-use assets	186	182
Investments in rural business investment companies	145	131
Loans held for sale	138	36
Equity investments in other System institutions	118	127
Prepaid expenses	103	76
Other property owned	66	72
Net deferred tax assets	14	13
Other	127	78
Total	\$3,597	\$2,380

Other liabilities consisted of the following:

	June 30, 2020	December 31, 2019
Pension and other postretirement benefit plan liabilities	\$1,162	\$1,251
Interest rate swaps and other derivatives	955	351
Accounts payable	745	482
Patronage and dividends payable	721	2,214
Net deferred tax liabilities	525	431
Accrued salaries and employee benefits	240	322
Reserve for unfunded commitments	216	169
Operating lease liabilities	200	195
Liabilities held in non-qualified benefit trusts	117	124
Bank drafts payable	104	138
Other	231	275
Total	\$5,216	\$5,952

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 June 30, 2020, assets in the Insurance Fund totaled \$5.281 billion and consisted of cash, investments and related accrued interest receivable of \$5.175 billion and of premiums receivable from System institutions of \$106 million accrued on the basis of adjusted outstanding insured debt during the first six months of 2020. Investments held by the

FARM CREDIT SYSTEM

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

(dollars in millions, except as noted)

Insurance Fund must be obligations of the United States or obligations guaranteed as to principal and interest by the United States. During the first six months of 2020, income earned on assets in the Insurance Fund and premiums accrued by the Insurance Corporation totaled \$142 million, net of administrative expenses.

As further discussed in the *2019 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, 2019, the assets in the Insurance Fund exceeded the secure base amount by \$63 million (after deduction of pro-

spective operating expenses for 2020) and the excess was transferred to the Allocated Insurance Reserves Accounts. In March 2020, the Insurance Corporation's board of directors approved and distributed the \$63 million of excess funds to System institutions.

At June 30, 2020, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 1.98% of adjusted insured obligations, as compared with 2.00% at December 31, 2019. The Insurance Fund with the allocated amount was 2.03% of the adjusted insured obligations at December 31, 2019. No amounts were allocated as of June 30, 2020.

NOTE 6 — SYSTEMWIDE DEBT SECURITIES

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at June 30, 2020:

	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	\$ 96,214	0.84%			\$29,051	0.69%	\$125,265	0.81%
Due after 1 year through 2 years	74,183	0.96	\$ 4	7.32%			74,187	0.96
Due after 2 years through 3 years	26,436	1.57					26,436	1.57
Due after 3 years through 4 years	16,730	1.83					16,730	1.83
Due after 4 years through 5 years	13,717	1.80					13,717	1.80
Due after 5 years	53,796	2.57	82	5.75			53,878	2.57
Total	<u>\$281,076</u>	1.38	<u>\$86</u>	5.82	<u>\$29,051</u>	0.69	<u>\$310,213</u>	1.32

Pursuant to authorizations by the Farm Credit Administration, the maximum amount of Systemwide discount notes that Banks in the aggregate may have

outstanding at any one time was increased in March 2020 to \$100 billion in response to the COVID-19 pandemic.

NOTE 7 — CAPITAL STRUCTURE

Capital consisted of the following at June 30, 2020:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	\$ 2,499	\$ 664		\$ 3,163
Capital stock and participation certificates	7,276	483	\$(5,839)	1,920
Additional paid-in-capital	59	3,679		3,738
Restricted capital — Insurance Fund			5,281	5,281
Accumulated other comprehensive (loss) income	856	(140)	(1,131)	(415)
Retained earnings	11,747	39,644	(309)	51,082
Total capital	<u>\$22,437</u>	<u>\$44,330</u>	<u>\$(1,998)</u>	<u>\$64,769</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 \$309 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to \$5.8 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:

	<u>June 30, 2020</u>			<u>December 31, 2019</u>		
	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Unrealized gains on investments available-for-sale, net . . .	\$ 1,479	\$(129)	\$ 1,350	\$ 323	\$(38)	\$ 285
Unrealized losses on cash flow hedges, net	(413)	8	(405)	(204)	9	(195)
Pension and other benefit plans	(1,383)	23	(1,360)	(1,453)	23	(1,430)
Total	<u>\$ (317)</u>	<u>\$ (98)</u>	<u>\$ (415)</u>	<u>\$ (1,334)</u>	<u>\$ (6)</u>	<u>\$ (1,340)</u>

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component for the three and six months ended June 30, 2020 and 2019:

	<u>Unrealized gains on investments available-for-sale, net</u>	<u>Unrealized losses on cash flow hedges, net</u>	<u>Pension and other benefit plans</u>	<u>Accumulated other comprehensive loss</u>
Balance at March 31, 2020	\$1,034	\$(403)	\$(1,395)	\$(764)
Other comprehensive income before reclassifications	315	(12)		303
Amounts reclassified from accumulated other comprehensive loss to income	<u>1</u>	<u>10</u>	<u>35</u>	<u>46</u>
Net current period other comprehensive income (loss)	<u>316</u>	<u>(2)</u>	<u>35</u>	<u>349</u>
Balance at June 30, 2020	<u>\$1,350</u>	<u>\$(405)</u>	<u>\$(1,360)</u>	<u>\$(415)</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	<u>Unrealized gains/ losses on investments available- for-sale, net</u>	<u>Unrealized losses on cash flow hedges, net</u>	<u>Pension and other benefit plans</u>	<u>Accumulated other comprehensive loss</u>
Balance at March 31, 2019	\$(180)	\$ (72)	\$(1,232)	\$(1,484)
Other comprehensive income before reclassifications	482	(110)		372
Amounts reclassified from accumulated other comprehensive loss to income	<u>(8)</u>	<u>3</u>	<u>23</u>	<u>18</u>
Net current period other comprehensive income (loss)	<u>474</u>	<u>(107)</u>	<u>23</u>	<u>390</u>
Balance at June 30, 2019	<u>\$ 294</u>	<u>\$(179)</u>	<u>\$(1,209)</u>	<u>\$(1,094)</u>
	<u>Unrealized gains on investments available- for-sale, net</u>	<u>Unrealized losses on cash flow hedges, net</u>	<u>Pension and other benefit plans</u>	<u>Accumulated other comprehensive loss</u>
Balance at December 31, 2019	\$ 285	\$(195)	\$(1,430)	\$(1,340)
Other comprehensive income before reclassifications	1,072	(226)		846
Amounts reclassified from accumulated other comprehensive loss to income	<u>(7)</u>	<u>16</u>	<u>70</u>	<u>79</u>
Net current period other comprehensive income (loss)	<u>1,065</u>	<u>(210)</u>	<u>70</u>	<u>925</u>
Balance at June 30, 2020	<u>\$1,350</u>	<u>\$(405)</u>	<u>\$(1,360)</u>	<u>\$ (415)</u>
	<u>Unrealized gains/ losses on investments available- for-sale, net</u>	<u>Unrealized gains/ losses on cash flow hedges, net</u>	<u>Pension and other benefit plans</u>	<u>Accumulated other comprehensive loss</u>
Balance at December 31, 2018	\$(481)	\$ 2	\$(1,256)	\$(1,735)
Other comprehensive income before reclassifications	783	(184)		599
Amounts reclassified from accumulated other comprehensive loss to income	<u>(8)</u>	<u>3</u>	<u>47</u>	<u>42</u>
Net current period other comprehensive income (loss)	<u>775</u>	<u>(181)</u>	<u>47</u>	<u>641</u>
Balance at June 30, 2019	<u>\$ 294</u>	<u>\$(179)</u>	<u>\$(1,209)</u>	<u>\$(1,094)</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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.

