



# FARM CREDIT

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**FIRST QUARTER 2021 QUARTERLY INFORMATION  
STATEMENT OF THE FARM CREDIT SYSTEM**

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

**MAY 7, 2021**

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, September 17, 2018, April 1, 2020, September 23, 2020 and September 24, 2020.

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

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### WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities and links to each Bank’s website, are available on the Funding Corporation’s website located at [www.farmcreditfunding.com](http://www.farmcreditfunding.com). Other information regarding the System can be found at [www.farmcredit.com](http://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](http://www.agfirst.com)
- AgriBank, FCB — [www.agribank.com](http://www.agribank.com)
- CoBank, ACB — [www.cobank.com](http://www.cobank.com)
- Farm Credit Bank of Texas — [www.farmcreditbank.com](http://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

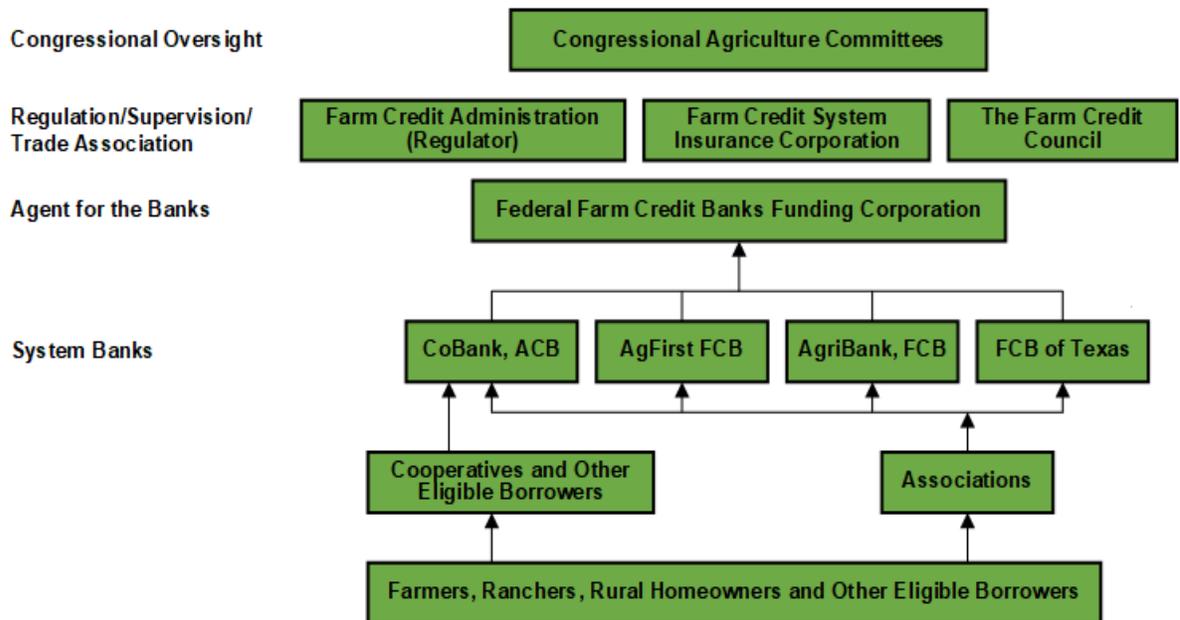
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized 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.

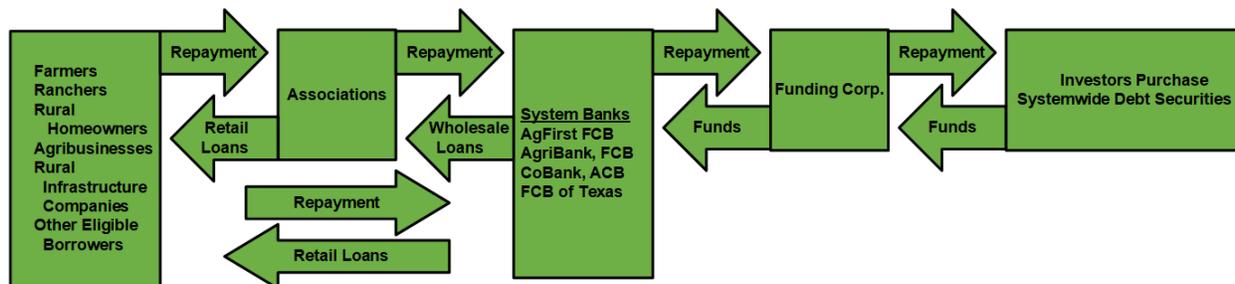
**Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, 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. Global and domestic adverse weather events, food safety, disease, pandemics and other unfavorable conditions also directly affect the agricultural sector.

The System was created to provide support for the agricultural 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 March 31, 2021, 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 March 31, 2021, the System had 67 Associations throughout the United States and the Commonwealth of Puerto Rico. There were 66 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 common and preferred equities.

### ***Farm Credit Insurance Fund***

As more fully discussed on page 22 in the *2020 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 *2020 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 quarter of 2021. 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](http://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**

There have been no material changes to the risk factors previously disclosed in the System's *2020 Annual Information Statement*.

## **OTHER BUSINESS MATTERS**

### **Legal Proceedings**

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

At March 31, 2021, 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, 2020 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 14 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 three months ended March 31, 2021 and 2020 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.

	March 31,		December 31,		
	2021	2020	2020	2019	2018
	(unaudited)				
<b>Combined Statement of Condition Data</b>	(in millions)				
Loans .....	\$ 321,808	\$ 292,606	\$ 315,490	\$ 286,964	\$ 273,378
Allowance for loan losses .....	(1,817)	(1,847)	(1,796)	(1,806)	(1,713)
Net loans .....	319,991	290,759	313,694	285,158	271,665
Cash, Federal funds sold and investments .....	72,126	83,961	74,210	68,266	66,471
Accrued interest receivable .....	2,269	2,545	2,585	2,864	2,732
Other property owned .....	35	73	37	72	84
Total assets .....	404,356	387,319	400,693	365,359	348,992
Systemwide bonds .....	305,160	278,791	299,064	274,454	258,788
Systemwide medium-term notes .....	81	86	81	86	89
Systemwide discount notes .....	22,480	35,985	23,510	18,998	22,582
Other bonds .....	2,473	1,839	2,559	1,961	1,817
Total liabilities .....	337,856	323,969	335,158	303,629	290,548
Capital .....	66,500	63,350	65,535	61,730	58,444

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2021	2020	2020	2019	2018
	(unaudited)				
<b>Combined Statement of Income Data</b>	(in millions)				
Net interest income .....	\$ 2,392	\$ 2,191	\$ 9,046	\$ 8,266	\$ 7,976
Provision for loan losses .....	(28)	(57)	(107)	(169)	(194)
Net noninterest expense .....	(623)	(655)	(2,765)	(2,548)	(2,324)
Income before income taxes .....	1,741	1,479	6,174	5,549	5,458
Provision for income taxes .....	(48)	(47)	(172)	(103)	(126)
Net income .....	<u>\$ 1,693</u>	<u>\$ 1,432</u>	<u>\$ 6,002</u>	<u>\$ 5,446</u>	<u>\$ 5,332</u>

## Combined Key Financial Ratios

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

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2021	2020	2020	2019	2018
Return on average assets.....	1.68%	1.56%	1.57%	1.54%	1.59%
Return on average capital.....	10.20	9.14	9.26	8.91	9.29
Net interest income as a percentage of average earning assets.....	2.45	2.47	2.46	2.42	2.46
Operating expense as a percentage of net interest income and noninterest income.....	32.0	35.2	35.9	36.2	35.2
Net loan charge-offs as a percentage of average loans....	0.01	0.01	0.03	0.02	0.03

	March 31,		December 31,		
	2021	2020	2020	2019	2018
Nonperforming assets as a percentage of loans and other property owned.....	0.59%	0.84%	0.60%	0.82%	0.83%
Allowance for loan losses as a percentage of loans outstanding.....	0.56	0.63	0.57	0.63	0.63
Capital as a percentage of total assets.....	16.4	16.4	16.4	16.9	16.7
Capital as a percentage of total assets (excluding restricted assets and capital — Insurance Fund).....	15.3	15.2	15.2	15.7	15.5
Capital and allowance for loan losses as a percentage of loans outstanding.....	21.2	22.3	21.3	22.1	22.0
Debt to capital.....	5.08:1	5.11:1	5.11:1	4.92:1	4.97:1

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

The System's *2020 Annual Information Statement* contains the December 31, 2020 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 three months ended March 31, 2021. This commentary should be read in conjunction with the *2020 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-45 through F-51). 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 8 to the accompanying condensed combined financial statements for information about the capital of the Banks, Note 14 for information related to the financial condition and results of operations of the Banks, and the Supplemental Combining Information on pages F-45 through F-47 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;
- global and domestic adverse weather-related events, food safety, disease, pandemics 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***

In response to the COVID-19 pandemic that began in mid-March 2020, System institutions around the country adapted quickly to state and local governments "work from home" restrictions and transitioned the vast majority of their employees to working remotely without disruption to our operations. The priority was, and continues to be, to ensure the health and safety of our employees, while we continue to serve our mission of providing support for rural America and agriculture. The COVID-19 pandemic restrictions vary from state to state allowing many Associations to return to on-site work at decreased capacity, while the Banks and Funding Corporation are operating remotely.

During the first quarter of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, it remains unclear how quickly the vaccines will be distributed nationwide and globally and the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely. In this regard, System institutions will adjust their continuity plans as needed to maintain effective and efficient business operations while safeguarding the health and safety of their staff. In addition, System institutions continue to work with

borrowers to offer appropriate solutions to meet their operating and liquidity needs.

### ***Support Programs***

Since the onset of the COVID-19 pandemic in March 2020, the U.S. government has taken actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

On March 11, 2021, Congress passed the \$1.9 trillion American Rescue Plan Act of 2021. The legislation provided, among other provisions, an additional \$10.4 billion for programs designed to strengthen the agricultural and food supply chain, additional resources to purchase and distribute agricultural commodities to nonprofits, restaurants or other food related entities, increase access to health care in rural communities and provide debt relief and other support programs for socially disadvantaged farmers and ranchers. The debt relief will come in the form of \$4 billion to provide direct payments of up to 120% of a socially disadvantaged farmer's or rancher's direct debt from the United States Department of Agriculture's (USDA) Farm Service Agency (FSA) or loans guaranteed by FSA and made by an approved lender. In addition, \$1.01 billion was appropriated to provide outreach, technical assistance and funding to educational institutions to help improve land access to socially disadvantaged farmers and ranchers, among other uses.

For a detailed discussion of programs enacted in 2020, see pages 38 and 39 of the *2020 Annual Information Statement*.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. System institutions had \$1.6 billion of loans funded through the PPP outstanding as of March 31, 2021 to approximately 39,000 borrowers. In addition, through March 31, 2021, the volume of System loans that have received forgiveness from the SBA since the start of the program was \$500 million.

### ***General***

The System's combined net income was \$1.693 billion for the first quarter of 2021, as compared with

combined net income of \$1.432 billion for the same period of 2020. The increase was due to increases in net interest income of \$201 million and noninterest income of \$31 million and a decrease in the provision for loan losses of \$29 million.

The System's net interest income increased \$201 million to \$2.392 billion for the first quarter of 2021, as compared to the same period of 2020, primarily from an increase in the net interest spread and a higher level of average earning assets driven by increased loan volume. The net interest margin decreased two basis points to 2.45% for the quarter ended March 31, 2021, as compared to the same period of the prior year. Negatively impacting net interest margin was an 18 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital) due to the lower interest rate environment. The net interest margin was positively impacted by a 16 basis point increase in net interest spread to 2.32%, as compared to the first quarter of 2020. The increase in net interest spread was primarily due to lower debt costs as a result of the significant volume of debt called during 2020 and in the first quarter of 2021 that generated interest expense savings in excess of the decrease in yield on earning assets.

The System's loan portfolio increased \$6.318 billion or 2.0% to \$321.808 billion since year-end 2020. The increase primarily resulted from increases in real estate mortgage and agribusiness loans offset, in part, by a decrease in production and intermediate-term loans. The primary driver of the increase in real estate mortgage loans was financing to new and existing customers due to targeted marketing efforts and the low interest rate environment. Agribusiness loans increased primarily due to seasonal financing at grain and farm supply cooperatives and higher commodity prices as well as growth in processing and marketing loans. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

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 \$8 million to \$1.905 billion at March 31, 2021, as compared with \$1.897 billion at December 31, 2020, representing 0.59% and 0.60% of total loans and other property owned for the corresponding periods.

### **Drought Conditions**

During the first quarter of 2021 and throughout 2020, severe weather events occurred that impacted

United States agriculture. According to the U.S. Drought Monitor, as of March 31, 2021, approximately 44% of the United States was experiencing moderate to exceptional drought, concentrated mainly in Western and Southwestern states, as compared with approximately 49% as of December 31, 2020 and 15% as of March 31, 2020. Certain parts of grain producing regions in the Western Cornbelt of the United States are also experiencing drought conditions as of the end of the first quarter of 2021.

### **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's most recent forecast (February 5, 2021) estimates net farm income (income after expenses from production in the current year) of \$111.4 billion for 2021, a \$9.7 billion or 8.0% decrease from 2020, but \$22.8 billion above the 10-year average. The forecasted decrease in net farm income for 2021 is primarily due to an expected decrease in direct government payments of \$21.0 billion from the record high of \$46.3 billion for 2020. Additionally, a forecasted increase in cash expenses of \$8.0 billion, partially offset by increases in crop receipts of \$11.8 billion and cash receipts for animals and animal products of \$8.5 billion are expected to contribute to the decline in net farm income. The increase in crop receipts reflects increases in soybeans and corn receipts, while the increase in animals and animal products receipts reflects growth in cattle/calves, hogs and broilers receipts.

#### *Commodity Prices*

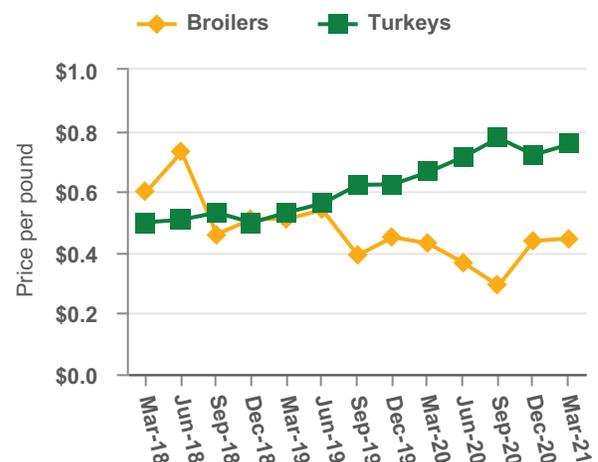
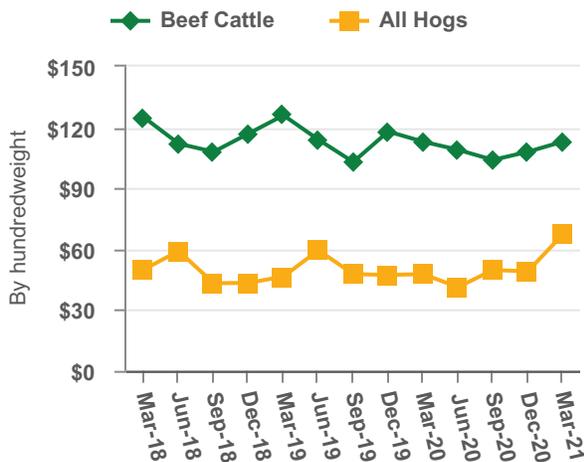
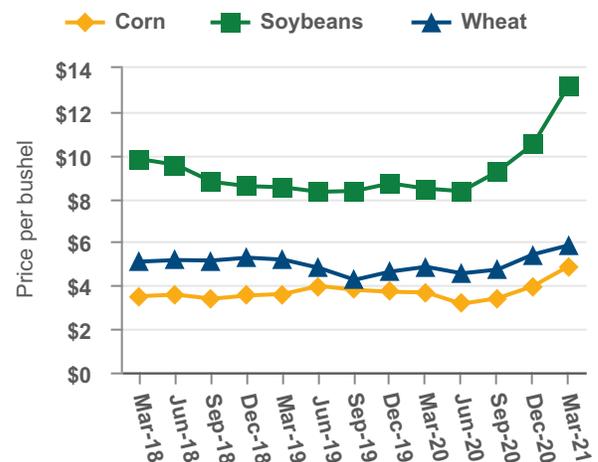
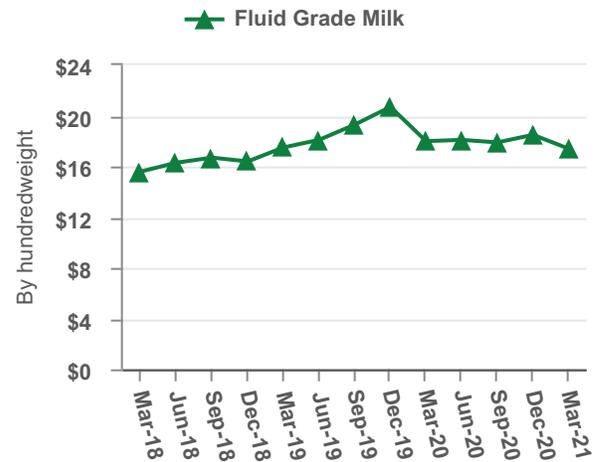
Global economic conditions influence demand for food and agricultural products, which affects U.S. agricultural trade. Therefore, U.S. exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting U.S. agricultural trade are global supplies and prices,

changes in the value of the U.S. dollar and the government support for agriculture.

