

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2019

Commission File No. 001-11241

CATERPILLAR FINANCIAL SERVICES CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State of incorporation)

37-1105865

(IRS Employer I.D. No.)

2120 West End Ave., Nashville, Tennessee

(Address of principal executive offices)

37203-0001

(Zip Code)

Registrant's telephone number, including area code: (615) 341-1000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Medium-Term Notes, Series H, 3.300% Notes Due 2024	CAT/24	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 31, 2019, one share of common stock of the registrant was outstanding, which is owned by Caterpillar Inc.

The registrant is a wholly owned subsidiary of Caterpillar Inc. and meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q, and is therefore filing this form with the reduced disclosure format.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In addition to the accompanying unaudited consolidated financial statements for Caterpillar Financial Services Corporation (together with its subsidiaries, "Cat Financial," "the Company," "we," "us" or "our"), we suggest that you read our 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 14, 2019. The Company files electronically with the SEC required reports on Form 8-K, Form 10-Q, Form 10-K; registration statements on Form S-3; and other forms or reports as required. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished with the SEC are available free of charge through Caterpillar's website (www.caterpillar.com/secfilings) as soon as reasonably practicable after filing with the SEC. In addition, the public may obtain more detailed information about our parent company, Caterpillar, by visiting its website (www.caterpillar.com). None of the information contained at any time on our website or Caterpillar's website is incorporated by reference into this document.

UNAUDITED

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF PROFIT
(Unaudited)
(Dollars in Millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Retail finance	\$ 346	\$ 330	\$ 1,031	\$ 975
Operating lease	262	259	777	760
Wholesale finance	125	108	375	304
Other, net	15	38	58	109
Total revenues	748	735	2,241	2,148
Expenses:				
Interest	198	194	599	558
Depreciation on equipment leased to others	205	208	611	616
General, operating and administrative	128	109	378	326
Provision for credit losses	20	47	144	218
Other	9	11	28	28
Total expenses	560	569	1,760	1,746
Other income (expense)	(4)	(3)	(14)	(15)
Profit before income taxes	184	163	467	387
Provision for income taxes	49	32	144	85
Profit of consolidated companies	135	131	323	302
Less: Profit attributable to noncontrolling interests	6	6	17	15
Profit⁽¹⁾	<u>\$ 129</u>	<u>\$ 125</u>	<u>\$ 306</u>	<u>\$ 287</u>

⁽¹⁾ Profit attributable to Caterpillar Financial Services Corporation.

See Notes to Consolidated Financial Statements (Unaudited).

UNAUDITED

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in Millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Profit of consolidated companies	\$ 135	\$ 131	\$ 323	\$ 302
Other comprehensive income (loss), net of tax:				
Foreign currency translation, net of tax (expense)/benefit of:				
2019 \$(22) three months, \$(19) nine months;				
2018 \$(3) three months, \$(18) nine months	(165)	(50)	(132)	(241)
Derivative financial instruments:				
Gains (losses) deferred, net of tax (expense)/benefit of:				
2019 \$(20) three months, \$(14) nine months;				
2018 \$(14) three months, \$(36) nine months	68	42	46	115
(Gains) losses reclassified to earnings, net of tax expense/(benefit) of:				
2019 \$22 three months, \$25 nine months;				
2018 \$14 three months, \$37 nine months	(73)	(42)	(87)	(118)
Total Other comprehensive income (loss), net of tax	(170)	(50)	(173)	(244)
Comprehensive income (loss)	(35)	81	150	58
Less: Comprehensive income (loss) attributable to the noncontrolling interests	1	—	12	7
Comprehensive income (loss) attributable to Caterpillar Financial Services Corporation	\$ (36)	\$ 81	\$ 138	\$ 51

See Notes to Consolidated Financial Statements (Unaudited).

UNAUDITED

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Dollars in Millions, except share data)

	September 30, 2019	December 31, 2018
Assets:		
Cash and cash equivalents	\$ 1,366	\$ 766
Finance receivables, net	27,186	27,923
Notes receivable from Caterpillar	469	662
Equipment on operating leases, net	3,567	3,562
Other assets	1,319	1,268
Total assets	\$ 33,907	\$ 34,181
Liabilities and shareholder's equity:		
Payable to dealers and others	\$ 129	\$ 117
Payable to Caterpillar - borrowings and other	871	1,601
Accrued expenses	286	259
Short-term borrowings	4,268	5,723
Current maturities of long-term debt	8,025	5,820
Long-term debt	16,454	16,995
Other liabilities	875	817
Total liabilities	30,908	31,332
Commitments and contingent liabilities (Notes 8 and 10)		
Common stock - \$1 par value		
Authorized: 2,000 shares; Issued and outstanding: one share (at paid-in amount)	745	745
Additional paid-in capital	2	2
Retained earnings	3,083	2,874
Accumulated other comprehensive income/(loss)	(996)	(925)
Noncontrolling interests	165	153
Total shareholder's equity	2,999	2,849
Total liabilities and shareholder's equity	\$ 33,907	\$ 34,181

See Notes to Consolidated Financial Statements (Unaudited).