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.

At June 30, 2020, 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 June 30:

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Service cost	\$ 16	\$ 15	\$ 1	
Interest cost	34	41	2	\$3
Expected return on plan assets	(49)	(49)		
Net amortization and deferral	37	25	1	
Net periodic benefit cost	<u>\$ 38</u>	<u>\$ 32</u>	<u>\$ 4</u>	<u>\$ 3</u>

FARM CREDIT SYSTEM

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

(dollars in millions, except as noted)

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

	Pension Benefits		Other Benefits	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Service cost	\$ 31	\$ 30	\$ 2	\$ 1
Interest cost	68	82	5	6
Expected return on plan assets	(98)	(98)		
Net amortization and deferral	<u>74</u>	<u>50</u>	<u>1</u>	<u>(1)</u>
Net periodic benefit cost	<u>\$ 75</u>	<u>\$ 64</u>	<u>\$ 8</u>	<u>\$ 6</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 June 30, 2020, \$93 million and \$6 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional \$124 million to fund their pension plans and \$7 million to fund their other postretirement benefit plans during the remainder of 2020.

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 2019 Annual Information Statement for additional information.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2020 and December 31, 2019 for each of the fair value hierarchy levels are summarized below:

<u>June 30, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Federal funds sold and securities purchased under resale agreements . . .		\$ 3,889		\$ 3,889
Commercial paper, bankers' acceptances, certificates of deposit and other securities		7,442	\$ 22	7,464
U.S. Treasury securities		25,833		25,833
U.S. agency securities		3,012		3,012
Mortgage-backed securities		27,515	240	27,755
Asset-backed securities		4,235		4,235
Derivative assets		1,138		1,138
Assets held in non-qualified benefits trusts	\$195			195
Total assets	<u>\$195</u>	<u>\$73,064</u>	<u>\$262</u>	<u>\$73,521</u>
Liabilities:				
Derivative liabilities		\$ 955		\$ 955
Standby letters of credit			\$ 16	16
Total liabilities	<u>\$ 0</u>	<u>\$ 955</u>	<u>\$ 16</u>	<u>\$ 971</u>

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

<u>December 31, 2019</u>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds sold and securities purchased under resale agreements . . .		\$ 3,884		\$ 3,884
Commercial paper, bankers' acceptances, certificates of deposit and other securities		7,081	\$ 14	7,095
U.S. Treasury securities		19,237		19,237
U.S. agency securities		3,054		3,054
Mortgage-backed securities		26,338	128	26,466
Asset-backed securities		4,229		4,229
Derivative assets		385		385
Assets held in non-qualified benefits trusts	\$204			204
Total assets	\$204	\$64,208	\$142	\$64,554
Liabilities:				
Derivative liabilities		\$ 351		\$ 351
Standby letters of credit			\$ 13	13
Total liabilities	\$ 0	\$ 351	\$ 13	\$ 364

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 June 30, 2020 and 2019:

	Commercial paper, bankers' acceptances certificates of deposit and other securities	Mortgage-backed securities	Standby letters of credit
Balance at March 31, 2020	\$17	\$187	\$15
Total gains or (losses) realized/unrealized:			
Included in other comprehensive loss	(1)	2	
Purchases	6	126	
Issuances			4
Settlements		(4)	(3)
Transfers from Level 3 into Level 2		(71)	
Balance at June 30, 2020	\$22	\$240	\$16
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2020	\$ (1)	\$ 2	\$ 0

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	<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 March 31, 2019	\$7	\$216	\$ 30	\$12
Total gains or (losses) realized/unrealized:				
Included in other comprehensive loss		1		
Purchases	1	41		
Sales		(19)	(5)	
Issuances				2
Settlements		(8)		(2)
Transfers from Level 3 into Level 2	—	<u>(53)</u>	<u>(25)</u>	—
Balance at June 30, 2019	<u>\$8</u>	<u>\$178</u>	<u>\$ 0</u>	<u>\$12</u>

There were no losses included in earnings during either the second quarter of 2020 or 2019 that were attributable to the change in unrealized gains or

losses relating to assets or liabilities still held at June 30, 2020 and 2019.

The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2020 and 2019:

	<u>Commercial paper, bankers' acceptances certificates of deposit and other securities</u>	<u>Mortgage-backed securities</u>	<u>Standby letters of credit</u>
Balance at December 31, 2019	\$14	\$128	\$13
Total gains or (losses) realized/unrealized:			
Included in other comprehensive loss		(2)	
Purchases	8	196	
Issuances			8
Settlements		(11)	(5)
Transfers from Level 3 into Level 2	—	<u>(71)</u>	—
Balance at June 30, 2020	<u>\$22</u>	<u>\$240</u>	<u>\$16</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2020	<u>\$ 0</u>	<u>\$ (2)</u>	<u>\$ 0</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	<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		2		
Purchases	2	112	25	
Sales		(19)	(5)	
Issuances				4
Settlements		(13)	(1)	(4)
Transfers from Level 3 into Level 2	—	<u>(53)</u>	<u>(25)</u>	—
Balance at June 30, 2019	<u>\$8</u>	<u>\$178</u>	<u>\$ 0</u>	<u>\$12</u>

There were no losses included in earnings during the first six months of 2020 and 2019 that were attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2020 and 2019.

The transfers between Level 3 and Level 2 during the three and six months ended June 30, 2020 and

2019 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 \$512 million and other property owned of \$75 million at June 30, 2020, as compared to \$498 million and \$84 million at December 31, 2019.