A recovering economy and supportive market fundamentals are driving prices higher for many commodities. Crop prices have been strong since August 2020 on lower stock and reduced domestic production estimates, along with strong export sales due to strong Chinese feed demand and tightening crop supplies globally. The USDA also forecasts rising prices for most commodities in the animal protein sector during 2021. However, some in the animal protein sector will remain challenged due to elevated feed costs.

Although the outlook for agriculture has improved significantly since the second quarter of 2020, COVID-19 infection rates (including potential outbreaks in animal processing plants and new more virulent strains) along with weather, trade, government policy and global agricultural product production levels may keep agricultural market volatility elevated for the next year.

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 March 31, 2018 to March 31, 2021:



To date, the System's financial results have remained positive as a result of the favorable agricultural economic conditions coupled with existing government safety net programs, ad hoc support programs and the additional government disaster aid payments provided during the past few years. In an environment of less favorable agricultural economic conditions or renewed COVID-19 pandemic disruptions, without additional ad hoc government support programs, the System's financial performance and credit quality measures would likely be negatively impacted. A negative impact from these less favorable conditions could be mitigated, to some extent, by

geographic and commodity diversification across the System, existing government safety net programs, crop insurance carried by most crop producers and the influence of off-farm income sources supporting agricultural-related debt. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, commodity and borrower concentrations than does the System as a whole. In addition, agricultural producers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

## Results of Operations

### *Net Interest Income*

Net interest income increased \$201 million or 9.2% to \$2.392 billion for the three months ended March 31, 2021, as compared with \$2.191 billion for the same period of the prior year. The effects of changes in volume and interest rates on net interest income for the three months ended March 31, 2021, as compared with the corresponding period 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.

	<b>For the Three Months Ended March 31, 2021 vs. 2020</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
	<b>(in millions)</b>		
Interest income:			
Loans.....	\$ 350	\$ (758)	\$ (408)
Investments.....	17	(158)	(141)
Total interest income.....	367	(916)	(549)
Interest expense:			
Systemwide Debt Securities and other.....	145	(895)	(750)
Changes in net interest income.....	<u>\$ 222</u>	<u>\$ (21)</u>	<u>\$ 201</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					
	March 31, 2021			March 31, 2020		
	Average Balance	Interest	Annualized Rate	Average Balance	Interest	Annualized Rate
	(\$ in millions)					
<b>Assets</b>						
Real estate mortgage loans	\$147,559	\$ 1,516	4.11%	\$131,412	\$ 1,613	4.91%
Production and intermediate-term loans	54,161	470	3.47	52,956	616	4.65
Agribusiness loans	64,003	468	2.92	52,972	544	4.11
Rural infrastructure loans	35,306	282	3.19	30,303	312	4.12
Rural residential real estate loans	6,905	67	3.88	7,349	82	4.46
Agricultural export finance loans	6,838	21	1.23	6,645	43	2.59
Lease receivables	4,257	35	3.29	3,818	38	3.98
Loans to other financing institutions	868	3	1.38	846	5	2.36
Nonaccrual loans	1,466	19	5.18	1,860	36	7.74
Total loans	321,363	2,881	3.59	288,161	3,289	4.57
Federal funds sold, investments and other interest-earning assets	69,324	208	1.20	66,049	349	2.11
Total earning assets	390,687	3,089	3.16	354,210	3,638	4.11
Allowance for loan losses	(1,806)			(1,812)		
Other noninterest-earning assets	15,234			14,864		
Total assets	<u>\$404,115</u>			<u>\$367,262</u>		
<b>Liabilities and Capital</b>						
Systemwide bonds and medium-term notes	\$302,145	\$ 683	0.90%	\$273,196	\$ 1,357	1.99%
Systemwide discount notes	23,811	10	0.17	21,325	81	1.52
Other interest-bearing liabilities	4,302	4	0.37	2,952	9	1.22
Total interest-bearing liabilities	330,258	697	0.84	297,473	1,447	1.95
Noninterest-bearing liabilities	7,458			7,132		
Capital	66,399			62,657		
Total liabilities and capital	<u>\$404,115</u>			<u>\$367,262</u>		
Net interest spread(1)			2.32			2.16
Impact of noninterest-bearing sources			0.13			0.31
Net interest margin(2)		<u>\$ 2,392</u>	2.45%		<u>\$ 2,191</u>	2.47%

(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 months ended March 31, 2021, as compared with the same period 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 by increased loan volume. Average earning assets increased \$36.477 billion or 10.3% to \$390.687 billion for the first quarter of 2021, as compared with the first quarter of 2020, primarily from growth in average real estate mortgage, agribusiness and rural infrastructure loans.

The net interest margin was 2.45% for the quarter ended March 31, 2021, as compared with 2.47% for the quarter ended March 31, 2020. The decline in the net interest margin for the period resulted from an 18 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital) due to the low interest rate environment. The decrease in the net interest margin was partially offset by an increase in net interest spread of 16 basis points to 2.32%, as compared with the first quarter of 2020. The increase in net interest

spread was primarily due to lower debt costs as a result of the significant volume of debt called during 2020 and in the first quarter of 2021 that generated interest expense savings in excess of the decrease in yield on earning assets. The Banks called debt totaling \$16 billion during the first three months of 2021, as compared with \$38 billion for the same period of the prior year.

### ***Provision for Loan Losses***

The System recognized a provision for loan losses of \$28 million for the first quarter of 2021, as compared with \$57 million for the first quarter of 2020. The provision for loan losses for the first quarter of 2021 primarily reflected a higher level of overall agribusiness lending activity and, to a lesser extent, the adverse impact of a severe weather event affecting a limited number of rural power customers. Partially offsetting these provisions for loan losses were loan loss reversals primarily reflecting credit quality improvements and the release of general reserves that were added in 2020 to address potential losses from the COVID-19 pandemic. The provision for loan losses for the first quarter of 2020 primarily reflected a higher level of overall lending activity and increases in the general reserves related to the COVID-19 pandemic.

### ***Noninterest Income***

Noninterest income consisted of the following:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Loan-related fee income .....	\$ 100	\$ 71
Financially-related services income .....	43	43
Mineral income .....	13	16
Income earned on Insurance Fund assets .....	12	22
Operating lease income .....	10	6
Losses on extinguishment of debt .....	(17)	(26)
Net gains on derivative transactions .....	9	22
Net gains on sales of investments and other assets .....	4	6
Other noninterest income .....	36	19
<b>Total noninterest income .....</b>	<b>\$ 210</b>	<b>\$ 179</b>

Noninterest income increased \$31 million or 17.3% to \$210 million for the three months ended March 31, 2021, as compared with the same period of

the prior year, primarily due to increases in loan-related fee income of \$29 million and other noninterest income of \$17 million and a \$9 million decrease in losses on the extinguishment of debt, partially offset by decreases in net gains on derivative transactions of \$13 million and income earned on Insurance Fund assets of \$10 million between the three-month periods.

### ***Noninterest Expense***

Noninterest expense consisted of the following:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Salaries and employee benefits .....	\$ 526	\$ 513
Occupancy and equipment expense .....	76	70
Purchased services .....	63	56
Other operating expense .....	168	196
<b>Total operating expense .....</b>	<b>833</b>	<b>835</b>
Net gains on other property owned .....		(1)
<b>Total noninterest expense .....</b>	<b>\$ 833</b>	<b>\$ 834</b>

Noninterest expense was relatively unchanged at \$833 million for the three months ended March 31, 2021, as compared with the same period of the prior year. Positively impacting noninterest expense was a decrease in other operating expense of \$28 million due to lower travel, training and member relations expenses during the first quarter of 2021 due to the COVID-19 restrictions that were not in place during most of the first quarter of 2020. Negatively impacting noninterest expense for the first quarter of 2021 was an increase in salaries and employee benefits of \$13 million primarily as a result of annual merit increases and higher staffing levels at certain System institutions, as well as increases in purchased services and occupancy and equipment expense. Other Operating expense statistics are as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(\$ in millions)</b>	
Excess of net interest income over operating expense .....	\$ 1,559	\$ 1,356
Operating expense as a percentage of net interest income and noninterest income .....	32.0%	35.2%
Annualized operating expense as a percentage of average earning assets .....	0.85%	0.94%

### ***Provision for Income Taxes***

The provision for income taxes was \$48 million for the first quarter of 2021, as compared with \$47 million for the first quarter of 2020. The effective tax rate decreased to 2.8% for the first quarter of 2021 from 3.2% for the first quarter of 2020 due to higher levels of patronage and increased earnings attributable to non-taxable business activities.

## **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 6 and 14 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 35.

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:

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

During the first three months of 2021, 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 14 for each Bank’s Tier 1 Leverage and Total Capital ratios.) For additional information regarding the CIPA or the MAA, see pages 21, 22, 50 and 51 in the *2020 Annual Information Statement*.

### ***Credit Risk Management***

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

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

loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,
- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

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

Although System institutions monitor credit risk individually, the System has established a quarterly process to report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers 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 March 31, 2021, one exposure was slightly above \$1.25 billion but less than \$1.5 billion and no exposures were above \$1.25 billion at December 31, 2020. Eight exposures at March 31, 2021 and nine exposures at December 31, 2020 exceeded \$937.5 million.

For a detailed discussion of our credit risk management practices, see pages 51 through 53 in the *2020 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 8 and 9 in the *2020 Annual Information Statement*. Bank loans to affiliated

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

	March 31, 2021	December 31, 2020
	(in millions)	
Real estate mortgage.....	\$ 150,877	\$ 147,623
Production and intermediate-term.....	54,428	57,973
Agribusiness:		
Processing and marketing.....	32,918	31,939
Loans to cooperatives.....	24,780	20,020
Farm-related business.....	4,406	4,453
Rural infrastructure:		
Power.....	22,955	22,066
Communication.....	9,767	9,708
Water/waste water.....	2,959	2,703
Rural residential real estate.....	6,900	6,928
Agricultural export finance.....	6,687	6,873
Lease receivables.....	4,250	4,345
Loans to other financing institutions.....	881	859
Total loans.....	<u>\$ 321,808</u>	<u>\$ 315,490</u>

Loan volume increased \$6.318 billion or 2.0% to \$321.808 billion at March 31, 2021, as compared with \$315.490 billion at December 31, 2020, primarily as a result of increases in real estate mortgage and agribusiness loans offset, in part, by a decrease in production and intermediate-term loans.

Real estate mortgage loans increased \$3.254 billion or 2.2% during the first quarter of 2021. The primary driver of the increase was financing for new and existing customers due to targeted marketing efforts by certain Associations and the low interest rate environment.

Production and intermediate-term loans decreased \$3.545 billion or 6.1%, as compared with December 31, 2020, primarily due to seasonal repayments.

Processing and marketing loans increased \$979 million or 3.1%, as compared with December 31, 2020, primarily due to new loan growth and advances on existing loans within certain industries.

Loans to cooperatives increased \$4.760 billion or 23.8%, during the first quarter of 2021, primarily due to seasonal financing at grain and farm supply cooperatives and higher commodity prices.

Power loans increased \$889 million or 4.0%, as compared with December 31, 2020, primarily due to advances to existing borrowers due to extreme weather events in the first quarter and the associated higher power costs.

System institutions reduce credit risk through certain federal government guarantee programs, such as the FSA and SBA. As of March 31, 2021 and December 31, 2020, \$9.972 billion and \$9.558 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 \$2.870 billion at March 31, 2021, of which \$2.108 billion was provided by Farmer Mac, as compared with total credit guarantees of \$3.002 billion at December 31, 2020, of which \$2.178 billion was provided by Farmer Mac. For additional information on Farmer Mac, see page 12 in the *2020 Annual Information Statement*.

*Nonperforming Assets*

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
	(in millions)	
Nonaccrual loans:		
Real estate mortgage.....	\$ 809	\$ 849
Production and intermediate-term.....	419	448
Agribusiness.....	119	120
Rural infrastructure.....	48	20
Rural residential real estate.....	43	46
Lease receivables.....	22	21
Total nonaccrual loans.....	<u>1,460</u>	<u>1,504</u>
Accruing restructured loans:		
Real estate mortgage.....	180	181
Production and intermediate-term.....	63	62
Agribusiness.....	12	12
Rural residential real estate.....	9	7
Total accruing restructured loans.....	<u>264</u>	<u>262</u>
Accruing loans 90 days or more past due:		
Real estate mortgage.....	122	83
Production and intermediate-term.....	18	6
Agribusiness.....	2	
Rural residential real estate.....		1
Lease receivables.....	4	4
Total accruing loans 90 days or more past due.....	<u>146</u>	<u>94</u>
Total nonperforming loans.....	<u>1,870</u>	<u>1,860</u>
Other property owned.....	35	37
Total nonperforming assets.....	<u>\$ 1,905</u>	<u>\$ 1,897</u>
	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Nonaccrual loans as a percentage of total loans.....	0.45%	0.48%
Nonperforming assets as a percentage of total loans and other property owned.....	0.59	0.60
Nonperforming assets as a percentage of capital.....	2.86	2.89

The following table presents the nonaccrual loan activity:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>(in millions)</b>		
Balance at beginning of period .....	\$ 1,504	\$ 1,910
Additions:		
Gross amounts transferred into nonaccrual .....	162	263
Recoveries .....	7	10
Advances .....	43	79
Reductions:		
Charge-offs .....	(12)	(16)
Transfers to other property owned (book value) .....	(4)	(13)
Returned to accrual status .....	(30)	(25)
Repayments .....	(201)	(297)
Other, net .....	(9)	
Balance at end of period .....	<u>\$ 1,460</u>	<u>\$ 1,911</u>

Nonaccrual loans decreased \$44 million or 2.9% during the first quarter of 2021, primarily due to loan repayments and loans returned to accrual status exceeding loans transferred into nonaccrual status and advances. Nonaccrual loans that were current as to principal and interest were 59.6% of total nonaccrual loans at March 31, 2021, as compared with 58.9% at December 31, 2020. Accruing loans 90 days or more past due increased \$52 million to \$146 million at March 31, 2021. These loans, which are considered well secured and in the process of collection, are traditionally at their highest level at the end of the first quarter due to the seasonal payment pattern of the System's real estate mortgage and production and intermediate-term loans.

Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans was 0.31% at March 31, 2021, as compared with 0.46% at March 31, 2020. 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:

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Acceptable .....	94.4%	94.0%
Other assets especially mentioned .....	3.3	3.5
Substandard/doubtful .....	2.3	2.5
Total .....	<u>100.0%</u>	<u>100.0%</u>

#### *Allowance for Loan Losses*

The allowance for loan losses was \$1.817 billion at March 31, 2021 and \$1.796 billion at December 31, 2020. Net loan charge-offs of \$5 million were recorded during the first quarter of 2021, as compared with net loan charge-offs of \$6 million for the first quarter of 2020. 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.

Although certain System borrowers have been faced with challenges during the past several years due to reduced net farm income and low commodity prices, their financial positions remained generally strong given the recent rise in commodity prices and the direct government support provided in the past few years. Further, System underwriting standards require strong collateral support for real estate mortgage loans. By regulation, real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination or up to 97% if guaranteed by federal, state or other governmental agency. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio below the statutory maximum of 85%. These factors

help to mitigate the System's exposure to loan losses. At March 31, 2021, \$441 million of the System's \$1.870 billion of nonperforming loans had specific reserves (representing probable losses) of \$130

million. The remaining \$1.429 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:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	(\$ in millions)	
Balance at beginning of period	\$ 1,796	\$ 1,806
Charge-offs:		
Real estate mortgage	(2)	(2)
Production and intermediate-term	(7)	(12)
Agribusiness	(2)	(1)
Rural residential real estate	(1)	
Lease receivables		(1)
Total charge-offs	<u>(12)</u>	<u>(16)</u>
Recoveries:		
Real estate mortgage	1	2
Production and intermediate-term	6	7
Agribusiness		1
Total recoveries	<u>7</u>	<u>10</u>
Net charge-offs	(5)	(6)
Provision for loan losses	28	57
Reclassification (to) from reserve for unfunded commitments*	(2)	(10)
Balance at end of period	<u>\$ 1,817</u>	<u>\$ 1,847</u>
Annualized ratio of net charge-offs during the period to average loans outstanding during the period	<u>0.01%</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:

	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
	(\$ in millions)			
Real estate mortgage	\$ 519	28.6%	\$ 538	29.9%
Production and intermediate-term	451	24.8	473	26.3
Agribusiness	556	30.6	507	28.2
Rural infrastructure	186	10.2	172	9.6
Rural residential real estate	18	1.0	19	1.1
Agricultural export finance	27	1.5	27	1.5
Lease receivables	59	3.2	59	3.3
Loans to other financing institutions	1	0.1	1	0.1
Total	<u>\$ 1,817</u>	<u>100.0%</u>	<u>\$ 1,796</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:

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Allowance for loan losses as a percentage of:		
Total loans .....	0.56%	0.57%
Nonperforming assets .....	95.4	94.7
Nonaccrual loans .....	124.5	119.4

### ***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 76% 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 March 31, 2021. 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.

	<b>Repricing Intervals</b>				
	<b>0-6 Months</b>	<b>6 Months to 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	(\$ in millions)				
Floating-rate loans:					
Indexed/adjustable-rate loans.....	\$ 69,813	\$ 216	\$ 535	\$ 727	\$ 71,291
Administered-rate loans.....	49,235				49,235
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees....	6,187	4,899	19,433	17,269	47,788
Fixed-rate without prepayment or conversion fees.....	33,178	15,041	60,130	43,685	152,034
Nonaccrual loans.....				1,460	1,460
Total gross loans.....	158,413	20,156	80,098	63,141	321,808
Federal funds sold, investments and other interest-earning assets.....	31,430	5,084	22,519	10,273	69,306
Total earning assets.....	189,843	25,240	102,617	73,414	391,114
Interest-bearing liabilities:					
Callable bonds and notes.....	248	6,167	45,865	31,901	84,181
Noncallable bonds and notes.....	150,450	20,102	54,077	18,911	243,540
Other interest-bearing liabilities.....	4,091		205	231	4,527
Total interest-bearing liabilities.....	154,789	26,269	100,147	51,043	332,248
Effect of interest rate swaps and other derivatives.....	11,808	(3,707)	(8,048)	(53)	
Total interest-bearing liabilities adjusted for swaps and other derivatives.....	166,597	22,562	92,099	50,990	332,248
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives).....	<u>\$ 23,246</u>	<u>\$ 2,678</u>	<u>\$ 10,518</u>	<u>\$ 22,424</u>	<u>\$ 58,866</u>
Cumulative gap.....	<u>\$ 23,246</u>	<u>\$ 25,924</u>	<u>\$ 36,442</u>	<u>\$ 58,866</u>	
Cumulative gap as a percentage of total earning assets.....	<u>5.94%</u>	<u>6.63%</u>	<u>9.32%</u>	<u>15.05%</u>	

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 March 31, 2021 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. The System's net interest income benefits in a declining interest rate environment due to its ability to exercise call options on callable debt.