UNAUDITED

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)
(Dollars in Millions)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Noncontrolling interests	Total
Three Months Ended September 30, 2018						
Balance at June 30, 2018	\$ 745	\$ 2	\$ 3,131	\$ (784)	\$ 147	\$ 3,241
Profit of consolidated companies			125		6	131
Foreign currency translation, net of tax				(44)	(6)	(50)
Derivative financial instruments, net of tax				—		—
Balance at September 30, 2018	\$ 745	\$ 2	\$ 3,256	\$ (828)	\$ 147	\$ 3,322
Three Months Ended September 30, 2019						
Balance at June 30, 2019	\$ 745	\$ 2	\$ 2,954	\$ (831)	\$ 164	\$ 3,034
Profit of consolidated companies			129		6	135
Foreign currency translation, net of tax				(160)	(5)	(165)
Derivative financial instruments, net of tax				(5)		(5)
Balance at September 30, 2019	\$ 745	\$ 2	\$ 3,083	\$ (996)	\$ 165	\$ 2,999
Nine Months Ended September 30, 2018						
Balance at December 31, 2017	\$ 745	\$ 2	\$ 2,969	\$ (592)	\$ 140	\$ 3,264
Profit of consolidated companies			287		15	302
Foreign currency translation, net of tax				(233)	(8)	(241)
Derivative financial instruments, net of tax				(3)		(3)
Balance at September 30, 2018	\$ 745	\$ 2	\$ 3,256	\$ (828)	\$ 147	\$ 3,322
Nine Months Ended September 30, 2019						
Balance at December 31, 2018	\$ 745	\$ 2	\$ 2,874	\$ (925)	\$ 153	\$ 2,849
Profit of consolidated companies			306		17	323
Foreign currency translation, net of tax				(127)	(5)	(132)
Derivative financial instruments, net of tax				(41)		(41)
Adjustment to adopt new accounting guidance ⁽¹⁾			(97)	97		—
Balance at September 30, 2019	\$ 745	\$ 2	\$ 3,083	\$ (996)	\$ 165	\$ 2,999

⁽¹⁾ See Note 2 regarding new accounting guidance related to reclassification of certain tax effects from accumulated other comprehensive income/(loss).

See Notes to Consolidated Financial Statements (Unaudited).

UNAUDITED

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Millions)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Profit of consolidated companies	\$ 323	\$ 302
Adjustments for non-cash items:		
Depreciation and amortization	621	626
Amortization of receivables purchase discount	(346)	(274)
Provision for credit losses	144	218
Other, net	128	93
Changes in assets and liabilities:		
Other assets	65	11
Payable to dealers and others	26	(32)
Accrued expenses	(44)	5
Other payables with Caterpillar	(14)	(27)
Other liabilities	51	(40)
Net cash provided by operating activities	<u>954</u>	<u>882</u>
Cash flows from investing activities:		
Expenditures for equipment on operating leases	(1,079)	(1,093)
Capital expenditures - excluding equipment on operating leases	(14)	(99)
Proceeds from disposals of equipment	548	619
Additions to finance receivables	(10,633)	(10,151)
Collections of finance receivables	10,161	9,132
Net changes in Caterpillar purchased receivables	763	(484)
Proceeds from sales of receivables	183	416
Net change in variable lending to Caterpillar	51	(18)
Additions to other notes receivable with Caterpillar	(80)	(390)
Collections on other notes receivable with Caterpillar	222	300
Settlements of undesignated derivatives	(38)	(2)
Net cash provided by (used for) investing activities	<u>84</u>	<u>(1,770)</u>
Cash flows from financing activities:		
Net change in variable lending from Caterpillar	(627)	(63)
Payments on borrowings with Caterpillar	(93)	—
Proceeds from debt issued (original maturities greater than three months)	7,348	7,026
Payments on debt issued (original maturities greater than three months)	(6,054)	(5,636)
Short-term borrowings, net (original maturities three months or less)	(1,006)	(479)
Net cash provided by (used for) financing activities	<u>(432)</u>	<u>848</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(9)</u>	<u>(13)</u>
Increase/(decrease) in cash, cash equivalents and restricted cash	597	(53)
Cash, cash equivalents and restricted cash at beginning of year ⁽¹⁾	773	732
Cash, cash equivalents and restricted cash at end of period ⁽¹⁾	<u>\$ 1,370</u>	<u>\$ 679</u>

⁽¹⁾ As of September 30, 2019 and December 31, 2018, restricted cash, which is included in Other assets in the Consolidated Statements of Financial Position, was \$4 million and \$7 million, respectively. Restricted cash primarily includes cash related to syndication activities.