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:

	<u>June 30, 2020</u>				
	<u>Total Carrying Amount</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:					
Cash	\$ 2,321	\$2,321			\$ 2,321
Other investments held-to-maturity	1,854		\$460	\$ 1,468	1,928
Net loans	<u>295,287</u>			<u>309,558</u>	<u>309,558</u>
Total assets	<u>\$299,462</u>	<u>\$2,321</u>	<u>\$460</u>	<u>\$311,026</u>	<u>\$313,807</u>
Liabilities:					
Systemwide Debt Securities	\$310,213			\$316,160	\$316,160
Other bonds	2,132			2,132	2,132
Other interest bearing liabilities	<u>1,546</u>		\$ 16	<u>1,565</u>	<u>1,581</u>
Total liabilities	<u>\$313,891</u>	<u>\$ 0</u>	<u>\$ 16</u>	<u>\$319,857</u>	<u>\$319,873</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 203</u>	<u>\$ 203</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

	December 31, 2019				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 1	Level 1	
Assets:					
Cash	\$ 2,504	\$2,504			\$ 2,504
Other investments held-to-maturity	1,797		\$314	\$ 1,513	1,827
Net loans	<u>285,158</u>			<u>294,851</u>	<u>294,851</u>
Total assets	<u>\$289,459</u>	<u>\$2,504</u>	<u>\$314</u>	<u>\$296,364</u>	<u>\$299,182</u>
Liabilities:					
Systemwide Debt Securities	\$293,538			\$295,988	\$295,988
Other bonds	1,961			1,961	1,961
Other interest bearing liabilities	<u>1,155</u>		\$ 6	<u>1,170</u>	<u>1,176</u>
Total liabilities	<u>\$296,654</u>	<u>\$ 0</u>	<u>\$ 6</u>	<u>\$299,119</u>	<u>\$299,125</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 186</u>	<u>\$ 186</u>

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	
	June 30, 2020	December 31, 2019			June 30, 2020	December 31, 2019
	Commercial paper, bankers' acceptances, certificates of deposit and other securities	<u>\$ 22</u>			<u>\$ 14</u>	Discounted cash flow
Mortgage-backed securities	\$ 25	\$ 29	Discounted cash flow	Prepayment rate	2.4%-38.0%	2.4%-38.0%
	215	99	Vendor priced			
	<u>\$240</u>	<u>\$128</u>				
Standby letters of credit	<u>\$ 16</u>	<u>\$ 13</u>	Discounted cash flow	Rate of funding	50.0%	50.0%
				Risk-adjusted spread	0.1%-1.2%	0.1%-1.3%

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
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 *2019 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 mortgage-backed 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.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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.

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 marketplace.

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 resulting from changes in interest rates.

In addition, derivative transactions, particularly interest rate swaps, are entered into to lower funding

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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 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 invest-

ments) 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 six months ended June 30, 2020 and 2019 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, 2019	\$15,660	\$11,793	\$2,300	\$6,480	\$ 9,537	\$ 45,770
Additions	3,167	9,114		110	6,611	19,002
Maturities/amortization	(2,338)	(3,164)	(100)	(101)	(4,755)	(10,458)
Terminations		(590)			(232)	(822)
Balance at June 30, 2020	<u>\$16,489</u>	<u>\$17,153</u>	<u>\$2,200</u>	<u>\$6,489</u>	<u>\$11,161</u>	<u>\$ 53,492</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, 2018	\$13,947	\$10,656	\$2,500	\$4,306	\$ 7,893	\$39,302
Additions	3,197	1,863		2,233	4,271	11,564
Maturities/amortization	(1,411)	(1,119)		(44)	(3,358)	(5,932)
Terminations		(494)			(494)	(988)
Balance at June 30, 2019	<u>\$15,733</u>	<u>\$10,906</u>	<u>\$2,500</u>	<u>\$6,495</u>	<u>\$ 8,312</u>	<u>\$43,946</u>

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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's exposure to counterparties was \$8 million at June 30, 2020 and \$5 million at December 31, 2019.

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 June 30, 2020 and December 31, 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
	June 30, 2020	June 30, 2020
Systemwide debt securities	\$17,819	\$462

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

	Carrying Amount of the Hedged Item	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item
	December 31, 2019	December 31, 2019
Systemwide debt securities	\$17,032	\$171

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 “net gains on derivative transactions” 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 June 30, 2020	Fair Value December 31, 2019	Balance Sheet Classification Liabilities	Fair Value June 30, 2020	Fair Value December 31, 2019
Derivatives designated as hedging instruments:						
Receive-fixed swaps	Other assets	\$ 465	\$ 184	Other liabilities		\$ 10
Pay-fixed and amortizing pay-fixed swaps	Other assets		6	Other liabilities	\$ 341	133
Interest rate caps and floors	Other assets	60	39			
Floating-for-floating and amortizing floating-for-floating swaps				Other liabilities	4	4
Foreign exchange contracts				Other liabilities	1	2
Total derivatives designated as hedging instruments		525	229		346	149
Derivatives not designated as hedging instruments:						
Pay-fixed and amortizing pay-fixed swaps	Other assets		2	Other liabilities	12	2
Derivatives entered into on behalf of customers	Other assets	826	300	Other liabilities	721	236
Other derivative products	Other assets	1				
Total derivatives not designated as hedging instruments		827	302		733	238
Variation margin settlement		(205)	(137)		(115)	(27)
Total derivatives		\$1,147	\$ 394		\$ 964	\$360

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

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	
	June 30, 2020	June 30, 2019		June 30, 2020	June 30, 2019
Pay-fixed and amortizing pay-fixed swaps	\$(248)	\$(147)	Interest expense	\$ (9)	\$ 3
Floating-for-floating and amortizing floating-for-floating swaps		(1)	Interest expense	(1)	(1)
Interest rate caps and floors	21	(35)	Interest expense	(7)	(5)
Foreign exchange contracts	1	(1)	Interest income	1	—
Total	<u>\$(226)</u>	<u>\$(184)</u>		<u>\$(16)</u>	<u>\$(3)</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 Six Months Ended June 30, 2020		For the Six Months Ended June 30, 2019	
	Interest Expense	Interest Income	Interest Expense	Interest Income
Total amount of income and expense line items in which the effects of fair value or cash flow hedges are recorded	\$2,460	\$6,865	\$3,500	\$7,565
Effects of fair value and cash flow hedging:				
Fair value hedges:				
Receive-fixed swaps	(292)		(245)	
Systemwide Debt Securities	291		241	
Cash flow hedges:				
Pay-fixed and amortizing pay-fixed swaps	9		(3)	
Floating-for-floating and amortizing floating-for-floating swaps	1		1	
Interest rate caps and floors	7		5	
Foreign exchange contracts		1		
Amount excluded from effectiveness testing recognized in earnings based on change in fair value		1		

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

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:

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain or (Loss)</u>	<u>For the Six Months Ended</u>	
		<u>June 30, 2020</u>	<u>June 30, 2019</u>
Pay-fixed and amortizing pay-fixed swaps	Noninterest income	\$(12)	\$ (3)
Derivatives entered into on behalf of customers	Noninterest income	42	25
Other derivative products	Noninterest income	(3)	(8)
Total		<u>\$ 27</u>	<u>\$14</u>