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 increased to 5.94% at March 31, 2021 from 5.82% at December 31, 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 1 basis point at March 31, 2021 and 4 basis points at December 31, 2020. Under these simulations, the System's sensitivity to interest rate changes (sum of Districts' sensitivity analyses) was:

	<b>March 31, 2021</b>		
	<b>-1</b>	<b>+100</b>	<b>+200</b>
Change in net interest income..	0.00%	0.64%	1.35%
Change in market value of equity.....	0.03%	-3.63%	-7.48%
	<b>December 31, 2020</b>		
	<b>-4</b>	<b>+100</b>	<b>+200</b>
Change in net interest income..	-0.08%	1.74%	3.27%
Change in market value of equity.....	0.09%	-2.68%	-6.43%

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-53.

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 69 and 70 in the *2020 Annual Information Statement*.)

#### *Duration Gap Analysis*

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

The System's aggregate duration gap (the sum of the Banks' duration gaps) was a positive 2.2 months at March 31, 2021 and a positive 1.8 months at December 31, 2020. 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 71 of the *2020 Annual Information Statement*. For additional information on derivative products and hedging activities, see Note 11 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, decreased \$1.081 billion to \$56.658 billion at March 31, 2021, as compared with \$57.739 billion at December 31, 2020. 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 obligations under a derivative contract, the credit risk exposure will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe us 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, System institutions typically enter into master agreements that govern all derivative transactions with a counterparty, which 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 72 through 74 in the *2020 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 March 31, 2021 and December 31, 2020 were:

	March 31, 2021					December 31, 2020				
	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	\$ 8,105				4	\$ 8,599			
Aa3.....	6	3,433	\$ 3	\$ 3		5	3,485			
A2.....	1	963				1	967			
A3.....	1	1,665				1	1,869			
Cleared derivatives(1)	2	31,424	5		\$ 5	2	31,739	\$ 3		\$ 3
Total.....	14	\$45,590	\$ 8	\$ 3	\$ 5	13	\$46,659	\$ 3	\$ 0	\$ 3

(1) Represents derivative transactions cleared with central counterparties, which are not rated. Excluded from the table is initial margin posted by three Banks and one Association totaling \$74 million and \$80 million at March 31, 2021 and December 31, 2020 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 \$11.056 billion and \$11.052 billion notional amount of derivative financial instruments at March 31, 2021 and December 31, 2020 related to interest rate swaps that two Banks entered into with certain of their customers. Also excluded is \$12 million and \$28 million in notional amount of derivative financial instruments at March 31, 2021 and December 31, 2020 related to forward commitments that one Association has entered into to hedge interest rate risk on interest rate locks.

At March 31, 2021, the Banks' counterparties posted \$3 million in cash with us and were not required to post any collateral with us at December 31, 2020. At March 31, 2021 and December 31, 2020, three Banks had posted collateral with respect to their obligations under these agreements of \$174 million and \$357 million.

#### Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (the "UK FCA"), 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 had been uncertain whether LIBOR will continue to be quoted after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its

announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared non-representative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

System institutions' LIBOR exposure arises from certain LIBOR-based 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 affecting 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 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 November 30, 2020, the U.S. prudential regulators issued a statement encouraging banks to stop new US dollar LIBOR issuances by the end of 2021. On December 18, 2020, the Farm Credit Administration issued a response and guidance noting their agreement with the November 30, 2020 statement from the U.S. prudential regulators and emphasized that the IBA's timeline is not in any way intended to slow down the transition.

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. In accordance with the guidelines, each System institution developed a LIBOR transition plan designed to determine its LIBOR exposure and, to the extent there was exposure, to reduce such exposure over time.

On December 18, 2020, the Farm Credit Administration issued additional guidance to System institutions on the transition away from LIBOR. To the extent applicable, System institutions are in the process of adopting transition plans with steps and timeframes to accomplish the following:

- reduce LIBOR exposure,
- stop the inflow of new LIBOR volume,
- develop and implement loan products with alternative reference rates,
- assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts,
- adjust operational processes, including accounting and management information systems to handle alternative reference rates, and
- communicate pending or imminent changes to customers, as appropriate.

Each Bank, Association and the Funding Corporation 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.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the "New York LIBOR Legislation"). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the "ARRC") aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR-based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on SOFR or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an

absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. While

similar to the New York LIBOR Legislation, there are differences in the current draft of the federal legislation, which was discussed at the House of Representative Subcommittee on Investor Protection, Entrepreneurship and Capital Markets on April 15, 2021. These include, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

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

	<b>March 31, 2021</b>
	<b>(in millions)</b>
Variable-rate Systemwide Debt Securities by interest-rate index	
LIBOR .....	\$ 28,969
SOFR .....	64,855
Other .....	27,931
Total .....	<u>\$ 121,755</u>
LIBOR-indexed Systemwide Debt Securities by contractual maturity	
Due in 2021 .....	\$ 26,828
Due in 2022 .....	1,150
Due in 2023 on or before June 30 .....	85
Due after June 30, 2023 <sup>1</sup> .....	906
Total .....	<u>\$ 28,969</u>

<sup>1</sup> It is anticipated that Systemwide Debt Securities totaling \$796 million with a contractual maturity after June 30, 2023 will be replaced by a SOFR-based rate pursuant to their terms. To the extent that any other Systemwide Debt Securities do not have terms that would replace their LIBOR-based rate by a non-LIBOR-based rate (at present \$110 million), pursuant to the New York LIBOR Legislation (and assuming no federal law addressing the LIBOR transition), the LIBOR-based rate in such securities could also be replaced by operation of law with a SOFR-based rate.

	Due in 2021	Due in 2022	Due in 2023 on or before June 30, 2023	Due after June 30, 2023	Total
(in millions)					
LIBOR-indexed variable-rate financial instruments at March 31, 2021:					
Investments .....	\$ 108	\$ 135	\$ 223	\$ 9,556	\$ 10,022
Loans .....	15,924	8,389	2,090	42,024	68,427
Preferred stock .....		264			264
Derivatives (notional amount)* .....	5,578	6,446	4,452	27,677	44,153

\* Derivative transactions with a notional amount of \$18.280 billion that mature after June 30, 2023 are LIBOR-based over-the counter transactions executed pursuant to an International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement with major banks or other swap dealers. Pursuant to the terms of those transactions, it is anticipated that after June 30, 2023 the LIBOR-based rate in such transactions will be replaced with a rate based upon a compounded SOFR-based rate calculated in arrears. It is also anticipated that LIBOR-based derivative transactions, cleared through a clearinghouse, with a notional amount of \$9.397 billion that mature after June 30, 2023, will also have their LIBOR-based rate transactions amended to become or be replaced by SOFR-based rate transactions pursuant to clearinghouse rules.

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 \$264 million of preferred stock is perpetual and may be redeemed in 2022 or thereafter. For additional information regarding preferred stock, see Note 11 in the 2020 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 certain limited circumstances. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

## 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.

## Investments

As more fully described on page 77 in the 2020 *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 March 31, 2021, 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>March 31, 2021</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.....		\$ 1,241			\$ 1,241
Commercial paper, bankers' acceptances, certificates of deposit and other securities.....		4,328	\$ 2,167	\$ 46	6,541
U.S. Treasury securities.....			22,841		22,841
U.S. agency securities.....			2,518		2,518
Mortgage-backed securities:					
Agency collateralized.....			27,316		27,316
Agency whole-loan pass through.....			1,598		1,598
Private label-FHA/VA.....			34		34
Asset-backed securities.....	\$ 1,131	12	2,549		3,692
<b>Total.....</b>	<b>\$ 1,131</b>	<b>\$ 5,581</b>	<b>\$ 59,023</b>	<b>\$ 46</b>	<b>\$ 65,781</b>

<u>December 31, 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.....		\$ 1,963	\$ 240		\$ 2,203
Commercial paper, bankers' acceptances, certificates of deposit and other securities.....		4,931	1,916	\$ 26	6,873
U.S. Treasury securities.....			20,971		20,971
U.S. agency securities.....			3,122		3,122
Mortgage-backed securities:					
Agency collateralized.....			28,865		28,865
Agency whole-loan pass through.....			897		897
Private label-FHA/VA.....			35		35
Asset-backed securities.....	\$ 1,534	31	2,344		3,909
<b>Total.....</b>	<b>\$ 1,534</b>	<b>\$ 6,925</b>	<b>\$ 58,390</b>	<b>\$ 26</b>	<b>\$ 66,875</b>

(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 March 31, 2021, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

Ineligible securities (carried at fair value) held by the Banks totaled \$467 million at March 31, 2021 and \$478 million at December 31, 2020 and represented 0.7% of Federal funds and available-for-sale investments at both March 31, 2021 and December 31, 2020.

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

	March 31, 2021			December 31, 2020		
	Amortized Cost	Fair Value	Unrealized Gains/(Losses)	Amortized Cost	Fair Value	Unrealized Gains/(Losses)
	(in millions)					
Mortgage-backed securities:						
Agency collateralized.....	\$ 27,117	\$ 27,316	\$ 199	\$ 28,471	\$ 28,865	\$ 394
Agency whole-loan pass through...	1,585	1,598	13	868	897	29
Private label-FHA/VA.....	122	115	(7)	127	119	(8)
Total mortgage-backed securities.....	<u>\$ 28,824</u>	<u>\$ 29,029</u>	<u>\$ 205</u>	<u>\$ 29,466</u>	<u>\$ 29,881</u>	<u>\$ 415</u>
Asset-backed securities:						
Small business loans.....	\$ 2,524	\$ 2,549	\$ 25	\$ 2,257	\$ 2,344	\$ 87
Auto loans.....	554	557	3	850	856	6
Credit card receivables.....	431	438	7	548	555	7
Equipment loans.....	118	119	1	123	125	2
Other.....	29	29		29	29	
Total asset-backed securities.....	<u>\$ 3,656</u>	<u>\$ 3,692</u>	<u>\$ 36</u>	<u>\$ 3,807</u>	<u>\$ 3,909</u>	<u>\$ 102</u>

#### Other Investments

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

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

	March 31, 2021	December 31, 2020
	(in millions)	
Small Business Administration and other government guaranteed securities.....	\$ 1,082	\$ 955
Farmer Mac securities.....	724	749
Rural America bonds and Agricultural Rural Community bonds.....	58	60
Total.....	<u>\$ 1,864</u>	<u>\$ 1,764</u>

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

	March 31, 2021	December 31, 2020
	(in millions)	
U.S. Treasury securities.....	\$ 559	\$ 652
Rural home loan securities..	231	257
Small Business Administration and other government guaranteed securities.....	86	80
Farmer Mac securities.....	21	24
Other securities.....	13	13
Total.....	<u>\$ 910</u>	<u>\$ 1,026</u>

#### Liquidity Standard

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

- maintain board policies and management procedures to monitor, measure, manage and mitigate liquidity and other related risks;
- 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 eligible 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, that would provide a longer term, stable source of funding beyond the 90-day minimum and is comprised of cash and eligible investments; and
- maintain a Contingency Funding Plan to ensure sources of liquidity are sufficient to fund normal operations under a variety of stress events.

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 March 31, 2021, each Bank met the individual tiers' minimums of the liquidity reserve and exceeded the aggregate regulatory minimum 90 days of liquidity. Each Bank's liquidity position ranged from 169 to 211 days at March 31, 2021. The System's liquidity position was 176 days at March 31, 2021, as compared with 171 days at December 31, 2020. (See Note 14 to the accompanying condensed combined financial statements for each Bank's liquidity position at March 31, 2021 and December 31, 2020.)

Cash provided by the System's operating activities (primarily generated from net interest income in excess of operating expenses) of \$2.293 billion and \$1.522 billion for the first three months of 2021 and 2020 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 March 31, 2021, retained earnings totaled \$52.920 billion and represented 79.6% of capital, as compared with \$51.782 billion and 79.0% at December 31, 2020. Capital as a percentage of assets was 16.4% at both March 31, 2021 and December 31, 2020.

*Farm Credit Administration Capital Requirements*

The following sets forth the regulatory capital ratio requirements and ratios at March 31, 2021:

<b>Ratio</b>	<b>Primary Components of Numerator</b>	<b>Denominator</b>	<b>Minimum Requirement</b>	<b>Minimum with Buffer*</b>	<b>Banks*</b>	<b>Associations</b>
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) <sup>1</sup>	Risk-weighted assets	4.5%	7.0%	9.0% - 17.0%	10.6% - 35.3%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%	13.2% - 17.3%	10.6% - 35.3%
Total Capital	Tier 1 Capital, allowance for loan losses <sup>2</sup> , other common cooperative equities <sup>3</sup> , and term preferred stock and subordinated debt <sup>4</sup>	Risk-weighted assets	8.0%	10.5%	14.1% - 17.5%	10.9% - 36.3%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	4.0%	5.0%	5.2% - 7.0%	10.6% - 33.4%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	7.0%	N/A	13.3% - 17.3%	11.9% - 35.6%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	N/A	2.5% - 5.5%	6.5% - 33.9%

\* See Note 14 to the accompanying condensed combined financial statements for each Bank's Total Capital ratio and Tier 1 Leverage ratio at March 31, 2021 and December 31, 2020.

<sup>1</sup> Equities subject to a minimum redemption or revolvment period of 7 or more years

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

<sup>3</sup> Equities subject to a minimum redemption or revolvment period of 5 or more, but less than 7 years

<sup>4</sup> Equities subject to a minimum redemption or revolvment period of 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 8 and 14 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 March 31, 2021, the assets in the Insurance Fund totaled \$5.581 billion. (See Note 5 to the

accompanying condensed combined financial statements and the Supplemental Combining Information on pages F-45 and F-47 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.)

The Insurance Corporation assesses premiums to ensure the assets in the Insurance Fund for which no specific use has been identified or designated are maintained at the "secure base amount." The Farm Credit Act, as amended, requires the secure base amount to be maintained at 2% of aggregate outstanding insured debt (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of aggregate outstanding insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. Insurance premiums are established by the Insurance Corporation with the objective of maintaining the secure base amount at the level required by the Farm Credit Act.

As required by the Farm Credit Act, as amended, if at the end of any calendar year, the aggregate amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to transfer the excess funds above the secure base, less the Insurance Corporation's projected annual operating expenses, to the Allocated Insurance Reserves Accounts for each Bank.

At March 31, 2021, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 1.96% of adjusted insured obligations, as compared with 1.93% at December 31, 2020.

#### *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 three months ended March 31, 2021 were:

	<b>Capital</b>				
	<b>Combined Banks</b>	<b>Combined Associations</b>	<b>Insurance Fund</b>	<b>Combination Entries</b>	<b>System Combined</b>
	(in millions)				
Balance at December 31, 2020.....	\$ 22,674	\$ 44,977	\$ 5,455	\$ (7,571)	\$ 65,535
Net income.....	685	1,251	126	(369)	1,693
Change in accumulated other comprehensive loss.....	(370)	(4)		35	(339)
Preferred stock issued.....		246			246
Preferred stock retired.....	(10)	(265)			(275)
Preferred stock dividends.....	(37)	(4)			(41)
Capital stock and participation certificates issued.....	85	45		(92)	38
Capital stock, participation certificates and retained earnings retired.....	(57)	(23)		30	(50)
Equity issued or recharacterized upon Association merger.....		49			49
Equity retired or recharacterized upon Association merger.....		(53)			(53)
Additional paid-in-capital.....	3				3
Patronage.....	(281)	(275)		250	(306)
Balance at March 31, 2021.....	<u>\$ 22,692</u>	<u>\$ 45,944</u>	<u>\$ 5,581</u>	<u>\$ (7,717)</u>	<u>\$ 66,500</u>

Note: System combined capital reflected eliminations of approximately \$6.2 billion of Bank equities held by Associations as of March 31, 2021 and December 31, 2020. 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 8 and 14 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 \$144 million since December 31, 2020 to \$28.273 billion at March 31, 2021. Combined Bank-only capital as a percentage of combined Bank-only assets was 6.4% at both March 31, 2021 and December 31, 2020.

Combined Bank-only net income was \$685 million and \$622 million for the three months

ended March 31, 2021 and 2020. The combined Bank-only net income reflects the earnings from investments, Bank wholesale loans to Associations, and retail loans, the majority of which consist of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions. The Banks' wholesale loans to Associations represented 54% of the assets on the combined Bank-only balance sheet at March 31, 2021. 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 \$967 million since December 31, 2020 to \$45.944 billion at March 31, 2021. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association assets was 18.9% at March 31, 2021 and 18.6% at December 31, 2020. 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 March 31, 2021 and December 31, 2020 was comprised of the following components:

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Unrealized gains on investments available-for-sale, net .....	\$ 669	\$ 1,157
Unrealized losses on cash flow hedges, net .....	(239)	(353)
Pension and other benefit plans .....	(1,390)	(1,425)
	<u>\$ (960)</u>	<u>\$ (621)</u>

Accumulated other comprehensive loss increased \$339 million during the first three months of 2021 as a result of an increase in interest rates, which decreased the fair value of existing fixed-rate investment securities.