NOTE 11 — ASSET/LIABILITY OFFSETTING

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

<u>June 30, 2020</u>	<u>Gross Amounts Recognized</u>	<u>Gross Amounts Offset in the Condensed Combined Statement of Condition</u>	<u>Net Amounts Presented in the Condensed Combined Statement of Condition</u>	<u>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</u>			<u>Net Amount</u>
				<u>Securities Received/ Pledged</u>	<u>Cash Collateral Received/Pledged</u>	<u>Cleared Derivative Initial Margin Pledged</u>	
Assets:							
Interest rate swaps and other derivatives	\$1,147	\$(9)	\$1,138			\$ 34	\$1,172
Federal Funds sold and securities purchased under resale agreements	3,889		3,889	\$(675)			3,214
Liabilities:							
Interest rate swaps and other derivatives	964	(9)	955		\$(451)	(59)	445

<u>December 31, 2019</u>	<u>Gross Amounts Recognized</u>	<u>Gross Amounts Offset in the Condensed Combined Statement of Condition</u>	<u>Net Amounts Presented in the Condensed Combined Statement of Condition</u>	<u>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</u>			<u>Net Amount</u>
				<u>Securities Received/ Pledged</u>	<u>Cash Collateral Received/Pledged</u>	<u>Cleared Derivative Initial Margin Pledged</u>	
Assets:							
Interest rate swaps and other derivatives	\$ 394	\$(9)	\$ 385			\$ 30	\$ 415
Federal Funds sold and securities purchased under resale agreements	3,884		3,884	\$(775)			3,109
Liabilities:							
Interest rate swaps and other derivatives	360	(9)	351		\$(152)	(62)	137

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:

	June 30, 2020
Commitments to extend credit	\$91,723
Standby letters of credit	2,258
Commercial and other letters of credit	127

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. On November 13, 2019, the court issued a scheduling order for a bench trial to start on June 1, 2020. On March 25, 2020, the court issued an order postponing the trial date. The court did not set a new trial date. AgriBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

At June 30, 2020, 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,

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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.

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**

June 30, 2020

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 621	\$ 805	\$ 252	\$ 495		\$ 2,173
Federal funds sold and securities purchased under resale agreements	425	905	309	2,250		3,889
Investments (Note 2)	8,553	17,309	5,589	36,273		67,724
Loans						
To Associations(1)	17,323	92,755	13,815	56,043		179,936
To others(2)	8,393	11,727	6,821	55,061	\$(350)	81,652
Less: allowance for loan losses	(19)	(39)	(12)	(667)		(737)
Net loans	25,697	104,443	20,624	110,437	(350)	260,851
Accrued interest receivable	85	578	76	394		1,133
Other assets	344	223	432	2,128	69	3,196
Total assets	<u>\$35,725</u>	<u>\$124,263</u>	<u>\$27,282</u>	<u>\$151,977</u>	<u>\$(281)</u>	<u>\$338,966</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 6):						
Due within one year	\$13,864	\$ 35,546	\$10,162	\$ 65,693		\$125,265
Due after one year	19,107	80,034	14,861	70,946		184,948
Total Systemwide Debt Securities	32,971	115,580	25,023	136,639		310,213
Accrued interest payable	32	343	62	363		800
Other liabilities	86	1,801	259	3,396	\$ (26)	5,516
Total liabilities	33,089	117,724	25,344	140,398	(26)	316,529
Capital						
Preferred stock	49	250	700	1,500		2,499
Capital stock and participation certificates	325	3,176	387	3,653	(265)	7,276
Additional paid-in-capital	59					59
Accumulated other comprehensive income (loss)	198	(127)	(33)	833	(15)	856
Retained earnings	2,005	3,240	884	5,593	25	11,747
Total capital	2,636	6,539	1,938	11,579	(255)	22,437
Total liabilities and capital	<u>\$35,725</u>	<u>\$124,263</u>	<u>\$27,282</u>	<u>\$151,977</u>	<u>\$(281)</u>	<u>\$338,966</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, 2019**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 444	\$ 676	\$ 48	\$ 949		\$ 2,117
Federal funds sold and securities purchased under resale agreements	650	1,050	374	1,810		3,884
Investments (Note 2)	7,933	14,368	5,295	32,426		60,022
Loans						
To Associations(1)	16,830	89,068	12,935	54,357		173,190
To others(2)	8,282	9,230	6,563	54,497	\$(330)	78,242
Less: allowance for loan losses	(18)	(32)	(11)	(655)		(716)
Net loans	<u>25,094</u>	<u>98,266</u>	<u>19,487</u>	<u>108,199</u>	<u>(330)</u>	<u>250,716</u>
Accrued interest receivable	95	727	80	454		1,356
Other assets	289	145	380	1,166	(33)	1,947
Total assets	<u>\$34,505</u>	<u>\$115,232</u>	<u>\$25,664</u>	<u>\$145,004</u>	<u>\$(363)</u>	<u>\$320,042</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 6):						
Due within one year	\$12,076	\$ 33,097	\$ 9,315	\$ 59,639		\$114,127
Due after one year	19,648	74,022	14,159	71,582		179,411
Total Systemwide Debt Securities	31,724	107,119	23,474	131,221		293,538
Accrued interest payable	104	408	85	426		1,023
Other liabilities	346	1,523	261	2,790	\$(104)	4,816
Total liabilities	<u>32,174</u>	<u>109,050</u>	<u>23,820</u>	<u>134,437</u>	<u>(104)</u>	<u>299,377</u>
Capital						
Preferred stock	49	250	700	1,500		2,499
Capital stock and participation certificates ...	325	2,872	388	3,622	(267)	6,940
Additional paid-in-capital	59					59
Accumulated other comprehensive (loss) income	48	(78)	(52)	94	(14)	(2)
Retained earnings	1,850	3,138	808	5,351	22	11,169
Total capital	<u>2,331</u>	<u>6,182</u>	<u>1,844</u>	<u>10,567</u>	<u>(259)</u>	<u>20,665</u>
Total liabilities and capital	<u>\$34,505</u>	<u>\$115,232</u>	<u>\$25,664</u>	<u>\$145,004</u>	<u>\$(363)</u>	<u>\$320,042</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, approximately 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 Six Months Ended June 30,

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
2020						
Interest income	\$ 495	\$ 1,320	\$ 373	\$ 1,836	\$ 30	\$ 4,054
Interest expense	(242)	(931)	(221)	(1,077)	16	(2,455)
Net interest income	253	389	152	759	46	1,599
Provision for loan losses	(1)	(6)	(1)	(42)		(50)
Noninterest income	(21)	112	15	152	(73)	185
Noninterest expense	(75)	(69)	(57)	(201)	(16)	(418)
Provision for income taxes				(73)		(73)
Net income	156	426	109	595	(43)	1,243
Other comprehensive income (loss)	150	(49)	19	739	(1)	858
Comprehensive income	<u>\$ 306</u>	<u>\$ 377</u>	<u>\$ 128</u>	<u>\$ 1,334</u>	<u>\$(44)</u>	<u>\$ 2,101</u>
2019						
Interest income	\$ 561	\$ 1,586	\$ 399	\$ 2,322	\$ (3)	\$ 4,865
Interest expense	(365)	(1,263)	(271)	(1,613)	19	(3,493)
Net interest income	196	323	128	709	16	1,372
Provision for loan losses		(5)		(21)		(26)
Noninterest income	4	37	20	120	(37)	144
Noninterest expense	(70)	(68)	(53)	(191)	(16)	(398)
Provision for income taxes				(65)		(65)
Net income	130	287	95	552	(37)	1,027
Other comprehensive income (loss)	115	(27)	30	479		597
Comprehensive income	<u>\$ 245</u>	<u>\$ 260</u>	<u>\$ 125</u>	<u>\$ 1,031</u>	<u>\$(37)</u>	<u>\$ 1,624</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
For the Six Months Ended June 30

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
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	245	260	125	1,031	(37)	1,624
Preferred stock dividends	(1)	(9)	(28)	(44)		(82)
Capital stock and participation certificates issued		38	1			39
Capital stock, participation certificates, and retained earnings retired	(2)			(44)	4	(42)
Patronage		(139)	(5)	(238)	33	(349)
Balance at June 30, 2019	<u>\$2,466</u>	<u>\$6,039</u>	<u>\$1,870</u>	<u>\$10,249</u>	<u>\$(241)</u>	<u>\$20,383</u>
Balance at December 31, 2019	\$2,331	\$6,182	\$1,844	\$10,567	\$(259)	\$20,665
Comprehensive income	306	377	128	1,334	(44)	2,101
Preferred stock dividends	(1)	(9)	(28)	(42)		(80)
Capital stock and participation certificates issued		437	1			438
Capital stock, participation certificates, and retained earnings retired		(133)	(2)	(35)	8	(162)
Patronage		(315)	(5)	(245)	40	(525)
Balance at June 30, 2020	<u>\$2,636</u>	<u>\$6,539</u>	<u>\$1,938</u>	<u>\$11,579</u>	<u>\$(255)</u>	<u>\$22,437</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 six months ended:				
<u>June 30, 2020</u>				
Return on average assets	0.88%	0.72%	0.81%	0.79%
Return on average capital	12.50%	13.48%	11.46%	10.64%
<u>June 30, 2019</u>				
Return on average assets	0.79%	0.52%	0.77%	0.80%
Return on average capital	11.22%	9.59%	10.41%	11.25%
For the period ended:				
<u>June 30, 2020</u>				
Nonperforming assets as a percentage of loans and other property owned	0.18%	0.10%	0.09%	0.23%
Allowance for loan losses as a percentage of loans	0.07%	0.04%	0.06%	0.60%
Capital as a percentage of total assets	7.38%	5.26%	7.10%	7.62%
Tier 1 Leverage ratio	6.46%	5.40%	6.60%	6.91%
Total Capital ratio	18.0%	17.7%	15.0%	15.4%
Permanent capital ratio	17.9%	17.7%	15.0%	14.5%
Liquidity in days	223	180	205	188
Average liquidity in days during 2020	224	165	214	190
<u>December 31, 2019</u>				
Nonperforming assets as a percentage of loans and other property owned	0.17%	0.07%	0.10%	0.23%
Allowance for loan losses as a percentage of loans	0.07%	0.03%	0.06%	0.60%
Capital as a percentage of total assets	6.76%	5.36%	7.19%	7.29%
Tier 1 Leverage ratio	7.10%	5.49%	7.26%	7.51%
Total Capital ratio	19.5%	17.9%	16.1%	15.9%
Permanent capital ratio	19.3%	17.8%	16.0%	15.0%
Liquidity in days	222	166	211	176
Average liquidity in days during 2019	229	153	227	177

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 which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)

(unaudited)

(dollars in millions, except as noted)

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 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. The receiver would be required to expeditiously liquidate the Bank.

NOTE 14 — SUBSEQUENT EVENTS

On July 15, 2020, the Farm Credit Bank of Texas issued \$350 million of non-cumulative subordinated perpetual preferred stock. Proceeds from this preferred stock issuance were for general corporate purposes. On July 20, 2020, the Farm Credit Bank of Texas notified holders of its \$300 million non-cumulative subordinated perpetual preferred stock that it will redeem all outstanding shares at par on August 19, 2020.

The Banks and Associations have evaluated subsequent events through August 6, 2020, 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)
June 30, 2020
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 73,786	\$ 2,577		\$ 76,363		\$ 76,363
Loans	261,588	215,612	\$(180,028)	297,172		297,172
Less: allowance for loan losses	(737)	(1,148)		(1,885)		(1,885)
Net loans	260,851	214,464	(180,028)	295,287		295,287
Other assets	4,329	10,913	(7,497)	7,745		7,745
Restricted assets					\$5,281	5,281
Total assets	<u>\$338,966</u>	<u>\$227,954</u>	<u>\$(187,525)</u>	<u>\$379,395</u>	<u>\$5,281</u>	<u>\$384,676</u>
Systemwide Debt Securities	\$310,213			\$310,213		\$310,213
Other liabilities	6,316	\$183,624	\$(180,246)	9,694		9,694
Total liabilities	<u>316,529</u>	<u>183,624</u>	<u>(180,246)</u>	<u>319,907</u>		<u>319,907</u>
Capital						
Preferred stock	2,499	664		3,163		3,163
Capital stock and participation certificates	7,276	483	(5,839)	1,920		1,920
Additional paid-in-capital	59	3,679		3,738		3,738
Restricted capital					\$5,281	5,281
Accumulated other comprehensive (loss) income	856	(140)	(1,131)	(415)		(415)
Retained earnings	11,747	39,644	(309)	51,082		51,082
Total capital	<u>22,437</u>	<u>44,330</u>	<u>(7,279)</u>	<u>59,488</u>	<u>5,281</u>	<u>64,769</u>
Total liabilities and capital	<u>\$338,966</u>	<u>\$227,954</u>	<u>\$(187,525)</u>	<u>\$379,395</u>	<u>\$5,281</u>	<u>\$384,676</u>