### ***Operational Risk Management***

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

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,

- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal control framework. 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 pages 16 and 17 of this Quarterly

Information Statement for a discussion on the structure of the System).

Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with our mission. (See pages 12 and 15 in the *2020 Annual Information Statement* for additional information).

### ***Political Risk Management***

Political risk to the System is the risk actions taken by the U.S. government may negatively impact the System or the agriculture industry. 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**

Since the onset of the COVID-19 pandemic in March 2020, the U.S. government has taken actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

On March 11, 2021, Congress passed the \$1.9 trillion American Rescue Plan Act of 2021. The legislation provided, among other provisions, an additional \$10.4 billion for programs designed to

strengthen the agricultural and food supply chain, additional resources to purchase and distribute agricultural commodities to nonprofits, restaurants or other food related entities, increase access to health care in rural communities and provide debt relief and other support programs for socially disadvantaged farmers and ranchers. The debt relief will come in the form of \$4 billion to provide direct payments of up to 120% of a socially disadvantaged farmer's or rancher's direct debt from the USDA's FSA or loans guaranteed by FSA and made by an approved lender. In addition, \$1.01 billion was appropriated to provide outreach, technical assistance and funding to educational institutions to help improve land access to socially disadvantaged farmers and ranchers, among other uses.

For a detailed discussion of programs enacted in 2020, see pages 38 and 39 of the *2020 Annual Information Statement*.

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-9 to the accompanying condensed combined financial statements for the recently adopted or issued accounting pronouncements.

**INDEX TO CONDENSED COMBINED FINANCIAL STATEMENTS AND  
SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION  
March 31, 2021**

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

	March 31, 2021 (unaudited)	December 31, 2020
<b>A S S E T S</b>		
Cash.....	\$ 3,104	\$ 4,067
Federal funds sold and securities purchased under resale agreements.....	1,241	2,203
Investments (Note 2)		
Available-for-sale (amortized cost of \$64,270 and \$63,887, respectively).....	65,007	65,150
Other investments held-to-maturity (fair value of \$1,899 and \$1,822, respectively).....	1,864	1,764
Other investments available-for-sale (amortized cost of \$904 and \$1,016, respectively).....	910	1,026
Loans (Note 3).....	321,808	315,490
Less: allowance for loan losses (Note 3).....	(1,817)	(1,796)
Net loans.....	319,991	313,694
Accrued interest receivable.....	2,269	2,585
Premises and equipment.....	1,573	1,569
Other assets (Note 4).....	2,816	3,180
Restricted assets (Note 5).....	5,581	5,455
Total assets.....	\$ 404,356	\$ 400,693
<b>LIABILITIES AND CAPITAL</b>		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes.....	\$ 22,480	\$ 23,510
Systemwide bonds and medium-term notes.....	102,862	101,727
	125,342	125,237
Due after one year:		
Systemwide bonds and medium-term notes.....	202,379	197,418
Total Systemwide Debt Securities (Note 6).....	327,721	322,655
Other bonds.....	2,473	2,559
Notes payable and other interest-bearing liabilities.....	2,054	1,700
Accrued interest payable.....	628	686
Other liabilities (Note 4).....	4,980	7,558
Total liabilities.....	337,856	335,158
Commitments and contingencies (Note 13)		
Capital (Note 8)		
Preferred stock.....	3,180	3,204
Capital stock and participation certificates.....	1,989	1,977
Additional paid-in-capital.....	3,790	3,738
Restricted capital (Note 5).....	5,581	5,455
Accumulated other comprehensive loss, net of tax.....	(960)	(621)
Retained earnings.....	52,920	51,782
Total capital.....	66,500	65,535
Total liabilities and capital.....	\$ 404,356	\$ 400,693

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 March 31,	
	2021	2020
	(unaudited)	
Interest income		
Investments, Federal funds sold and securities purchased under resale agreements .....	\$ 208	\$ 349
Loans .....	2,881	3,289
Total interest income .....	<u>3,089</u>	<u>3,638</u>
Interest expense		
Systemwide bonds and medium-term notes .....	683	1,357
Systemwide discount notes .....	10	81
Other interest-bearing liabilities .....	4	9
Total interest expense .....	<u>697</u>	<u>1,447</u>
Net interest income .....	2,392	2,191
Provision for loan losses .....	28	57
Net interest income after provision for loan losses .....	<u>2,364</u>	<u>2,134</u>
Noninterest income		
Loan-related fee income .....	100	71
Financially-related services income .....	43	43
Income earned on Insurance Fund assets .....	12	22
Losses on extinguishment of debt .....	(17)	(26)
Net gains on derivative, investment and other transactions .....	13	28
Other income .....	59	41
Total noninterest income .....	<u>210</u>	<u>179</u>
Noninterest expense		
Salaries and employee benefits .....	526	513
Occupancy and equipment expense .....	76	70
Purchased services .....	63	56
Other expense .....	168	195
Total noninterest expense .....	<u>833</u>	<u>834</u>
Income before income taxes .....	1,741	1,479
Provision for income taxes .....	48	47
Net income .....	<u>\$ 1,693</u>	<u>\$ 1,432</u>

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

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	
Net income.....	\$ 1,693	\$ 1,432
Other comprehensive (loss) income, net of tax:		
Change in unrealized gains/losses on investments available-for-sale, including reclassification adjustments.....	(488)	749
Change in unrealized gains/losses on cash flow hedges, including reclassification adjustments.....	114	(208)
Change in net periodic pension benefit cost, including reclassification adjustments....	35	35
Total other comprehensive (loss) income.....	(339)	576
Comprehensive income.....	\$ 1,354	\$ 2,008

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 Three Months Ended March 31							
	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
Balance at December 31, 2019	\$ 3,121	\$ 2,009	\$ 3,738	\$ 5,202	\$ (1,340)	\$ 49,000	\$ 61,730
Comprehensive income					576	1,432	2,008
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				73		(73)	
Insurance Corporation distributions to System institutions				(63)		63	
Preferred stock issued by Associations	128						128
Preferred stock retired by Associations	(79)						(79)
Preferred stock dividends						(37)	(37)
Capital stock and participation certificates issued		28					28
Capital stock and participation certificates retired		(175)					(175)
Patronage:							
Cash						(253)	(253)
Capital stock, participation certificates and retained earnings allocations		27				(27)	
Balance at March 31, 2020	<u>\$ 3,170</u>	<u>\$ 1,889</u>	<u>\$ 3,738</u>	<u>\$ 5,212</u>	<u>\$ (764)</u>	<u>\$ 50,105</u>	<u>\$ 63,350</u>
Balance at December 31, 2020	\$ 3,204	\$ 1,977	\$ 3,738	\$ 5,455	\$ (621)	\$ 51,782	\$ 65,535
Comprehensive income					(339)	1,693	1,354
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				126		(126)	
Preferred stock retired by Banks	(10)		3				(7)
Preferred stock issued by Associations	251					(5)	246
Preferred stock retired by Associations	(265)						(265)
Preferred stock dividends						(41)	(41)
Capital stock and participation certificates issued		38					38
Capital stock and participation certificates retired		(50)					(50)
Equity issued or recharacterized upon Association merger			49				49
Equity retired or recharacterized upon Association merger						(53)	(53)
Patronage:							
Cash						(306)	(306)
Capital stock, participation certificates and retained earnings allocations		24				(24)	
Balance at March 31, 2021	<u>\$ 3,180</u>	<u>\$ 1,989</u>	<u>\$ 3,790</u>	<u>\$ 5,581</u>	<u>\$ (960)</u>	<u>\$ 52,920</u>	<u>\$ 66,500</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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	
Cash flows from operating activities		
Net income.....	\$ 1,693	\$ 1,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses.....	28	57
Depreciation and amortization on premises and equipment.....	41	40
Net gains on derivatives, investments and other transactions.....	(13)	(28)
Income on Insurance Fund assets, net of operating expenses.....	(11)	(21)
Decrease in accrued interest receivable.....	316	319
Decrease in accrued interest payable.....	(58)	(131)
Other, net.....	297	(146)
Net cash provided by operating activities.....	<u>2,293</u>	<u>1,522</u>
Cash flows from investing activities		
Increase in loans, net.....	(6,329)	(5,663)
Decrease (increase) in Federal funds sold and securities purchased under resale agreements, net.....	962	(1,665)
Investments available-for-sale:		
Purchases.....	(11,672)	(5,940)
Proceeds from maturities and payments.....	9,279	6,291
Proceeds from sales.....	1,586	
Other investments held-to-maturity:		
Purchases.....	(223)	(222)
Proceeds from maturities and payments.....	119	116
Other investments available-for-sale:		
Purchases.....	(394)	(346)
Proceeds from maturities and payments.....	506	14
Proceeds from sales.....		63
Premiums paid to the Insurance Fund.....	(255)	(223)
Distributions by Insurance Fund to System institutions.....		63
Other, net.....	(40)	(51)
Net cash used in investing activities.....	<u>(6,461)</u>	<u>(7,563)</u>
Cash flows from financing activities		
Systemwide bonds issued.....	46,178	65,367
Systemwide bonds and medium-term notes retired.....	(40,003)	(61,332)
Systemwide discount notes issued.....	62,416	69,742
Systemwide discount notes retired.....	(63,432)	(52,753)
Other bonds retired, net.....	(86)	(122)
Increase in notes payable and other interest-bearing liabilities, net.....	354	220
Increase in collateral held from derivative counterparties.....	3	
Preferred stock retired by Banks.....	(7)	
Preferred stock issued by Associations.....	246	128
Preferred stock retired by Associations.....	(265)	(79)
Capital stock and participation certificates issued.....	38	28
Capital stock, participation certificates and retained earnings retired.....	(68)	(196)
Preferred stock dividends paid.....	(35)	(30)
Cash patronage paid.....	(2,134)	(1,971)
Net cash provided by financing activities.....	<u>3,205</u>	<u>19,002</u>
Net (decrease) increase in cash.....	(963)	12,961
Cash at beginning of period.....	4,067	2,504
Cash at end of period.....	<u>\$ 3,104</u>	<u>\$ 15,465</u>

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned.....	\$ 4	\$ 13
Patronage and dividends distributions payable.....	375	322
Investments available-for-sale purchased but not yet settled, net.....	(103)	(212)
Supplemental non-cash fair value changes related to hedging activities:		
(Decrease) increase in Systemwide bonds and medium-term notes.....	(94)	305
Other, net.....	55	(353)
Supplemental disclosure of cash flow information:		
Cash paid during the quarter for:		
Interest.....	747	1,569

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, 2020, contained in the System's *2020 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,

2020 are contained in the *2020 Annual Information Statement*.

**Recently Adopted or Issued Accounting Pronouncements**

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. System institutions applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to the LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the System's financial condition or results of operations. In addition, System institutions adopted the optional expedient as it relates to loans during the first quarter of 2021 and the impact of adoption was not material to the System's financial condition or results of operations.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications

**FARM CREDIT SYSTEM**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)**

(unaudited)

(dollars in millions, except as noted)

made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The System adopted the guidance in the first quarter of 2021 and the impact was not material to the System's financial condition or its results of operations.

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 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:

	March 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities....	\$ 6,899	\$ 28		\$ 6,927	0.48%
U.S. Treasury securities .....	22,473	405	\$ (37)	22,841	1.14
U.S. agency securities .....	2,418	104	(4)	2,518	1.93
Mortgage-backed securities .....	28,824	332	(127)	29,029	1.20
Asset-backed securities .....	3,656	58	(22)	3,692	1.86
Total .....	<u>\$ 64,270</u>	<u>\$ 927</u>	<u>\$ (190)</u>	<u>\$ 65,007</u>	1.17

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities....	\$ 7,231	\$ 36		\$ 7,267	0.53%
U.S. Treasury securities .....	20,428	543		20,971	1.38
U.S. agency securities .....	2,955	168	\$ (1)	3,122	1.83
Mortgage-backed securities .....	29,466	448	(33)	29,881	1.37
Asset-backed securities .....	3,807	105	(3)	3,909	1.84
Total .....	<u>\$ 63,887</u>	<u>\$ 1,300</u>	<u>\$ (37)</u>	<u>\$ 65,150</u>	1.33

**FARM CREDIT SYSTEM**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)**

**(unaudited)**

**(dollars in millions, except as noted)**

A summary of the fair value and amortized cost of investments available-for-sale at March 31, 2021 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 .....	\$ 6,318		\$ 422		\$ 187				\$ 6,927	0.48%
U.S. Treasury securities..	5,901		14,884		2,056				22,841	1.14
U.S. agency securities.....	4		1,581		783		\$ 150		2,518	1.93
Mortgage-backed securities.....	36		3,188		10,246		15,559		29,029	1.20
Asset-backed securities..	42		1,101		624		1,925		3,692	1.86
Total fair value.....	<u>\$12,301</u>	0.69%	<u>\$21,176</u>	1.18%	<u>\$13,896</u>	1.21%	<u>\$17,634</u>	1.47%	<u>\$65,007</u>	1.17
Total amortized cost.....	<u>\$12,266</u>		<u>\$20,767</u>		<u>\$13,791</u>		<u>\$17,446</u>		<u>\$64,270</u>	

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:

	March 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities.....	\$ 1,098	\$ 34	\$ (11)	\$ 1,121	2.96%
Asset-backed securities.....	708	9	(5)	712	0.92
Other securities.....	58	8		66	6.18
Total.....	<u>\$ 1,864</u>	<u>\$ 51</u>	<u>\$ (16)</u>	<u>\$ 1,899</u>	2.29

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities.....	\$ 1,048	\$ 47	\$ (2)	\$ 1,093	3.17%
Asset-backed securities.....	656	8	(5)	659	1.15
Other securities.....	60	10		70	6.16
Total.....	<u>\$ 1,764</u>	<u>\$ 65</u>	<u>\$ (7)</u>	<u>\$ 1,822</u>	2.52

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

A summary of the fair value and amortized cost of other investments held-to-maturity at March 31, 2021 by contractual maturity is as follows:

	Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities.....	\$ 28		\$ 68		\$ 1,002		\$ 1,098	2.96%
Asset-backed securities.....	4		365		339		708	0.92
Other securities.....	7		3		48		58	6.18
Total amortized cost.....	<u>\$ 39</u>	3.79%	<u>\$ 436</u>	1.12%	<u>\$ 1,389</u>	2.61%	<u>\$ 1,864</u>	2.29
Total fair value.....	<u>\$ 40</u>		<u>\$ 439</u>		<u>\$ 1,420</u>		<u>\$ 1,899</u>	

**Other Investments Available-for-Sale**

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

	March 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities.....	\$ 559	\$ 1	\$ (1)	\$ 559	0.39%
Mortgage-backed securities.....	246	6		252	1.92
Asset-backed securities.....	86			86	3.21
Other securities.....	13			13	4.06
Total.....	<u>\$ 904</u>	<u>\$ 7</u>	<u>\$ (1)</u>	<u>\$ 910</u>	1.13

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities.....	\$ 651	\$ 1		\$ 652	0.28%
Mortgage-backed securities.....	273	8		281	2.07
Asset-backed securities.....	79	1		80	3.21
Other securities.....	13			13	4.20
Total.....	<u>\$ 1,016</u>	<u>\$ 10</u>	<u>\$ 0</u>	<u>\$ 1,026</u>	1.05

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

A summary of the fair value and amortized cost of other investments available-for-sale at March 31, 2021 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
U.S. Treasury securities..	\$ 130		\$ 419		\$ 10				\$ 559	0.39%
Mortgage-backed securities.....			9		12		\$ 231		252	1.92
Asset-backed securities..					25		61		86	3.21
Other securities.....					6		7		13	4.06
Total fair value.....	<u>\$ 130</u>	0.17%	<u>\$ 428</u>	0.51%	<u>\$ 53</u>	3.29%	<u>\$ 299</u>	2.05%	<u>\$ 910</u>	1.13
Total amortized cost.....	<u>\$ 130</u>		<u>\$ 429</u>		<u>\$ 53</u>		<u>\$ 292</u>		<u>\$ 904</u>	

**Other-Than-Temporarily Impaired Investments Evaluation**

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

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

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>March 31, 2021</b>				
U.S. Treasury securities.....	\$ 5,284	\$ (38)		
U.S. agency securities.....	126	(4)		
Mortgage-backed securities.....	7,239	(127)	\$ 1,170	\$ (11)
Asset-backed securities.....	1,171	(23)	347	(4)
Total.....	<u>\$ 13,820</u>	<u>\$ (192)</u>	<u>\$ 1,517</u>	<u>\$ (15)</u>

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2020</b>				
U.S. agency securities.....			\$ 278	\$ (1)
Mortgage-backed securities.....	\$ 4,348	\$ (22)	2,237	(13)
Asset-backed securities.....	627	(5)	258	(3)
Total.....	<u>\$ 4,975</u>	<u>\$ (27)</u>	<u>\$ 2,773</u>	<u>\$ (17)</u>

## FARM CREDIT SYSTEM

### NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

As more fully discussed in Note 2 of the *2020 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. The System did not recognize any credit impairment losses in earnings during the first quarters of 2021 and 2020.