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

COMBINING STATEMENT OF CONDITION — (Condensed)
December 31, 2019
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 66,023	\$ 2,243		\$ 68,266		\$ 68,266
Loans	251,432	208,775	\$(173,243)	286,964		286,964
Less: allowance for loan losses	(716)	(1,090)		(1,806)		(1,806)
Net loans	250,716	207,685	(173,243)	285,158		285,158
Other assets	3,303	10,991	(7,561)	6,733		6,733
Restricted assets					\$5,202	5,202
Total assets	<u>\$320,042</u>	<u>\$220,919</u>	<u>\$(180,804)</u>	<u>\$360,157</u>	<u>\$5,202</u>	<u>\$365,359</u>
Systemwide Debt Securities	\$293,538			\$293,538		\$293,538
Other liabilities	5,839	\$178,231	\$(173,979)	10,091		10,091
Total liabilities	<u>299,377</u>	<u>178,231</u>	<u>(173,979)</u>	<u>303,629</u>		<u>303,629</u>
Capital						
Preferred stock	2,499	622		3,121		3,121
Capital stock and participation certificates	6,940	583	(5,514)	2,009		2,009
Additional paid-in-capital	59	3,679		3,738		3,738
Restricted capital					\$5,202	5,202
Accumulated other comprehensive loss	(2)	(167)	(1,171)	(1,340)		(1,340)
Retained earnings	11,169	37,971	(140)	49,000		49,000
Total capital	<u>20,665</u>	<u>42,688</u>	<u>(6,825)</u>	<u>56,528</u>	<u>5,202</u>	<u>61,730</u>
Total liabilities and capital	<u>\$320,042</u>	<u>\$220,919</u>	<u>\$(180,804)</u>	<u>\$360,157</u>	<u>\$5,202</u>	<u>\$365,359</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 Six Months Ended June 30, 2020
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	\$1,599	\$ 2,828	\$ (22)	\$ 4,405			\$ 4,405
Provision for loan losses	(50)	(108)		(158)			(158)
Noninterest income	185	966	(758)	393	\$144	\$(169)(a)(b)	368
Noninterest expense	(418)	(1,462)	124	(1,756)	(2)	106 (a)	(1,652)
Provision for income taxes	(73)	(17)		(90)			(90)
Net income	1,243	2,207	(656)	2,794	142	(63)	2,873
Other comprehensive income . . .	858	27	40	925			925
Comprehensive income	<u>\$2,101</u>	<u>\$ 2,234</u>	<u>\$(616)</u>	<u>\$ 3,719</u>	<u>\$142</u>	<u>\$ (63)</u>	<u>\$ 3,798</u>

For the Six Months Ended June 30, 2019
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	\$1,372	\$ 2,692	\$ 1	\$ 4,065			\$ 4,065
Provision for loan losses	(26)	(40)		(66)			(66)
Noninterest income	144	818	(624)	338	\$162	\$(180)(a)(b)	320
Noninterest expense	(398)	(1,376)	95	(1,679)	(3)	114 (a)	(1,568)
Provision for income taxes	(65)	(18)		(83)			(83)
Net income	1,027	2,076	(528)	2,575	159	(66)	2,668
Other comprehensive income . . .	597	21	23	641			641
Comprehensive income	<u>\$1,624</u>	<u>\$ 2,097</u>	<u>\$(505)</u>	<u>\$ 3,216</u>	<u>\$159</u>	<u>\$ (66)</u>	<u>\$ 3,309</u>

Combination entry (a) eliminates the Insurance Fund premiums expensed by the Banks in the first six months of 2020 and 2019 of \$106 million and \$114 million and the related income recognized by the Insurance Corporation.

Combination entry (b) eliminates \$63 million and \$66 million of income recognized by System institutions for excess funds that were returned from the Insurance Corporation during the first quarters of 2020 and 2019.

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)
June 30, 2020
(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>
Cash and investments	\$ 9,649	\$ 20,830	\$ 6,247	\$ 39,648	\$ (11)	\$ 76,363
Loans	31,501	121,166	27,458	122,448	(5,401)	297,172
Less: allowance for loan losses	<u>(225)</u>	<u>(552)</u>	<u>(95)</u>	<u>(1,013)</u>	<u>—</u>	<u>(1,885)</u>
Net loans	31,276	120,614	27,363	121,435	(5,401)	295,287
Other assets	767	2,569	837	3,622	(50)	7,745
Restricted assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	5,281	5,281
Total assets	<u>\$41,692</u>	<u>\$144,013</u>	<u>\$34,447</u>	<u>\$164,705</u>	<u>\$ (181)</u>	<u>\$384,676</u>
Systemwide Debt Securities	\$32,971	\$115,580	\$25,023	\$136,639	<u>—</u>	\$310,213
Other liabilities	<u>1,621</u>	<u>2,987</u>	<u>4,470</u>	<u>5,502</u>	\$(4,886)	<u>9,694</u>
Total liabilities	<u>34,592</u>	<u>118,567</u>	<u>29,493</u>	<u>142,141</u>	(4,886)	319,907
Capital						
Preferred stock	49	350	720	2,044	<u>—</u>	3,163
Capital stock and participation certificates	176	290	120	1,707	(373)	1,920
Additional paid-in-capital	83	2,085	225	1,345	<u>—</u>	3,738
Restricted capital	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	5,281	5,281
Accumulated other comprehensive (loss) income	(146)	(582)	(128)	503	(62)	(415)
Retained earnings	<u>6,938</u>	<u>23,303</u>	<u>4,017</u>	<u>16,965</u>	(141)	<u>51,082</u>
Total capital	<u>7,100</u>	<u>25,446</u>	<u>4,954</u>	<u>22,564</u>	4,705	<u>64,769</u>
Total liabilities and capital	<u>\$41,692</u>	<u>\$144,013</u>	<u>\$34,447</u>	<u>\$164,705</u>	<u>\$ (181)</u>	<u>\$384,676</u>

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

STATEMENT OF CONDITION — (Condensed)
December 31, 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	\$ 9,114	\$ 17,852	\$ 5,819	\$ 35,479	\$ 2	\$ 68,266
Loans	30,719	115,179	26,337	119,995	(5,266)	286,964
Less: allowance for loan losses	(211)	(519)	(90)	(986)		(1,806)
Net loans	30,508	114,660	26,247	119,009	(5,266)	285,158
Other assets	710	2,721	781	2,704	(183)	6,733
Restricted assets					5,202	5,202
Total assets	<u>\$40,332</u>	<u>\$135,233</u>	<u>\$32,847</u>	<u>\$157,192</u>	<u>\$ (245)</u>	<u>\$365,359</u>
Systemwide Debt Securities	\$31,724	\$107,119	\$23,474	\$131,221		\$293,538
Other liabilities	1,935	3,387	4,672	4,972	\$(4,875)	10,091
Total liabilities	<u>33,659</u>	<u>110,506</u>	<u>28,146</u>	<u>136,193</u>	<u>(4,875)</u>	<u>303,629</u>
Capital						
Preferred stock	49	350	720	2,002		3,121
Capital stock and participation certificates	166	390	119	1,702	(368)	2,009
Additional paid-in-capital	83	2,085	225	1,345		3,738
Restricted capital					5,202	5,202
Accumulated other comprehensive loss	(314)	(557)	(153)	(254)	(62)	(1,340)
Retained earnings	6,689	22,459	3,790	16,204	(142)	49,000
Total capital	<u>6,673</u>	<u>24,727</u>	<u>4,701</u>	<u>20,999</u>	<u>4,630</u>	<u>61,730</u>
Total liabilities and capital	<u>\$40,332</u>	<u>\$135,233</u>	<u>\$32,847</u>	<u>\$157,192</u>	<u>\$ (245)</u>	<u>\$365,359</u>

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

STATEMENT OF COMPREHENSIVE INCOME — (Condensed)
For the Six Months Ended June 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>
<u>2020</u>						
Net interest income	\$ 581	\$1,703	\$ 433	\$1,645	\$ 43	\$ 4,405
Provision for loan losses	(15)	(59)	(6)	(78)		(158)
Noninterest income	9	176	41	262	(120)	368
Noninterest expense	(270)	(659)	(200)	(609)	86	(1,652)
Provision for income taxes	(1)	(15)		(74)		(90)
Net income	304	1,146	268	1,146	9	2,873
Other comprehensive income (loss)	168	(25)	25	757		925
Comprehensive income	<u>\$ 472</u>	<u>\$1,121</u>	<u>\$ 293</u>	<u>\$1,903</u>	<u>\$ 9</u>	<u>\$ 3,798</u>
<u>2019</u>						
Net interest income	\$ 513	\$1,597	\$ 399	\$1,539	\$ 17	\$ 4,065
Provision for loan losses	(3)	(14)	(9)	(40)		(66)
Noninterest income	29	120	39	208	(76)	320
Noninterest expense	(260)	(626)	(194)	(579)	91	(1,568)
Provision for income taxes		(16)		(67)		(83)
Net income	279	1,061	235	1,061	32	2,668
Other comprehensive income (loss)	130	(12)	35	487	1	641
Comprehensive income	<u>\$ 409</u>	<u>\$1,049</u>	<u>\$ 270</u>	<u>\$1,548</u>	<u>\$ 33</u>	<u>\$ 3,309</u>

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

STATEMENT OF CHANGES IN CAPITAL — (Condensed)
For the Six Months Ended June 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, 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	409	1,049	270	1,548	33	3,309
Preferred stock issued, net				50		50
Capital stock and participation certificates issued	21	19	4	4	(4)	44
Capital stock, participation certificates, and retained earnings retired	(15)	(14)	(4)	(47)	5	(75)
Patronage and dividends	(69)	(233)	(40)	(268)	54	(556)
Balance at June 30, 2019	<u>\$6,819</u>	<u>\$24,312</u>	<u>\$4,761</u>	<u>\$20,809</u>	<u>\$4,524</u>	<u>\$61,225</u>
Balance at December 31, 2019	\$6,673	\$24,727	\$4,701	\$20,999	\$4,630	\$61,730
Comprehensive income	472	1,121	293	1,903	9	3,798
Preferred stock issued, net				42		42
Capital stock and participation certificates issued	25	25	6	4	(6)	54
Capital stock, participation certificates, and retained earnings retired	(15)	(125)	(5)	(59)	7	(197)
Patronage and dividends	(55)	(302)	(41)	(325)	65	(658)
Balance at June 30, 2020	<u>\$7,100</u>	<u>\$25,446</u>	<u>\$4,954</u>	<u>\$22,564</u>	<u>\$4,705</u>	<u>\$64,769</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 six months ended:				
<u>June 30, 2020</u>				
Return on average assets	1.47%	1.65%	1.57%	1.41%
Return on average capital	8.75%	9.15%	11.02%	10.43%
Net interest margin	2.88%	2.50%	2.64%	2.10%
Net loan charge-offs as a % of average loans	0.01%	0.04%	0.00%	0.02%
Operating expense as a % of net interest income and noninterest income	45.48%	35.11%	42.15%	31.92%
<u>June 30, 2019</u>				
Return on average assets	1.44%	1.65%	1.47%	1.41%
Return on average capital	8.38%	8.89%	10.03%	10.55%
Net interest margin	2.69%	2.52%	2.56%	2.07%
Net loan charge-offs as a % of average loans	0.03%	0.01%	0.02%	0.01%
Operating expense as a % of net interest income and noninterest income	47.91%	36.25%	44.27%	33.14%
At the period ended:				
<u>June 30, 2020</u>				
Nonperforming assets as a % of loans and other property owned ..	1.37%	0.88%	0.80%	0.63%
Allowance for loan losses as a % of loans	0.71%	0.46%	0.35%	0.83%
Capital as a % of total assets	17.03%	17.67%	14.38%	13.70%
Capital and allowance for loan losses as a % of loans	23.25%	21.46%	18.39%	19.25%
Debt to capital	4.87:1	4.66:1	5.95:1	6.30:1
<u>December 31, 2019</u>				
Nonperforming assets as a % of loans and other property owned ..	1.36%	0.88%	0.70%	0.61%
Allowance for loan losses as a % of loans	0.69%	0.45%	0.34%	0.82%
Capital as a % of total assets	16.55%	18.28%	14.31%	13.36%
Capital and allowance for loan losses as a % of loans	22.41%	21.92%	18.19%	18.32%
Debt to capital	5.04:1	4.47:1	5.99:1	6.49:1

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		
	June 30, 2020			June 30, 2020		
	-7	+100	+200	-7	+100	+200
AgFirst	0.04%	-0.71%	-3.86%	-0.22%	5.81%	8.90%
AgriBank	0.05	-2.24	-6.09	-0.11	-1.06	0.06
Texas	0.31	-5.08	-11.45	0.52	1.30	2.45
CoBank	0.21	-2.75	-5.77	0.05	0.20	0.72

District	Change in Market Value of Equity			Change in Net Interest Income		
	December 31, 2019			December 31, 2019		
	-78	+100	+200	-78	+100	+200
AgFirst	3.07%	-3.33%	-7.84%	3.17%	4.18%	5.66%
AgriBank	1.62	-3.58	-7.35	-0.93	0.58	1.66
Texas	4.02	-5.72	-12.39	3.25	2.04	3.31
CoBank	2.29	-3.44	-6.72	-0.55	1.70	3.57