**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:

	March 31, 2021	December 31, 2020
Real estate mortgage .....	\$ 150,877	\$ 147,623
Production and intermediate-term* .....	58,678	62,318
Agribusiness .....	62,104	56,412
Rural infrastructure .....	35,681	34,477
Rural residential real estate .....	6,900	6,928
Other** .....	7,568	7,732
<b>Total loans .....</b>	<b>\$ 321,808</b>	<b>\$ 315,490</b>

\* 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:

	March 31, 2021	December 31, 2020
<b>Real estate mortgage</b>		
Acceptable .....	94.5%	93.8%
OAEM .....	2.9	3.2
Substandard/doubtful .....	2.6	3.0
	<u>100.0</u>	<u>100.0</u>
<b>Production and intermediate-term</b>		
Acceptable .....	91.5	91.1
OAEM .....	4.8	5.1
Substandard/doubtful .....	3.7	3.8
	<u>100.0</u>	<u>100.0</u>
<b>Agribusiness</b>		
Acceptable .....	93.4	93.5
OAEM .....	5.0	5.2
Substandard/doubtful .....	1.6	1.3
	<u>100.0</u>	<u>100.0</u>
<b>Rural infrastructure</b>		
Acceptable .....	98.8	99.1
OAEM .....	0.7	0.6
Substandard/doubtful .....	0.5	0.3
	<u>100.0</u>	<u>100.0</u>
<b>Rural residential real estate</b>		
Acceptable .....	97.5	97.2
OAEM .....	0.9	1.0
Substandard/doubtful .....	1.6	1.8
	<u>100.0</u>	<u>100.0</u>
<b>Other</b>		
Acceptable .....	99.7	99.9
OAEM .....	0.3	0.1
Substandard/doubtful .....	0.0	0.0
	<u>100.0</u>	<u>100.0</u>
<b>Total Loans</b>		
Acceptable .....	94.4	94.0
OAEM .....	3.3	3.5
Substandard/doubtful .....	2.3	2.5
	<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.

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Nonaccrual loans:		
Current as to principal and interest .....	\$ 870	\$ 886
Past due .....	590	618
Total nonaccrual loans .....	<u>1,460</u>	<u>1,504</u>
Impaired accrual loans:		
Restructured accrual loans .....	264	262
Accrual loans 90 days or more past due .....	146	94
Total impaired accrual loans .....	<u>410</u>	<u>356</u>
Total impaired loans .....	<u>\$ 1,870</u>	<u>\$ 1,860</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>March 31, 2021</u>	<u>December 31, 2020</u>
Nonaccrual loans:		
Real estate mortgage.....	\$ 809	\$ 849
Production and intermediate-term.....	441	469
Agribusiness.....	119	120
Rural infrastructure.....	48	20
Rural residential real estate.....	43	46
Total nonaccrual loans.....	<u>1,460</u>	<u>1,504</u>
Accruing restructured loans:		
Real estate mortgage.....	180	181
Production and intermediate-term.....	63	62
Agribusiness.....	12	12
Rural residential real estate.....	9	7
Total accruing restructured loans.....	<u>264</u>	<u>262</u>
Accruing loans 90 days or more past due:		
Real estate mortgage.....	122	83
Production and intermediate-term.....	22	10
Agribusiness.....	2	
Rural residential real estate.....		1
Total accruing loans 90 days or more past due.....	<u>146</u>	<u>94</u>
Total nonperforming loans.....	<u>1,870</u>	<u>1,860</u>
Other property owned.....	35	37
Total nonperforming assets.....	<u>\$ 1,905</u>	<u>\$ 1,897</u>

The following table reflects certain related credit quality statistics:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Nonaccrual loans as a percentage of total loans.....	0.45%	0.48%
Nonperforming assets as a percentage of total loans and other property owned.....	0.59	0.60
Nonperforming assets as a percentage of capital.....	2.86	2.89

Commitments to lend additional funds to borrowers whose loans were classified as impaired were \$54 million at March 31, 2021 and \$53 million at December 31, 2020.

**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:

	March 31, 2021			December 31, 2020		
	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.....	\$ 127	\$ 139	\$ 41	\$ 145	\$ 158	\$ 42
Production and intermediate-term....	181	210	50	189	217	58
Agribusiness.....	83	100	27	83	99	25
Rural infrastructure.....	42	43	11	15	15	4
Rural residential real estate.....	8	8	1	12	12	1
Total.....	441	500	130	444	501	130
Impaired loans with no related allowance for loan losses:						
Real estate mortgage.....	984	1,128		968	1,114	
Production and intermediate-term....	345	504		352	513	
Agribusiness.....	50	101		49	98	
Rural infrastructure.....	6	26		5	23	
Rural residential real estate.....	44	51		42	50	
Total.....	1,429	1,810		1,416	1,798	
Total impaired loans:						
Real estate mortgage.....	1,111	1,267	41	1,113	1,272	42
Production and intermediate-term....	526	714	50	541	730	58
Agribusiness.....	133	201	27	132	197	25
Rural infrastructure.....	48	69	11	20	38	4
Rural residential real estate.....	52	59	1	54	62	1
Total.....	\$ 1,870	\$ 2,310	\$ 130	\$ 1,860	\$ 2,299	\$ 130

\* 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			
	March 31, 2021		March 31, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage .....	\$ 148		\$ 113	
Production and intermediate-term .....	193	\$ 1	232	\$ 1
Agribusiness .....	76		224	
Rural infrastructure .....	31		59	
Rural residential real estate .....	8		7	
Total .....	456	1	635	1
Impaired loans with no related allowance for loan losses:				
Real estate mortgage .....	971	14	1,073	13
Production and intermediate-term .....	338	7	444	10
Agribusiness .....	54		83	16
Rural infrastructure .....	6		2	
Rural residential real estate .....	45	1	50	1
Total .....	1,414	22	1,652	40
Total impaired loans:				
Real estate mortgage .....	1,119	14	1,186	13
Production and intermediate-term .....	531	8	676	11
Agribusiness .....	130		307	16
Rural infrastructure .....	37		61	
Rural residential real estate .....	53	1	57	1
Total .....	\$ 1,870	\$ 23	\$ 2,287	\$ 41

**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:

<b>March 31, 2021</b>						
	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or less than 30 Days Past Due</b>	<b>Total Loans and Accrued Interest</b>	<b>Recorded Investment &gt;90 Days and Accruing</b>
Real estate mortgage.....	\$ 448	\$ 379	\$ 827	\$ 151,329	\$ 152,156	\$ 122
Production and intermediate-term...	332	212	544	58,599	59,143	22
Agribusiness.....	104	30	134	62,153	62,287	2
Rural infrastructure.....	1	7	8	35,773	35,781	
Rural residential real estate.....	45	18	63	6,860	6,923	
Other.....				7,589	7,589	
<b>Total.....</b>	<b>\$ 930</b>	<b>\$ 646</b>	<b>\$ 1,576</b>	<b>\$ 322,303</b>	<b>\$ 323,879</b>	<b>\$ 146</b>

<b>December 31, 2020</b>						
	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or less than 30 Days Past Due</b>	<b>Total Loans and Accrued Interest</b>	<b>Recorded Investment &gt;90 Days and Accruing</b>
Real estate mortgage.....	\$ 503	\$ 355	\$ 858	\$ 148,266	\$ 149,124	\$ 83
Production and intermediate-term...	263	204	467	62,410	62,877	10
Agribusiness.....	18	41	59	56,524	56,583	
Rural infrastructure.....	14	5	19	34,553	34,572	
Rural residential real estate.....	68	19	87	6,866	6,953	1
Other.....				7,752	7,752	
<b>Total.....</b>	<b>\$ 866</b>	<b>\$ 624</b>	<b>\$ 1,490</b>	<b>\$ 316,371</b>	<b>\$ 317,861</b>	<b>\$ 94</b>

**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
<b>Allowance for Loan Losses:</b>							
Balance at December 31, 2020	\$ 538	\$ 532	\$ 507	\$ 172	\$ 19	\$ 28	\$ 1,796
Charge-offs	(2)	(7)	(2)		(1)		(12)
Recoveries	1	6					7
Provision for loan losses (loan loss reversal)	(17)	(17)	49	13			28
Reclassification (to) from reserve for unfunded commitments*	(1)	(4)	2	1			(2)
Balance at March 31, 2021	<u>\$ 519</u>	<u>\$ 510</u>	<u>\$ 556</u>	<u>\$ 186</u>	<u>\$ 18</u>	<u>\$ 28</u>	<u>\$ 1,817</u>
Balance at December 31, 2019	\$ 492	\$ 546	\$ 508	\$ 219	\$ 18	\$ 23	\$ 1,806
Charge-offs	(2)	(13)	(1)				(16)
Recoveries	2	7	1				10
Provision for loan losses (loan loss reversal)	13	4	40	(1)		1	57
Reclassification (to) from reserve for unfunded commitments*	(10)	(1)	1				(10)
Balance at March 31, 2020	<u>\$ 495</u>	<u>\$ 543</u>	<u>\$ 549</u>	<u>\$ 218</u>	<u>\$ 18</u>	<u>\$ 24</u>	<u>\$ 1,847</u>
Ending Balance at March 31, 2021:							
Individually evaluated for impairment	\$ 41	\$ 50	\$ 27	\$ 11	\$ 1		\$ 130
Collectively evaluated for impairment	478	460	529	175	17	\$ 28	1,687
Balance at March 31, 2021	<u>\$ 519</u>	<u>\$ 510</u>	<u>\$ 556</u>	<u>\$ 186</u>	<u>\$ 18</u>	<u>\$ 28</u>	<u>\$ 1,817</u>
Ending Balance at December 31, 2020:							
Individually evaluated for impairment	\$ 42	\$ 58	\$ 25	\$ 4	\$ 1		\$ 130
Collectively evaluated for impairment	496	474	482	168	18	\$ 28	1,666
Balance at December 31, 2020	<u>\$ 538</u>	<u>\$ 532</u>	<u>\$ 507</u>	<u>\$ 172</u>	<u>\$ 19</u>	<u>\$ 28</u>	<u>\$ 1,796</u>
<b>Recorded Investments in Loans Outstanding:</b>							
Ending balance at March 31, 2021:							
Loans individually evaluated for impairment	\$ 1,251	\$ 520	\$ 139	\$ 50	\$ 780	\$ 82	\$ 2,822
Loans collectively evaluated for impairment	150,905	58,623	62,148	35,731	6,143	7,507	321,057
Balance at March 31, 2021	<u>\$ 152,156</u>	<u>\$ 59,143</u>	<u>\$ 62,287</u>	<u>\$ 35,781</u>	<u>\$ 6,923</u>	<u>\$ 7,589</u>	<u>\$ 323,879</u>
Ending balance at December 31, 2020:							
Loans individually evaluated for impairment	\$ 1,258	\$ 544	\$ 142	\$ 21	\$ 841	\$ 81	\$ 2,887
Loans collectively evaluated for impairment	147,866	62,333	56,441	34,551	6,112	7,671	314,974
Balance at December 31, 2020	<u>\$ 149,124</u>	<u>\$ 62,877</u>	<u>\$ 56,583</u>	<u>\$ 34,572</u>	<u>\$ 6,953</u>	<u>\$ 7,752</u>	<u>\$ 317,861</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)**

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. All impaired loans are analyzed within our allowance for loan losses.

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

	For the Three Months Ended			
	March 31, 2021		March 31, 2020	
	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.....	\$ 23	\$ 23	\$ 11	\$ 11
Production and intermediate-term.....	5	5	12	12
Agribusiness.....	11	11	11	11
Rural residential real estate.....	1	1	1	1
Total.....	<u>\$ 40</u>	<u>\$ 40</u>	<u>\$ 35</u>	<u>\$ 35</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	
	March 31, 2021	March 31, 2020
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage.....	\$ 2	\$ 23
Production and intermediate-term.....	1	11
Agribusiness.....		15
Total.....	<u>\$ 3</u>	<u>\$ 49</u>

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

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*	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage.....	\$ 280	\$ 288	\$ 100	\$ 107
Production and intermediate-term.....	127	129	64	67
Agribusiness.....	16	16	4	4
Rural infrastructure.....	2	2	2	2
Rural residential real estate.....	12	12	3	5
Total.....	<u>\$ 437</u>	<u>\$ 447</u>	<u>\$ 173</u>	<u>\$ 185</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 \$18 million at March 31, 2021 and \$21 million at December 31, 2020.

Loans held for sale were \$184 million and \$71 million at March 31, 2021 and December 31, 2020. Such loans are included in other assets and are carried at the lower of cost or fair value.

**NOTE 4 — OTHER ASSETS AND OTHER LIABILITIES**

Other assets consisted of the following:

	March 31, 2021	December 31, 2020
Equipment held for lease.....	\$ 667	\$ 633
Interest rate swaps and other derivatives.....	540	890
Accounts receivable.....	245	293
Assets held in non-qualified benefits trusts.....	226	217
Loans held for sale.....	184	71
Investments in rural business investment companies.....	179	162
Collateral pledged to derivative counterparties.....	174	357
Operating lease right-of-use assets.....	173	177
Equity investments in other System institutions.....	127	119
Prepaid expenses.....	127	100
Other property owned.....	35	37
Net deferred tax assets.....	14	12
Other.....	125	112
Total.....	<u>\$ 2,816</u>	<u>\$ 3,180</u>

Other liabilities consisted of the following:

	March 31, 2021	December 31, 2020
Pension and other postretirement benefit plan liabilities.....	\$ 1,153	\$ 1,181
Patronage and dividends payable.....	659	2,453
Net deferred tax liabilities.....	613	652
Bank drafts payable.....	521	162
Interest rate swaps and other derivatives.....	502	741
Accounts payable.....	457	1,063
Accrued salaries and employee benefits.....	208	424
Reserve for unfunded commitments.....	198	196
Operating lease liabilities.....	188	192
Liabilities held in non-qualified benefit trusts.....	143	137
Collateral held from derivative counterparties.....	3	
Other.....	335	357
Total.....	<u>\$ 4,980</u>	<u>\$ 7,558</u>

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

**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 the 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 certain limited circumstances. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances

that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

At March 31, 2021, assets in the Insurance Fund totaled \$5.581 billion and consisted of cash, investments and related accrued interest receivable of \$5.466 billion and of premiums receivable from System institutions of \$115 million accrued on the basis of adjusted outstanding insured debt during the first three months of 2021. Investments held by the Insurance Fund must be obligations of the United States or obligations guaranteed as to principal and interest by the United States. During the first three months of 2021, income earned on assets in the Insurance Fund and premiums accrued by the Insurance Corporation totaled \$126 million, net of administrative expenses.

**NOTE 6 — SYSTEMWIDE DEBT SECURITIES**

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at March 31, 2021:

	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.....	\$ 102,858	0.56%	\$ 4	7.32%	\$ 22,480	0.12%	\$ 125,342	0.48%
Due after 1 year through 2 years.....	81,815	0.45					81,815	0.45
Due after 2 years through 3 years....	27,768	1.02					27,768	1.02
Due after 3 years through 4 years....	17,499	1.10					17,499	1.10
Due after 4 years through 5 years....	15,821	1.21					15,821	1.21
Due after 5 years.....	59,399	2.02	77	5.75			59,476	2.02
Total.....	<u>\$ 305,160</u>	0.92	<u>\$ 81</u>	5.83	<u>\$ 22,480</u>	0.12	<u>\$ 327,721</u>	0.87

**FARM CREDIT SYSTEM**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)**

**(unaudited)**

**(dollars in millions, except as noted)**

**NOTE 7 — MERGERS OF SYSTEM INSTITUTIONS**

As discussed in the *2020 Annual Information Statement*, the primary reason for System entity mergers is based on a determination that the combined organization would be financially and operationally stronger with an enhanced ability to fulfill its mission.

Effective January 1, 2021, two Associations in the CoBank District merged. The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed for the merger as of January 1, 2021:

	<b>Fair Value</b>
Total assets acquired .....	\$ 262
Total liabilities assumed .....	213
Net assets acquired .....	\$ 49

The assets acquired included gross loans at fair value of \$245 million with a contractual amount of \$248 million. As of January 1, 2021, the gross contractual amount of loans is expected to be collected.

**NOTE 8 — CAPITAL STRUCTURE**

Capital consisted of the following at March 31, 2021:

	<b>Combined Banks</b>	<b>Combined Associations</b>	<b>Combination Entries</b>	<b>System Combined</b>
Preferred stock .....	\$ 2,539	\$ 641		\$ 3,180
Capital stock and participation certificates .....	7,714	511	\$ (6,236)	1,989
Additional paid-in-capital .....	62	3,728		3,790
Restricted capital — Insurance Fund .....			5,581	5,581
Accumulated other comprehensive (loss) income .....	345	(174)	(1,131)	(960)
Retained earnings .....	12,032	41,238	(350)	52,920
Total capital .....	\$ 22,692	\$ 45,944	\$ (2,136)	\$ 66,500

Preferred stock issued and outstanding reflects the issuance by four Banks and six Associations. Combined System retained earnings reflected net eliminations of \$350 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to \$6.2 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.

During the first quarter of 2021, one Association issued \$200 million of non-cumulative subordinated

perpetual preferred stock. Dividends, if declared by the Association's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate of 5.00%, up to but excluding March 15, 2026, and then resets to the annual five year Treasury rate plus 4.523%. The preferred stock is redeemable at par value, in whole or in part, at the Association's option quarterly beginning on March 15, 2026. Proceeds from this preferred stock issuance were for general corporate purposes. Also during the first quarter of 2021, another Association redeemed approximately \$226 million of Class H preferred stock.