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 June 30, 2020					For the Six Months Ended June 30, 2020		
	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	\$ 2,918	\$ 2,869	1.23%	3.21%	22.11%	1.72%	7.42%	2.53%
First South Farm Credit, ACA	2,470	2,371	0.67	0.33	17.93	1.57	8.26	2.61
AgChoice Farm Credit, ACA	2,302	2,261	0.71	0.45	17.56	2.09	10.88	2.70
AgCredit, ACA	2,095	2,029	0.66	0.87	20.50	2.06	11.58	2.68
AgSouth Farm Credit, ACA	1,934	1,867	0.88	1.29	21.91	2.40	11.17	3.47
Farm Credit of the Virginias, ACA	1,850	1,809	0.95	2.38	23.86	1.76	7.19	2.84
Carolina Farm Credit, ACA	1,673	1,607	0.56	1.13	20.79	2.05	9.98	3.34
AgriBank District								
Farm Credit Services of America, ACA	32,283	30,894	0.55	0.90	16.46	2.04	10.80	2.58
Farm Credit Mid-America, ACA	24,444	22,751	0.34	1.57	20.35	1.60	7.93	2.16
Compeer Financial, ACA	23,358	20,962	0.48	0.72	15.07	1.77	10.38	2.28
GreenStone FCS, ACA	10,472	10,115	0.84	0.68	16.36	2.52	14.06	2.45
AgCountry, ACA	8,608	8,221	0.32	0.34	17.93	1.90	8.79	2.50
FCS Financial, ACA	4,769	4,564	0.42	0.39	17.66	1.83	9.17	2.40
Farm Credit of Illinois, ACA	4,686	4,404	0.20	0.09	19.41	1.91	8.46	2.25
AgHeritage Farm Credit Services, ACA	1,673	1,615	0.54	0.86	18.06	2.08	9.92	2.71
Farm Credit Services of Western Arkansas, ACA	1,597	1,530	0.19	0.86	19.04	1.93	9.64	2.93
Texas District								
Capital Farm Credit, ACA	8,370	8,108	0.39	1.10	14.73	2.55	15.62	3.06
AgTexas Farm Credit Services	2,222	2,052	0.30	1.65	13.23	1.65	12.58	2.25
Lone Star, ACA	1,823	1,785	0.45	0.37	18.82	1.81	8.74	2.80
Texas Farm Credit Services	1,500	1,434	0.42	1.02	13.71	2.26	15.11	2.86
CoBank District								
American AgCredit, ACA	13,478	12,736	0.27	0.58	12.37	1.78	10.02	2.83
Northwest Farm Credit Services, ACA	13,164	12,029	0.69	0.65	18.35	2.26	10.82	3.03
Farm Credit West, ACA	11,369	10,851	0.72	1.06	14.85	2.72	12.72	2.97
Farm Credit East, ACA	8,124	7,805	0.99	0.66	18.11	2.55	12.85	3.04
Yosemite Farm Credit, ACA	3,334	3,166	0.29	0.72	14.35	1.54	8.83	2.83
Frontier Farm Credit, ACA	2,233	2,117	0.52	0.70	18.11	1.92	8.66	2.62
Farm Credit of New Mexico, ACA	1,903	1,810	0.69	2.86	22.45	1.66	7.25	2.83
Golden State, ACA	1,805	1,716	0.26	0.50	15.91	1.88	9.65	2.73
Oklahoma AgCredit, ACA	1,569	1,484	0.25	1.11	16.42	1.59	8.27	2.68

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

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

	At December 31, 2019					For the Six Months Ended June 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	\$ 2,917	\$ 2,845	1.13%	2.78%	21.81%	1.77%	7.81%	2.61%
First South Farm Credit, ACA	2,359	2,235	0.67	0.36	17.79	1.42	7.26	2.61
AgChoice Farm Credit, ACA	2,202	2,147	0.72	0.57	18.41	2.13	10.52	2.77
AgCredit, ACA	2,057	1,968	0.57	0.98	21.31	2.46	13.70	2.79
AgSouth Farm Credit, ACA	1,924	1,835	0.89	1.42	21.97	2.23	10.63	3.46
Farm Credit of the Virginias, ACA	1,846	1,789	0.90	1.70	24.23	2.15	9.09	3.00
Carolina Farm Credit, ACA	1,680	1,604	0.47	1.52	20.87	2.24	10.56	3.33
AgriBank District								
Farm Credit Services of America, ACA	31,269	29,748	0.55	1.04	17.24	2.07	10.95	2.69
Farm Credit Mid-America, ACA	25,003	23,484	0.33	1.37	21.21	1.88	9.34	2.23
Compeer Financial, ACA	22,184	19,904	0.39	0.84	15.95	1.86	10.62	2.40
GreenStone FCS, ACA	9,728	9,398	1.02	0.83	17.64	2.21	11.69	2.63
AgCountry, ACA	8,182	7,774	0.35	0.30	18.92	1.65	7.33	2.63
FCS Financial, ACA	4,562	4,365	0.39	0.33	18.38	1.87	9.18	2.54
Farm Credit of Illinois, ACA	4,522	4,286	0.20	0.15	20.20	1.61	7.04	2.29
AgHeritage Farm Credit Services, ACA	1,525	1,460	0.53	0.69	18.42	2.02	9.33	2.84
Texas District								
Capital Farm Credit, ACA	8,084	7,821	0.39	0.99	15.03	2.25	13.56	3.14
AgTexas Farm Credit Services	2,192	2,013	0.30	1.27	13.62	1.52	11.72	2.34
Lone Star, ACA	1,666	1,632	0.44	0.27	20.14	1.83	8.39	2.98
CoBank District								
Northwest Farm Credit Services, ACA	12,774	12,058	0.60	0.66	18.60	2.24	10.38	2.90
American AgCredit, ACA	12,663	11,845	0.22	0.51	13.60	1.67	8.39	2.81
Farm Credit West, ACA	11,240	10,720	0.69	1.23	15.00	2.55	11.78	2.98
Farm Credit East, ACA	7,750	7,435	1.13	0.60	18.63	2.61	12.84	3.12
Yosemite Farm Credit, ACA	3,384	3,191	0.31	0.84	14.17	2.02	12.03	2.84
Frontier Farm Credit, ACA	2,174	2,041	0.47	0.75	18.95	2.07	9.30	2.80
Farm Credit of New Mexico, ACA	1,961	1,861	0.80	2.17	21.82	1.77	7.79	2.96
Golden State, ACA	1,761	1,647	0.27	0.25	15.60	1.99	9.98	2.87

INDEX TO SUPPLEMENTAL INFORMATION

Controls and Procedures	S-2
Certifications	S-3
Farm Credit System Entities	S-5

CONTROLS AND PROCEDURES

As of June 30, 2020, 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 June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

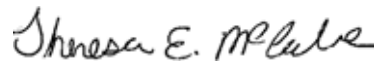
⁽¹⁾ For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this quarterly information statement is recorded, processed, summarized and 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 Second Quarter 2020 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: August 6, 2020

(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 *Second Quarter 2020 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;

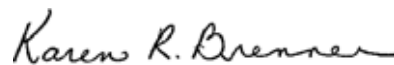
(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based 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: August 6, 2020

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

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

FARM CREDIT SYSTEM ENTITIES (As of June 30, 2020)

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
12501 Lakefront Place
Louisville, KY 40299

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
1400 31st Ave SW
Minot, ND 58701

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
2970 Davidson Court
Colusa, CA 95932

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

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

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

Golden State Farm Credit, ACA
1359 East Lassen Avenue
Chico, CA 95973

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 202
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