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

Accumulated other comprehensive loss was comprised of the following components:

	March 31, 2021			December 31, 2020		
	Before Tax	Deferred Tax	Net of Tax	Before Tax	Deferred Tax	Net of Tax
Unrealized gains on investments available-for-sale, net	\$ 743	\$ (74)	\$ 669	\$ 1,275	\$ (118)	\$ 1,157
Unrealized losses on cash flow hedges, net	(247)	8	(239)	(361)	8	(353)
Pension and other benefit plans	(1,412)	22	(1,390)	(1,447)	22	(1,425)
Total	<u>\$ (916)</u>	<u>\$ (44)</u>	<u>\$ (960)</u>	<u>\$ (533)</u>	<u>\$ (88)</u>	<u>\$ (621)</u>

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	Unrealized gains on investments available-for- sale, net	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2020	\$ 1,157	\$ (353)	\$ (1,425)	\$ (621)
Other comprehensive income before reclassifications	(486)	102		(384)
Amounts reclassified from accumulated other comprehensive loss to income	(2)	12	35	45
Net current period other comprehensive (loss) income	(488)	114	35	(339)
Balance at March 31, 2021	<u>\$ 669</u>	<u>\$ (239)</u>	<u>\$ (1,390)</u>	<u>\$ (960)</u>

	Unrealized gains on investments available-for- sale, net	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2019	\$ 285	\$ (195)	\$ (1,430)	\$ (1,340)
Other comprehensive income before reclassifications	757	(214)		543
Amounts reclassified from accumulated other comprehensive loss to income	(8)	6	35	33
Net current period other comprehensive income (loss)	749	(208)	35	576
Balance at March 31, 2020	<u>\$ 1,034</u>	<u>\$ (403)</u>	<u>\$ (1,395)</u>	<u>\$ (764)</u>

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

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

## FARM CREDIT SYSTEM

### NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

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

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

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

At March 31, 2021, all System institutions complied with these standards.

#### NOTE 9 — 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 noncontributory 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 healthcare and other postretirement benefits to eligible retired

employees. Employees of System institutions may become eligible for healthcare and other postretirement 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 March 31:

	Pension Benefits		Other Benefits	
	2021	2020	2021	2020
Service cost.....	\$ 16	\$ 15	\$ 1	\$ 1
Interest cost.....	27	34	2	3
Expected return on plan assets...	(48)	(49)		
Net amortization and deferral.....	35	37	1	
Net periodic benefit cost.....	<u>\$ 30</u>	<u>\$ 37</u>	<u>\$ 4</u>	<u>\$ 4</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 March 31, 2021, \$24 million and \$3 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional \$201 million to fund their pension plans and \$10 million to fund their other postretirement benefit plans during the remainder of 2021.

#### NOTE 10 — 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 *2020 Annual Information Statement* for additional information.

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Assets and liabilities measured at fair value on a recurring basis at March 31, 2021 and December 31, 2020 for each of the fair value hierarchy levels are summarized below:

<u>March 31, 2021</u>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds sold and securities purchased under resale agreements		\$ 1,241		\$ 1,241
Commercial paper, bankers' acceptances, certificates of deposit and other securities		6,927	\$ 13	6,940
U.S. Treasury securities		23,400		23,400
U.S. agency securities		2,518		2,518
Mortgage-backed securities		29,139	142	29,281
Asset-backed securities		3,766	12	3,778
Derivative assets		540		540
Assets held in non-qualified benefits trusts	\$ 226			226
<b>Total assets</b>	<b>\$ 226</b>	<b>\$ 67,531</b>	<b>\$ 167</b>	<b>\$ 67,924</b>
Liabilities:				
Derivative liabilities		\$ 502		\$ 502
Collateral liabilities		3		3
Standby letters of credit			\$ 18	18
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 505</b>	<b>\$ 18</b>	<b>\$ 523</b>

<u>December 31, 2020</u>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds sold and securities purchased under resale agreements		\$ 2,203		\$ 2,203
Commercial paper, bankers' acceptances, certificates of deposit and other securities		7,267	\$ 13	7,280
U.S. Treasury securities		21,623		21,623
U.S. agency securities		3,122		3,122
Mortgage-backed securities		29,979	183	30,162
Asset-backed securities		3,989		3,989
Derivative assets		890		890
Assets held in non-qualified benefits trusts	\$ 217			217
<b>Total assets</b>	<b>\$ 217</b>	<b>\$ 69,073</b>	<b>\$ 196</b>	<b>\$ 69,486</b>
Liabilities:				
Derivative liabilities		\$ 741		\$ 741
Standby letters of credit			\$ 17	17
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 741</b>	<b>\$ 17</b>	<b>\$ 758</b>

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The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the first quarters of 2021 and 2020:

	<b>Commercial paper, bankers' acceptances certificates of deposit and other securities</b>	<b>Mortgage-backed securities</b>	<b>Asset- backed securities</b>	<b>Standby letters of credit</b>
Balance at December 31, 2020.....	\$ 13	\$ 183	\$ 0	\$ 17
Total gains or (losses) realized/unrealized:				
Included in other comprehensive loss.....	(1)			
Purchases.....	1	40	12	
Issuances.....				3
Settlements.....		(5)		(2)
Transfers from Level 3 into Level 2.....		(76)		
Balance at March 31, 2021.....	<u>\$ 13</u>	<u>\$ 142</u>	<u>\$ 12</u>	<u>\$ 18</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 March 31, 2021.....	<u>\$ (1)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

	<b>Commercial paper, bankers' acceptances certificates of deposit and other securities</b>	<b>Mortgage-backed securities</b>	<b>Standby letters of credit</b>
Balance at December 31, 2019.....	\$ 14	\$ 128	\$ 13
Total gains or (losses) realized/unrealized:			
Included in other comprehensive loss.....	1	(4)	
Purchases.....	2	70	
Issuances.....			4
Settlements.....		(7)	(2)
Balance at March 31, 2020.....	<u>\$ 17</u>	<u>\$ 187</u>	<u>\$ 15</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 March 31, 2020.....	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ 0</u>

There were no losses included in earnings during the first quarters of 2021 and 2020 that were attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2021 and 2020.

Level 3 assets measured at fair value on a non-recurring basis included loans of \$357 million and other property owned of \$38 million at March 31, 2021, as compared to \$365 million and \$40 million at December 31, 2020.

The transfers between Level 3 and Level 2 during the first quarter of 2021 were due to a change in the sources of pricing information.

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Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Condensed Combined Statement of Condition for each of the fair value hierarchy levels are summarized as follows:

	March 31, 2021				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 3,104	\$ 3,104			\$ 3,104
Other investments held-to-maturity	1,864		\$ 487	\$ 1,412	1,899
Net loans	319,991			329,867	329,867
Total assets	<u>\$ 324,959</u>	<u>\$ 3,104</u>	<u>\$ 487</u>	<u>\$ 331,279</u>	<u>\$ 334,870</u>
Liabilities:					
Systemwide Debt Securities	\$ 327,721			\$ 329,883	\$ 329,883
Other bonds	2,473			2,473	2,473
Other interest bearing liabilities	2,054		\$ 19	2,030	2,049
Total liabilities	<u>\$ 332,248</u>	<u>\$ 0</u>	<u>\$ 19</u>	<u>\$ 334,386</u>	<u>\$ 334,405</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 213</u>	<u>\$ 213</u>

	December 31, 2020				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 4,067	\$ 4,067			\$ 4,067
Other investments held-to-maturity	1,764		\$ 473	\$ 1,349	1,822
Net loans	313,694			326,876	326,876
Total assets	<u>\$ 319,525</u>	<u>\$ 4,067</u>	<u>\$ 473</u>	<u>\$ 328,225</u>	<u>\$ 332,765</u>
Liabilities:					
Systemwide Debt Securities	\$ 322,655			\$ 327,909	\$ 327,909
Other bonds	2,559			2,559	2,559
Other interest bearing liabilities	1,700		\$ 11	1,713	1,724
Total liabilities	<u>\$ 326,914</u>	<u>\$ 0</u>	<u>\$ 11</u>	<u>\$ 332,181</u>	<u>\$ 332,192</u>
Other financial instruments:					
Commitments to extend credit				<u>\$ 211</u>	<u>\$ 211</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

**FARM CREDIT SYSTEM**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)**

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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	
	March 31, 2021	December 31, 2020			March 31, 2021	December 31, 2020
Commercial paper, bankers' acceptances, certificates of deposit and other securities.....	\$ 13	\$ 13	Discounted cash flow	Prepayment rate	0.0%	0.0%
Mortgage-backed securities...	\$ 21	\$ 23	Discounted cash flow	Prepayment rate	1.4%-44.5%	1.4%-44.5%
	121	160	Vendor priced			
	<u>\$ 142</u>	<u>\$ 183</u>				
Asset-backed securities.....	\$ 12	\$ 0	Vendor priced			
Standby letters of credit.....	\$ 18	\$ 17	Discounted cash flow	Rate of funding	50.0%	50.0%
				Risk-adjusted spread	0.1%-1.4%	0.1%-1.3%

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 *2020 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

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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.

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, SOFR 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 market-place.

***Standby Letters of Credit***

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

***Loans Evaluated for Impairment***

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

***Other Property Owned***

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

***Collateral Liabilities***

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

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**NOTE 11 — 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 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 investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, interest rate swaps that pay floating rate and receive fixed rate (receive-fixed swaps) are used to reduce the impact of market fluctuations on net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, swaps that receive floating rate and pay fixed rate (pay-fixed swaps) are used to reduce net positions.

Interest rate options may be purchased in order to reduce the impact of rising interest rates on floating-rate debt (interest rate caps) or to reduce the impact of falling interest rates on floating-rate assets (interest rate floors). The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the three months ended March 31, 2021 and 2020 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, 2020.....	\$ 14,780	\$ 23,466	\$ 2,000	\$ 6,196	\$ 11,297	\$ 57,739
Additions.....	955	18,335		15	1,090	20,395
Maturities/amortization.....	(1,750)	(17,269)	(600)	(1)	(1,115)	(20,735)
Terminations.....		(729)			(12)	(741)
Balance at March 31, 2021.....	<u>\$ 13,985</u>	<u>\$ 23,803</u>	<u>\$ 1,400</u>	<u>\$ 6,210</u>	<u>\$ 11,260</u>	<u>\$ 56,658</u>

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	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.....	1,822	2,751		89	3,670	8,332
Maturities/amortization.....	(957)	(682)	(100)	(97)	(2,120)	(3,956)
Terminations.....		(151)			(111)	(262)
Balance at March 31, 2020.....	<u>\$ 16,525</u>	<u>\$ 13,711</u>	<u>\$ 2,200</u>	<u>\$ 6,472</u>	<u>\$ 10,976</u>	<u>\$ 49,884</u>

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 net exposure to counterparties was \$5 million at March 31, 2021 and \$3 million at December 31, 2020.

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.

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As of March 31, 2021 and December 31, 2020, the following amounts were recorded on the Condensed Combined Statement of Condition related to cumulative basis adjustments for fair value hedges:

	<b>Carrying Amount of the Hedged Item</b>	<b>Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item</b>
	<b>March 31, 2021</b>	<b>March 31, 2021</b>
Systemwide debt securities .....	\$ 15,077	\$ 241

	<b>Carrying Amount of the Hedged Item</b>	<b>Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item</b>
	<b>December 31, 2020</b>	<b>December 31, 2020</b>
Systemwide debt securities .....	\$ 16,216	\$ 335

***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, investment and other transactions” in the Condensed Combined Statement of Income.

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***Fair Values of Derivative Instruments***

The following table represents the fair value of derivative instruments:

	<b>Balance Sheet Classification Assets</b>	<b>Fair Value March 31, 2021</b>	<b>Fair Value December 31, 2020</b>	<b>Balance Sheet Classification Liabilities</b>	<b>Fair Value March 31, 2021</b>	<b>Fair Value December 31, 2020</b>
<b>Derivatives designated as hedging instruments:</b>						
Receive-fixed swaps.....	Other assets	\$ 251	\$ 338	Other liabilities	\$ 8	\$ 1
Pay-fixed and amortizing pay-fixed swaps.....				Other liabilities	86	222
Interest rate caps and floors.....	Other assets	49	42			
Floating-for-floating and amortizing floating-for-floating swaps.....				Other liabilities	2	2
Foreign exchange contracts.....	Other assets	2		Other liabilities		2
Total derivatives designated as hedging instruments.....		<u>302</u>	<u>380</u>		<u>96</u>	<u>227</u>
<b>Derivatives not designated as hedging instruments:</b>						
Pay-fixed and amortizing pay-fixed swaps.....				Other liabilities	3	9
Derivatives entered into on behalf of customers.....	Other assets	488	675	Other liabilities	406	578
Other derivative products.....	Other assets	1		Other liabilities		1
Total derivatives not designated as hedging instruments.....		<u>489</u>	<u>675</u>		<u>409</u>	<u>588</u>
Variation margin settlement.....		<u>(249)</u>	<u>(162)</u>		<u>(1)</u>	<u>(71)</u>
Total derivatives.....		<u>\$ 542</u>	<u>\$ 893</u>		<u>\$ 504</u>	<u>\$ 744</u>

The following table sets forth the effect of derivative instruments in cash flow hedging relationships:

	<b>Amount of Gain or (Loss) Recognized in OCI on Derivatives</b>		<b>Location of Gain or (Loss) Reclassification from AOCI into Income</b>	<b>Amount of Gain or (Loss) Reclassified from AOCI into Income</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>		<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Derivatives — Cash Flow Hedging Relationships</b>					
Pay-fixed and amortizing pay-fixed swaps...	\$ 91	\$ (233)	Interest expense	\$ (10)	\$ (5)
Floating-for-floating and amortizing floating-for-floating swaps.....	1				
Interest rate caps and floors.....	7	16	Interest expense/ interest income	(5)	(4)
Foreign exchange contracts.....	3	3	Interest income	3	3
Total.....	<u>\$ 102</u>	<u>\$ (214)</u>		<u>\$ (12)</u>	<u>\$ (6)</u>

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

	<b>Location and Amount of Gain or Loss Recognized in Income on Fair Value and Cash Flow Hedging Relationships</b>			
	<b>For the Three Months Ended March 31, 2021</b>		<b>For the Three Months Ended March 31, 2020</b>	
	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Interest Income</b>	<b>Interest Expense</b>
	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Interest Income</b>	<b>Interest Expense</b>
Total amount of income and expense line items in which the effects of fair value or cash flow hedges are recorded .....	\$ 3,089	\$ 697	\$ 3,638	\$ 1,447
Effects of fair value and cash flow hedging:				
Fair value hedges:				
Receive-fixed swaps .....		94		(308)
Systemwide Debt Securities .....		(94)		305
Cash flow hedges:				
Pay-fixed and amortizing pay-fixed swaps .....		10		5
Interest rate caps and floors .....	2	3		4
Foreign exchange contracts .....	3		3	

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:

<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location of Gain or (Loss)</b>	<b>For the Three Months Ended</b>	
		<b>March 31, 2021</b>	<b>March 31, 2020</b>
Pay-fixed and amortizing pay-fixed swaps .....	Noninterest income	\$ 6	\$ (12)
Derivatives entered into on behalf of customers .....	Noninterest income	(14)	42
Other derivative products .....	Noninterest income	1	(2)
Total .....		\$ (7)	\$ 28

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

**NOTE 12 — ASSET/LIABILITY OFFSETTING**

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

	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Combined Statement of Condition	Net Amounts Presented in the Condensed Combined Statement of Condition	Gross Amounts Not Offset in the Condensed Combined Statement of Condition			Net Amount
				Securities Received/ Pledged	Cash Collateral Received/Pledged	Cleared Derivative Initial Margin Pledged	
<b>March 31, 2021</b>							
Assets:							
Interest rate swaps and other derivatives..	\$ 542	\$ (2)	\$ 540		\$ (3)	\$ 6	\$ 543
Federal Funds sold and securities purchased under resale agreements.....	1,241		1,241	\$ (195)			1,046
Liabilities:							
Interest rate swaps and other derivatives..	504	(2)	502		(174)	(68)	260
	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Combined Statement of Condition	Net Amounts Presented in the Condensed Combined Statement of Condition	Gross Amounts Not Offset in the Condensed Combined Statement of Condition			Net Amount
				Securities Received/ Pledged	Cash Collateral Received/Pledged	Cleared Derivative Initial Margin Pledged	
<b>December 31, 2020</b>							
Assets:							
Interest rate swaps and other derivatives..	\$ 893	\$ (3)	\$ 890			\$ 22	\$ 912
Federal Funds sold and securities purchased under resale agreements .....	2,203		2,203	\$ (520)			1,683
Liabilities:							
Interest rate swaps and other derivatives..	744	(3)	741		\$ (357)	(58)	326

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

**NOTE 13 — 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:

	<u>March 31, 2021</u>
Commitments to extend credit.....	\$ 97,616
Standby letters of credit.....	2,536
Commercial and other letters of credit..	152

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.

At March 31, 2021, various other lawsuits were pending or threatened against System institutions. Each System institution to which a pending or threatened lawsuit relates intends to vigorously defend against such action. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System’s combined results of operations or financial condition.

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

**NOTE 14 — 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**

**March 31, 2021**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
<b>Assets</b>						
Cash	\$ 509	\$ 1,153	\$ 90	\$ 1,230		\$ 2,982
Federal funds sold and securities purchased under resale agreements	195	150	196	700		1,241
Investments (Note 2)	8,794	18,509	5,460	32,539		65,302
<b>Loans</b>						
To Associations(1)	17,731	99,389	15,417	59,837		192,374
To others(2)	8,322	11,469	7,201	64,894	\$ (381)	91,505
Less: allowance for loan losses	(19)	(37)	(11)	(687)		(754)
Net loans	26,034	110,821	22,607	124,044	(381)	283,125
Accrued interest receivable	78	471	68	406		1,023
Other assets	404	196	448	1,391	76	2,515
Total assets	<u>\$ 36,014</u>	<u>\$ 131,300</u>	<u>\$ 28,869</u>	<u>\$ 160,310</u>	<u>\$ (305)</u>	<u>\$ 356,188</u>
<b>Liabilities and Capital</b>						
<b>Systemwide Debt Securities (Note 6):</b>						
Due within one year	\$ 14,610	\$ 37,988	\$ 11,091	\$ 61,653		\$ 125,342
Due after one year	18,807	84,266	15,491	83,815		202,379
Total Systemwide Debt Securities	33,417	122,254	26,582	145,468		327,721
Accrued interest payable	29	232	58	313		632
Other liabilities	68	2,086	169	2,844	\$ (24)	5,143
Total liabilities	33,514	124,572	26,809	148,625	(24)	333,496
<b>Capital</b>						
Preferred stock	39	250	750	1,500		2,539
Capital stock and participation certificates	312	3,356	419	3,916	(289)	7,714
Additional paid-in-capital	62					62
Accumulated other comprehensive income (loss)	92	(64)	(12)	346	(17)	345
Retained earnings	1,995	3,186	903	5,923	25	12,032
Total capital	2,500	6,728	2,060	11,685	(281)	22,692
Total liabilities and capital	<u>\$ 36,014</u>	<u>\$ 131,300</u>	<u>\$ 28,869</u>	<u>\$ 160,310</u>	<u>\$ (305)</u>	<u>\$ 356,188</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, 2020**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
<b>Assets</b>						
Cash	\$ 694	\$ 622	\$ 128	\$ 2,336		\$ 3,780
Federal funds sold and securities purchased under resale agreements	520	640	208	835		2,203
Investments (Note 2)	8,515	18,585	5,549	32,825		65,474
<b>Loans</b>						
To Associations(1)	17,946	97,778	15,002	60,436		191,162
To others(2)	8,279	12,008	6,823	60,419	\$ (365)	87,164
Less: allowance for loan losses	(18)	(40)	(10)	(635)		(703)
Net loans	<u>26,207</u>	<u>109,746</u>	<u>21,815</u>	<u>120,220</u>	<u>(365)</u>	<u>277,623</u>
Accrued interest receivable	82	496	65	404		1,047
Other assets	320	219	463	1,966		2,968
Total assets	<u>\$ 36,338</u>	<u>\$ 130,308</u>	<u>\$ 28,228</u>	<u>\$ 158,586</u>	<u>\$ (365)</u>	<u>\$ 353,095</u>
<b>Liabilities and Capital</b>						
<b>Systemwide Debt Securities (Note 6):</b>						
Due within one year	\$ 15,439	\$ 36,546	\$ 10,667	\$ 62,585		\$ 125,237
Due after one year	17,917	84,954	15,206	79,341		197,418
Total Systemwide Debt Securities	<u>33,356</u>	<u>121,500</u>	<u>25,873</u>	<u>141,926</u>		<u>322,655</u>
Accrued interest payable	26	273	59	328		686
Other liabilities	478	1,955	304	4,422	\$ (79)	7,080
Total liabilities	<u>33,860</u>	<u>123,728</u>	<u>26,236</u>	<u>146,676</u>	<u>(79)</u>	<u>330,421</u>
<b>Capital</b>						
Preferred stock	49	250	750	1,500		2,549
Capital stock and participation certificates	312	3,301	420	3,918	(293)	7,658
Additional paid-in-capital	59					59
Accumulated other comprehensive income (loss)	186	(113)	(29)	688	(17)	715
Retained earnings	<u>1,872</u>	<u>3,142</u>	<u>851</u>	<u>5,804</u>	<u>24</u>	<u>11,693</u>
Total capital	<u>2,478</u>	<u>6,580</u>	<u>1,992</u>	<u>11,910</u>	<u>(286)</u>	<u>22,674</u>
Total liabilities and capital	<u>\$ 36,338</u>	<u>\$ 130,308</u>	<u>\$ 28,228</u>	<u>\$ 158,586</u>	<u>\$ (365)</u>	<u>\$ 353,095</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 Three Months Ended March 31,**

	<b>AgFirst Farm Credit Bank</b>	<b>AgriBank, FCB</b>	<b>Farm Credit Bank of Texas</b>	<b>CoBank, ACB</b>	<b>Combination Entries</b>	<b>Combined Banks</b>
<b><u>2021</u></b>						
Interest income .....	\$ 200	\$ 481	\$ 159	\$ 744	\$ 27	\$ 1,611
Interest expense .....	(39)	(300)	(66)	(301)	10	(696)
Net interest income .....	161	181	93	443	37	915
(Provision for loan losses) loan loss reversal .....	(1)	1	(1)	(55)		(56)
Noninterest income .....	8	49	9	83	(50)	99
Noninterest expense .....	(44)	(38)	(35)	(113)	(9)	(239)
Provision for income taxes .....				(34)		(34)
Net income .....	124	193	66	324	(22)	685
Other comprehensive (loss) income .....	(94)	49	17	(342)		(370)
Comprehensive income (loss) .....	<u>\$ 30</u>	<u>\$ 242</u>	<u>\$ 83</u>	<u>\$ (18)</u>	<u>\$ (22)</u>	<u>\$ 315</u>
<b><u>2020</u></b>						
Interest income .....	\$ 263	\$ 726	\$ 194	\$ 1,029	\$ 6	\$ 2,218
Interest expense .....	(149)	(535)	(124)	(646)	10	(1,444)
Net interest income .....	114	191	70	383	16	774
Provision for loan losses .....		(1)		(26)		(27)
Noninterest income .....	(5)	69	9	72	(26)	119
Noninterest expense .....	(37)	(36)	(29)	(99)	(7)	(208)
Provision for income taxes .....				(36)		(36)
Net income .....	72	223	50	294	(17)	622
Other comprehensive income (loss) .....	55	(144)	(12)	644	(1)	542
Comprehensive income .....	<u>\$ 127</u>	<u>\$ 79</u>	<u>\$ 38</u>	<u>\$ 938</u>	<u>\$ (18)</u>	<u>\$ 1,164</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 Three Months Ended March 31**

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2019.....	\$ 2,331	\$ 6,182	\$ 1,844	\$ 10,567	\$ (259)	\$ 20,665
Comprehensive income.....	127	79	38	938	(18)	1,164
Preferred stock dividends.....	(1)	(4)	(7)	(21)		(33)
Capital stock and participation certificates issued.....		169	1			170
Capital stock, participation certificates, and retained earnings retired.....		(133)	(2)	(35)	8	(162)
Patronage.....		(149)	(2)	(122)	15	(258)
Balance at March 31, 2020.....	<u>\$ 2,457</u>	<u>\$ 6,144</u>	<u>\$ 1,872</u>	<u>\$ 11,327</u>	<u>\$ (254)</u>	<u>\$ 21,546</u>
Balance at December 31, 2020.....	\$ 2,478	\$ 6,580	\$ 1,992	\$ 11,910	\$ (286)	\$ 22,674
Comprehensive income (loss).....	30	242	83	(18)	(22)	315
Preferred stock retired.....	(10)					(10)
Preferred stock dividends.....		(4)	(12)	(21)		(37)
Capital stock and participation certificates issued.....		85				85
Capital stock, participation certificates, and retained earnings retired.....		(30)	(1)	(32)	6	(57)
Additional paid-in-capital.....	3					3
Patronage.....	(1)	(145)	(2)	(154)	21	(281)
Balance at March 31, 2021.....	<u>\$ 2,500</u>	<u>\$ 6,728</u>	<u>\$ 2,060</u>	<u>\$ 11,685</u>	<u>\$ (281)</u>	<u>\$ 22,692</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:

	<b>AgFirst Farm Credit Bank</b>	<b>AgriBank, FCB</b>	<b>Farm Credit Bank of Texas</b>	<b>CoBank, ACB</b>
<b>For the three months ended:</b>				
<b><u>March 31, 2021</u></b>				
Return on average assets.....	1.38%	0.59%	0.93%	0.80%
Return on average capital.....	19.72%	11.59%	13.01%	10.91%
<b><u>March 31, 2020</u></b>				
Return on average assets.....	0.84%	0.77%	0.78%	0.81%
Return on average capital.....	11.83%	14.33%	10.77%	10.77%
<b>For the period ended:</b>				
<b><u>March 31, 2021</u></b>				
Nonperforming assets as a percentage of loans and other property owned.....	0.14%	0.07%	0.03%	0.11%
Allowance for loan losses as a percentage of loans.....	0.07%	0.03%	0.05%	0.55%
Capital as a percentage of total assets.....	6.94%	5.12%	7.14%	7.29%
Tier 1 Leverage ratio.....	6.37%	5.18%	6.67%	7.02%
Total Capital ratio.....	17.5%	17.3%	15.0%	14.1%
Permanent capital ratio.....	17.3%	17.3%	15.0%	13.3%
Liquidity in days.....	211	169	182	176
Average liquidity in days during 2021.....	208	164	178	176
<b><u>December 31, 2020</u></b>				
Nonperforming assets as a percentage of loans and other property owned.....	0.14%	0.07%	0.02%	0.10%
Allowance for loan losses as a percentage of loans.....	0.07%	0.04%	0.05%	0.53%
Capital as a percentage of total assets.....	6.82%	5.05%	7.06%	7.51%
Tier 1 Leverage ratio.....	7.09%	5.23%	7.11%	7.30%
Total Capital ratio.....	19.5%	17.4%	16.2%	15.2%
Permanent capital ratio.....	19.4%	17.3%	16.1%	14.4%
Liquidity in days.....	196	167	182	174
Average liquidity in days during 2020.....	217	168	198	183

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

## FARM CREDIT SYSTEM

### NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

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 8.

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 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 15 — SUBSEQUENT EVENTS

The Banks and Associations have evaluated subsequent events through May 7, 2021, 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 process, 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)**  
**March 31, 2021**  
**(in millions)**

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments.....	\$ 69,525	\$ 2,616	\$ (15)	\$ 72,126		\$ 72,126
Loans.....	283,879	230,411	(192,482)	321,808		321,808
Less: allowance for loan losses.....	(754)	(1,063)		(1,817)		(1,817)
Net loans.....	283,125	229,348	(192,482)	319,991		319,991
Other assets.....	3,538	10,896	(7,776)	6,658		6,658
Restricted assets.....					\$ 5,581	5,581
Total assets.....	<u>\$356,188</u>	<u>\$ 242,860</u>	<u>\$ (200,273)</u>	<u>\$398,775</u>	<u>\$ 5,581</u>	<u>\$404,356</u>
Systemwide Debt Securities.....	\$327,721			\$327,721		\$327,721
Other liabilities.....	5,775	\$ 196,916	\$ (192,556)	10,135		10,135
Total liabilities.....	<u>333,496</u>	<u>196,916</u>	<u>(192,556)</u>	<u>337,856</u>		<u>337,856</u>
Capital						
Preferred stock.....	2,539	641		3,180		3,180
Capital stock and participation certificates.....	7,714	511	(6,236)	1,989		1,989
Additional paid-in-capital.....	62	3,728		3,790		3,790
Restricted capital.....					\$ 5,581	5,581
Accumulated other comprehensive (loss) income.....	345	(174)	(1,131)	(960)		(960)
Retained earnings.....	12,032	41,238	(350)	52,920		52,920
Total capital.....	<u>22,692</u>	<u>45,944</u>	<u>(7,717)</u>	<u>60,919</u>	<u>5,581</u>	<u>66,500</u>
Total liabilities and capital.....	<u>\$356,188</u>	<u>\$ 242,860</u>	<u>\$ (200,273)</u>	<u>\$398,775</u>	<u>\$ 5,581</u>	<u>\$404,356</u>

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION - (continued)**  
**(unaudited)**

**COMBINING STATEMENT OF CONDITION — (Condensed)**  
**December 31, 2020**  
**(in millions)**

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments.....	\$ 71,457	\$ 2,813	\$ (60)	\$ 74,210		\$ 74,210
Loans.....	278,326	228,363	(191,199)	315,490		315,490
Less: allowance for loan losses.....	(703)	(1,093)		(1,796)		(1,796)
Net loans.....	277,623	227,270	(191,199)	313,694		313,694
Other assets.....	4,015	11,643	(8,324)	7,334		7,334
Restricted assets.....					\$ 5,455	5,455
Total assets.....	<u>\$353,095</u>	<u>\$ 241,726</u>	<u>\$ (199,583)</u>	<u>\$395,238</u>	<u>\$ 5,455</u>	<u>\$400,693</u>
Systemwide Debt Securities.....	\$322,655			\$322,655		\$322,655
Other liabilities.....	7,766	\$ 196,749	\$ (192,012)	12,503		12,503
Total liabilities.....	<u>330,421</u>	<u>196,749</u>	<u>(192,012)</u>	<u>335,158</u>		<u>335,158</u>
Capital						
Preferred stock.....	2,549	655		3,204		3,204
Capital stock and participation certificates.....	7,658	489	(6,170)	1,977		1,977
Additional paid-in-capital.....	59	3,679		3,738		3,738
Restricted capital.....					\$ 5,455	5,455
Accumulated other comprehensive (loss) income.....	715	(170)	(1,166)	(621)		(621)
Retained earnings.....	11,693	40,324	(235)	51,782		51,782
Total capital.....	<u>22,674</u>	<u>44,977</u>	<u>(7,571)</u>	<u>60,080</u>	<u>5,455</u>	<u>65,535</u>
Total liabilities and capital.....	<u>\$353,095</u>	<u>\$ 241,726</u>	<u>\$ (199,583)</u>	<u>\$395,238</u>	<u>\$ 5,455</u>	<u>\$400,693</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 Three Months Ended March 31, 2021**  
**(in millions)**

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income .....	\$ 915	\$ 1,485	\$ (8)	\$ 2,392			\$ 2,392
(Provision for loan losses) loan loss reversal .....	(56)	28		(28)			(28)
Noninterest income .....	99	554	(455)	198	\$ 127	\$ (115) (a)	210
Noninterest expense .....	(239)	(802)	94	(947)	(1)	115 (a)	(833)
Provision for income taxes ..	(34)	(14)		(48)			(48)
Net income .....	685	1,251	(369)	1,567	126	0	1,693
Other comprehensive loss .....	(370)	(4)	35	(339)			(339)
Comprehensive income .....	<u>\$ 315</u>	<u>\$ 1,247</u>	<u>\$ (334)</u>	<u>\$ 1,228</u>	<u>\$ 126</u>	<u>\$ 0</u>	<u>\$ 1,354</u>

**For the Three Months Ended March 31, 2020**  
**(in millions)**

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income .....	\$ 774	\$ 1,419	\$ (2)	\$ 2,191			\$ 2,191
Provision for loan losses .....	(27)	(30)		(57)			(57)
Noninterest income .....	119	472	(371)	220	\$ 74	\$ (115) (a)(b)	179
Noninterest expense .....	(208)	(734)	57	(885)	(1)	52 (a)	(834)
Provision for income taxes ..	(36)	(11)		(47)			(47)
Net income .....	622	1,116	(316)	1,422	73	(63)	1,432
Other comprehensive income .....	542	25	9	576			576
Comprehensive income .....	<u>\$ 1,164</u>	<u>\$ 1,141</u>	<u>\$ (307)</u>	<u>\$ 1,998</u>	<u>\$ 73</u>	<u>\$ (63)</u>	<u>\$ 2,008</u>

Combination entry (a) eliminates the Insurance Fund premiums expensed by the Banks in the first three months of 2021 and 2020 of \$115 million and \$52 million and the related income recognized by the Insurance Corporation.

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

**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)**  
**March 31, 2021**  
**(in millions)**

	<b>AgFirst District Combined</b>	<b>AgriBank District Combined</b>	<b>Texas District Combined</b>	<b>CoBank District Combined</b>	<b>Insurance Fund and Combination Entries</b>	<b>System Combined</b>
Cash and investments.....	\$ 9,535	\$ 21,663	\$ 5,844	\$ 35,084		\$ 72,126
Loans.....	32,406	128,374	29,796	136,592	\$ (5,360)	321,808
Less: allowance for loan losses.....	(219)	(488)	(91)	(1,019)		(1,817)
Net loans.....	32,187	127,886	29,705	135,573	(5,360)	319,991
Other assets.....	716	2,351	839	2,829	(77)	6,658
Restricted assets.....					5,581	5,581
Total assets.....	<u>\$ 42,438</u>	<u>\$ 151,900</u>	<u>\$ 36,388</u>	<u>\$ 173,486</u>	<u>\$ 144</u>	<u>\$ 404,356</u>
Systemwide Debt Securities.....	\$ 33,417	\$ 122,254	\$ 26,582	\$ 145,468		\$ 327,721
Other liabilities.....	1,819	3,327	4,464	5,338	\$ (4,813)	10,135
Total liabilities.....	<u>35,236</u>	<u>125,581</u>	<u>31,046</u>	<u>150,806</u>	<u>(4,813)</u>	<u>337,856</u>
Capital						
Preferred stock.....	39	350	970	1,821		3,180
Capital stock and participation certificates.....	190	323	130	1,758	(412)	1,989
Additional paid-in-capital.....	86	2,085	225	1,394		3,790
Restricted capital.....					5,581	5,581
Accumulated other comprehensive (loss) income.....	(251)	(542)	(121)	23	(69)	(960)
Retained earnings.....	7,138	24,103	4,138	17,684	(143)	52,920
Total capital.....	<u>7,202</u>	<u>26,319</u>	<u>5,342</u>	<u>22,680</u>	<u>4,957</u>	<u>66,500</u>
Total liabilities and capital.....	<u>\$ 42,438</u>	<u>\$ 151,900</u>	<u>\$ 36,388</u>	<u>\$ 173,486</u>	<u>\$ 144</u>	<u>\$ 404,356</u>

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION - (continued)**  
**(unaudited)**

**STATEMENT OF CONDITION — (Condensed)**  
**December 31, 2020**  
**(in millions)**

	<b>AgFirst District Combined</b>	<b>AgriBank District Combined</b>	<b>Texas District Combined</b>	<b>CoBank District Combined</b>	<b>Insurance Fund and Combination Entries</b>	<b>System Combined</b>
Cash and investments.....	\$ 9,770	\$ 21,601	\$ 5,975	\$ 36,864		\$ 74,210
Loans.....	32,170	127,526	28,893	132,243	\$ (5,342)	315,490
Less: allowance for loan losses.....	(221)	(511)	(94)	(970)		(1,796)
Net loans.....	31,949	127,015	28,799	131,273	(5,342)	313,694
Other assets.....	728	2,526	833	3,413	(166)	7,334
Restricted assets.....					5,455	5,455
<b>Total assets.....</b>	<b>\$ 42,447</b>	<b>\$ 151,142</b>	<b>\$ 35,607</b>	<b>\$ 171,550</b>	<b>\$ (53)</b>	<b>\$ 400,693</b>
Systemwide Debt Securities.....	\$ 33,356	\$ 121,500	\$ 25,873	\$ 141,926		\$ 322,655
Other liabilities.....	1,983	3,840	4,747	6,814	\$ (4,881)	12,503
<b>Total liabilities.....</b>	<b>35,339</b>	<b>125,340</b>	<b>30,620</b>	<b>148,740</b>	<b>(4,881)</b>	<b>335,158</b>
<b>Capital</b>						
Preferred stock.....	49	350	770	2,035		3,204
Capital stock and participation certificates.....	178	320	129	1,763	(413)	1,977
Additional paid-in-capital.....	83	2,085	225	1,345		3,738
Restricted capital.....					5,455	5,455
Accumulated other comprehensive (loss) income.....	(165)	(602)	(141)	358	(71)	(621)
Retained earnings.....	6,963	23,649	4,004	17,309	(143)	51,782
<b>Total capital.....</b>	<b>7,108</b>	<b>25,802</b>	<b>4,987</b>	<b>22,810</b>	<b>4,828</b>	<b>65,535</b>
<b>Total liabilities and capital.....</b>	<b>\$ 42,447</b>	<b>\$ 151,142</b>	<b>\$ 35,607</b>	<b>\$ 171,550</b>	<b>\$ (53)</b>	<b>\$ 400,693</b>

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION - (continued)**  
**(unaudited)**

**STATEMENT OF COMPREHENSIVE INCOME — (Condensed)**  
**For the Three Months Ended March 31,**  
**(in millions)**

	<b>AgFirst District Combined</b>	<b>AgriBank District Combined</b>	<b>Texas District Combined</b>	<b>CoBank District Combined</b>	<b>Insurance Fund and Combination Entries</b>	<b>System Combined</b>
<b><u>2021</u></b>						
Net interest income .....	\$ 329	\$ 872	\$ 247	\$ 915	\$ 29	\$ 2,392
(Provision for loan losses) loan loss reversal .....	1	20	3	(52)		(28)
Noninterest income .....	24	96	25	111	(46)	210
Noninterest expense .....	(149)	(347)	(111)	(329)	103	(833)
Provision for income taxes .....		(13)		(35)		(48)
Net income .....	<u>205</u>	<u>628</u>	<u>164</u>	<u>610</u>	<u>86</u>	<u>1,693</u>
Other comprehensive (loss) income .....	(86)	60	20	(335)	2	(339)
Comprehensive income .....	<u>\$ 119</u>	<u>\$ 688</u>	<u>\$ 184</u>	<u>\$ 275</u>	<u>\$ 88</u>	<u>\$ 1,354</u>
<b><u>2020</u></b>						
Net interest income .....	\$ 276	\$ 853	\$ 211	\$ 831	\$ 20	\$ 2,191
Provision for loan losses .....	(3)	(10)	(3)	(41)		(57)
Noninterest income .....	9	90	23	143	(86)	179
Noninterest expense .....	(135)	(331)	(104)	(307)	43	(834)
Provision for income taxes .....		(10)		(37)		(47)
Net income .....	<u>147</u>	<u>592</u>	<u>127</u>	<u>589</u>	<u>(23)</u>	<u>1,432</u>
Other comprehensive income (loss) .....	63	(133)	(10)	655	1	576
Comprehensive income .....	<u>\$ 210</u>	<u>\$ 459</u>	<u>\$ 117</u>	<u>\$ 1,244</u>	<u>\$ (22)</u>	<u>\$ 2,008</u>

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION - (continued)**  
**(unaudited)**

**STATEMENT OF CHANGES IN CAPITAL — (Condensed)**  
**For the Three Months Ended March 31**  
**(in millions)**

	<b>AgFirst District Combined</b>	<b>AgriBank District Combined</b>	<b>Texas District Combined</b>	<b>CoBank District Combined</b>	<b>Insurance Fund and Combination Entries</b>	<b>System Combined</b>
Balance at December 31, 2019.....	\$ 6,673	\$ 24,727	\$ 4,701	\$ 20,999	\$ 4,630	\$ 61,730
Comprehensive income.....	210	459	117	1,244	(22)	2,008
Preferred stock issued, net.....				49		49
Capital stock and participation certificates issued.....	14	10	3	2	(1)	28
Capital stock, participation certificates, and retained earnings retired.....	(6)	(117)	(3)	(58)	9	(175)
Patronage and dividends.....	(18)	(150)	(17)	(133)	28	(290)
Balance at March 31, 2020.....	<u>\$ 6,873</u>	<u>\$ 24,929</u>	<u>\$ 4,801</u>	<u>\$ 22,103</u>	<u>\$ 4,644</u>	<u>\$ 63,350</u>
Balance at December 31, 2020.....	\$ 7,108	\$ 25,802	\$ 4,987	\$ 22,810	\$ 4,828	\$ 65,535
Comprehensive income.....	119	688	184	275	88	1,354
Preferred stock retired, net.....	(10)		195	(214)		(29)
Capital stock and participation certificates issued.....	20	13	4	3	(2)	38
Capital stock, participation certificates, and retained earnings retired.....	(8)	(10)	(3)	(35)	6	(50)
Additional paid-in-capital.....	3					3
Equity issued or recharacterized upon Association merger.....				49		49
Equity retired or recharacterized upon Association merger.....				(53)		(53)
Patronage and dividends.....	(30)	(174)	(25)	(155)	37	(347)
Balance at March 31, 2021.....	<u>\$ 7,202</u>	<u>\$ 26,319</u>	<u>\$ 5,342</u>	<u>\$ 22,680</u>	<u>\$ 4,957</u>	<u>\$ 66,500</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.

	<b>AgFirst District Combined</b>	<b>AgriBank District Combined</b>	<b>Texas District Combined</b>	<b>CoBank District Combined</b>
<b>For the three months ended:</b>				
<b><u>March 31, 2021</u></b>				
Return on average assets.....	1.93%	1.66%	1.82%	1.40%
Return on average capital.....	11.32%	9.63%	12.47%	10.64%
Net interest margin.....	3.17%	2.35%	2.82%	2.14%
Net loan charge-offs as a % of average loans.....	0.01%	0.01%	0.01%	0.00%
Operating expense as a % of net interest income and noninterest income.....	42.10%	35.92%	41.05%	32.06%
<b><u>March 31, 2020</u></b>				
Return on average assets.....	1.45%	1.75%	1.53%	1.49%
Return on average capital.....	8.61%	9.53%	10.59%	10.94%
Net interest margin.....	2.79%	2.56%	2.61%	2.15%
Net loan charge-offs as a % of average loans.....	0.01%	0.02%	0.00%	0.00%
Operating expense as a % of net interest income and noninterest income.....	46.94%	35.19%	44.46%	31.70%
<b>At the period ended:</b>				
<b><u>March 31, 2021</u></b>				
Nonperforming assets as a % of loans and other property owned.....	1.14%	0.67%	0.47%	0.39%
Allowance for loan losses as a % of loans.....	0.68%	0.38%	0.31%	0.75%
Capital as a % of total assets.....	16.97%	17.33%	14.68%	13.07%
Capital and allowance for loan losses as a % of loans.....	22.90%	20.88%	18.23%	17.35%
Debt to capital.....	4.89:1	4.77:1	5.81:1	6.65:1
<b><u>December 31, 2020</u></b>				
Nonperforming assets as a % of loans and other property owned.....	1.17%	0.65%	0.46%	0.42%
Allowance for loan losses as a % of loans.....	0.69%	0.40%	0.33%	0.73%
Capital as a % of total assets.....	16.75%	17.07%	14.01%	13.30%
Capital and allowance for loan losses as a % of loans.....	22.78%	20.63%	17.59%	17.98%
Debt to capital.....	4.97:1	4.86:1	6.14:1	6.52:1

**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.

<u>District</u>	<u>Change in Market Value of Equity</u>			<u>Change in Net Interest Income</u>		
	<u>March 31, 2021</u>			<u>March 31, 2021</u>		
	<u>-1</u>	<u>+100</u>	<u>+200</u>	<u>-1</u>	<u>+100</u>	<u>+200</u>
AgFirst.....	0.03%	-4.36%	-9.43%	-0.03%	2.15%	2.69%
AgriBank.....	0.03	-3.22	-6.72	-0.05	-0.48	-0.03
Texas.....	0.05	-6.13	-13.28	0.26	2.36	3.93
CoBank.....	0.04	-3.41	-6.68	-0.02	0.80	1.63

<u>District</u>	<u>Change in Market Value of Equity</u>			<u>Change in Net Interest Income</u>		
	<u>December 31, 2020</u>			<u>December 31, 2020</u>		
	<u>-4</u>	<u>+100</u>	<u>+200</u>	<u>-4</u>	<u>+100</u>	<u>+200</u>
AgFirst.....	-0.01%	-1.14%	-5.66%	-0.21%	5.25%	6.90%
AgriBank.....	0.08	-2.36	-6.02	-0.08	0.37	1.28
Texas.....	0.15	-5.28	-12.64	0.45	1.52	2.61
CoBank.....	0.12	-3.07	-6.03	-0.18	2.08	4.34

**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-48 to F-51, selected financial information regarding Associations with asset size greater than \$1.5 billion is provided below for the purpose of additional analysis.

	At March 31, 2021				For the Three Months Ended March 31, 2021			
	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)								
<b>AgFirst District</b>								
MidAtlantic Farm Credit, ACA	\$ 2,944	\$ 2,906	1.25%	2.89%	22.06%	1.68%	7.20%	2.67%
First South Farm Credit, ACA	2,538	2,450	0.72	0.24	18.73	1.61	8.28	2.59
AgChoice Farm Credit, ACA	2,445	2,403	0.64	0.39	17.32	1.81	9.63	2.49
AgCredit, ACA	2,279	2,218	0.38	0.47	21.19	2.01	11.31	2.46
AgSouth Farm Credit, ACA	1,976	1,920	0.90	1.18	23.03	2.50	11.27	3.54
Farm Credit of the Virginias, ACA	1,931	1,899	0.86	2.20	23.18	1.64	6.86	2.73
Carolina Farm Credit, ACA	1,757	1,700	0.51	0.89	20.72	2.24	11.03	3.28
<b>AgriBank District</b>								
Farm Credit Services of America, ACA	34,112	32,685	0.39	0.61	16.01	2.22	11.99	2.40
Farm Credit Mid-America, ACA	26,862	25,116	0.33	1.19	19.04	1.59	8.10	2.15
Compeer Financial, ACA	25,354	23,007	0.37	0.71	14.41	2.17	13.33	2.27
GreenStone FCS, ACA	10,999	10,638	0.79	0.43	16.10	2.09	11.73	2.34
AgCountry, ACA	8,913	8,523	0.27	0.22	17.79	1.85	8.58	2.43
FCS Financial, ACA	5,111	4,898	0.34	0.26	17.10	2.08	10.71	2.45
Farm Credit of Illinois, ACA	4,609	4,314	0.16	0.09	19.52	2.00	8.58	2.30
AgHeritage Farm Credit Services, ACA	1,835	1,773	0.56	0.62	17.24	2.08	10.51	2.60
Farm Credit Services of Western Arkansas, ACA	1,696	1,627	0.16	0.61	18.23	1.83	9.44	2.83
<b>Texas District</b>								
Capital Farm Credit, ACA	9,146	8,877	0.30	0.71	14.94	3.05	17.85	3.07
AgTexas Farm Credit Services	2,355	2,179	0.29	0.74	12.78	1.95	15.14	2.32
Lone Star, ACA	2,071	2,029	0.39	0.28	16.59	2.01	11.15	2.70
Texas Farm Credit Services	1,716	1,656	0.34	0.50	12.58	2.38	17.62	2.84
<b>CoBank District</b>								
American AgCredit, ACA	15,162	14,358	0.22	0.51	10.86	2.21	13.77	2.97
Northwest Farm Credit Services, ACA	13,617	12,700	0.58	0.48	17.76	2.33	11.24	2.96
Farm Credit West, ACA	12,130	11,355	0.68	0.91	13.97	2.71	13.88	2.79
Farm Credit East, ACA	8,710	8,390	0.93	0.41	17.44	2.15	11.07	2.69
Yosemite Farm Credit, ACA	3,563	3,408	0.30	0.49	13.93	1.29	7.62	2.70
Frontier Farm Credit, ACA	2,353	2,233	0.37	0.42	17.31	2.10	9.93	2.44
Farm Credit of New Mexico, ACA	1,975	1,866	0.69	1.35	21.24	1.70	7.73	3.09
Golden State, ACA	1,844	1,760	0.26	0.19	15.42	2.42	12.78	3.11
Oklahoma AgCredit, ACA	1,726	1,631	0.22	0.71	15.24	1.31	7.32	2.61

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL FINANCIAL INFORMATION - (continued)**  
**(unaudited)**

**SELECTED ASSOCIATION KEY FINANCIAL INFORMATION**

	At December 31, 2020				For the Three Months Ended March 31, 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)								
<b>AgFirst District</b>								
MidAtlantic Farm Credit, ACA.....	\$ 2,982	\$ 2,906	1.24%	2.82%	21.66%	1.81%	7.80%	2.67%
First South Farm Credit, ACA.....	2,539	2,413	0.73	0.28	17.86	1.66	8.63	2.60
AgChoice Farm Credit, ACA.....	2,426	2,357	0.64	0.41	17.71	2.03	10.45	2.67
AgCredit, ACA.....	2,299	2,205	0.40	0.49	20.75	2.37	13.37	2.73
AgSouth Farm Credit, ACA.....	2,008	1,922	0.90	1.12	21.81	2.37	10.87	3.49
Farm Credit of the Virginias, ACA.....	1,925	1,870	0.88	2.26	24.04	1.89	7.78	2.91
Carolina Farm Credit, ACA.....	1,757	1,675	0.54	0.84	20.29	1.87	9.15	3.30
<b>AgriBank District</b>								
Farm Credit Services of America, ACA ...	33,678	32,207	0.47	0.66	16.55	2.23	11.75	2.66
Farm Credit Mid-America, ACA.....	26,279	24,619	0.34	1.06	19.95	1.59	7.97	2.21
Compeer Financial, ACA.....	24,942	22,585	0.39	0.68	15.19	1.93	11.17	2.32
GreenStone FCS, ACA.....	10,967	10,590	0.71	0.43	16.75	2.39	13.04	2.52
AgCountry, ACA.....	8,870	8,472	0.26	0.22	18.38	1.86	8.44	2.53
FCS Financial, ACA.....	5,080	4,867	0.35	0.34	17.74	1.92	9.51	2.45
Farm Credit of Illinois, ACA.....	4,749	4,449	0.14	0.12	20.14	1.69	7.39	2.26
AgHeritage Farm Credit Services, ACA..	1,805	1,739	0.63	0.60	17.35	2.05	9.57	2.75
Farm Credit Services of Western Arkansas, ACA.....	1,674	1,606	0.14	0.66	18.59	1.89	9.30	2.96
<b>Texas District</b>								
Capital Farm Credit, ACA.....	8,937	8,677	0.36	0.66	14.43	2.51	15.45	3.10
AgTexas Farm Credit Services.....	2,363	2,184	0.30	0.99	12.96	1.63	12.46	2.26
Lone Star, ACA.....	2,004	1,966	0.41	0.27	17.24	1.74	8.30	2.84
Texas Farm Credit Services.....	1,615	1,563	0.38	0.48	13.92	2.13	14.22	2.87
<b>CoBank District</b>								
American AgCredit ACA.....	15,094	14,171	0.23	0.47	11.79	1.72	9.57	2.92
Northwest Farm Credit Services, ACA....	13,724	12,754	0.59	0.52	18.24	2.36	11.18	3.08
Farm Credit West, ACA.....	12,603	11,603	0.67	0.91	14.46	2.87	13.48	3.08
Farm Credit East, ACA.....	8,569	8,209	0.90	0.48	18.17	2.57	12.94	3.20
Yosemite Farm Credit, ACA.....	3,615	3,419	0.28	0.60	14.01	2.03	11.76	2.91
Frontier Farm Credit, ACA.....	2,383	2,253	0.43	0.52	17.79	2.09	9.39	2.66
Farm Credit of New Mexico, ACA.....	2,044	1,943	0.67	1.52	21.72	1.90	8.39	2.81
Golden State, ACA.....	1,883	1,782	0.26	1.51	14.82	1.89	9.64	2.71
Oklahoma AgCredit, ACA.....	1,703	1,606	0.22	0.56	16.12	1.58	8.14	2.71

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## CONTROLS AND PROCEDURES

As of March 31, 2021, 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<sup>(1)</sup> 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<sup>(2)</sup> that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

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<sup>(1)</sup> 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.

<sup>(2)</sup> 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 *First Quarter 2021 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<sup>(1)</sup> and internal control over financial reporting<sup>(2)</sup> 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: May 7, 2021

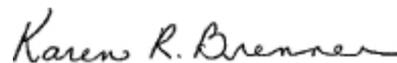
(1) See footnote 1 on page S-2.

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

## CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *First Quarter 2021 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<sup>(1)</sup> and internal control over financial reporting<sup>(2)</sup> 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: May 7, 2021

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

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

## FARM CREDIT SYSTEM ENTITIES (As of March 31, 2021)

### 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  
204 E. Orange Street, Suite 200  
Lakeland, FL 33801

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**

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 Davison Court  
Colusa, CA 95932

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

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

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

Golden State Farm Credit, ACA  
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, Suite 101  
Spokane, WA 99224

Oklahoma AgCredit, ACA  
3033 Progressive Drive  
Edmond, OK 73034

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  
1616 S. Kentucky Street, Suite C-250  
Amarillo, TX 79102

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

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