See Notes to Consolidated Financial Statements (Unaudited).

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated profit for the three and nine months ended September 30, 2019 and 2018, (b) the consolidated comprehensive income for the three and nine months ended September 30, 2019 and 2018, (c) the consolidated financial position as of September 30, 2019 and December 31, 2018, (d) the consolidated changes in shareholder's equity for the three and nine months ended September 30, 2019 and 2018 and (e) the consolidated cash flows for the nine months ended September 30, 2019 and 2018. The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), requires management to make estimates and assumptions that affect reported amounts. Significant estimates include residual values for leased assets, allowance for credit losses and income taxes. Actual results may differ from these estimates.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K) filed with the SEC on February 14, 2019. The December 31, 2018 financial position data included herein was derived from the audited consolidated financial statements included in the 2018 Form 10-K but does not include all disclosures required by U.S. GAAP. Certain amounts for prior periods have been reclassified to conform with current period financial statement presentation.

We consolidate all variable interest entities (VIEs) where we are the primary beneficiary. For VIEs, we assess whether we are the primary beneficiary as prescribed by the accounting guidance on the consolidation of VIEs. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. Please refer to Note 8 for more information.

We have customers and dealers that are VIEs of which we are not the primary beneficiary. Although we have provided financial support to these entities and therefore have a variable interest, we do not have the power to direct the activities that most significantly impact their economic performance. Our maximum exposure to loss from our involvement with these VIEs is limited to the credit risk inherently present in the financial support that we have provided. These risks are evaluated and reflected in our financial statements as part of our overall portfolio of finance receivables and related allowance for credit losses.

2. New Accounting Pronouncements

A. Adoption of New Accounting Standards

Lease accounting (Accounting Standards Update (ASU) 2016-02) – In February 2016, the Financial Accounting Standards Board (FASB) issued accounting guidance that revises the accounting for leases. Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability for substantially all leases. The new guidance will continue to classify leases as either financing or operating, with classification affecting the pattern of expense recognition. The accounting applied by a lessor under the new guidance will be substantially equivalent to current lease accounting guidance. The new guidance was effective January 1, 2019 and was applied using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of January 1, 2019. The prior period comparative information has not been recasted and continues to be reported under the accounting guidance in effect for those periods.

The new guidance provides a number of optional practical expedients in transition. We elected the "package of practical expedients," which allows us not to reassess under the new guidance our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of-hindsight practical expedient. In addition, the new guidance provides practical expedients for an entity's ongoing lessee accounting. We have elected not to separate lease and non-lease components for the majority of our asset classes. We have elected the short-term lease recognition exemption for all leases that qualify, which means we will not recognize right-of-use assets or lease liabilities for these leases with a term of twelve months or less.

The most significant effects of adoption relate to the recognition of right-of-use assets and lease liabilities on our balance sheet for operating leases and providing new disclosures about our leasing activities. The adoption did not have a material impact on our results of operations.

In March 2019, the FASB issued Leases - Codification improvements (ASU 2019-01) which amended the new leasing guidance. Under these amendments, lessors that are not manufacturers or dealers will use their cost, less any discounts that may apply, as the fair value of the underlying asset, and lessors within the scope of Financial Services-Depository and Lending guidance will present all principal payments received under leases within investment activities on the statement of cash flows. We adopted the new guidance effective January 1, 2019, and the adoption did not have a material impact to our financial statements.

See Note 4 for additional information.

Reclassification of certain tax effects from accumulated other comprehensive income (ASU 2018-02) – In February 2018, the FASB issued accounting guidance to allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from U.S. tax reform legislation. We adopted the guidance effective January 1, 2019 and the resulting reclassification was included in the period of adoption. The reclassification resulted in decreased retained earnings and increased AOCI of \$97 million.

We adopted the following ASU effective January 1, 2019, which did not have a material impact on our financial statements:

<u>ASU</u>	<u>Description</u>
2017-12	Derivatives and hedging - Targeted improvements

B. Accounting Standards Issued But Not Yet Adopted

Credit losses (ASU 2016-13) – In June 2016, the FASB issued accounting guidance to introduce a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new guidance will apply to loans, accounts receivable, trade receivables, other financial assets measured at amortized cost, loan commitments and other off-balance sheet credit exposures. The new guidance will also apply to debt securities and other financial assets measured at fair value through other comprehensive income. We will adopt the new guidance effective January 1, 2020. An implementation team is continuing to work on the design of new processes and controls as well as assessing the effects of the new guidance. While we are still evaluating the impact of the new guidance, we do not expect a material impact to our financial statements.

We consider the applicability and impact of all ASUs. ASUs not listed above were assessed and either determined to be not applicable or not expected to have a material impact on our financial statements.

3. Finance Receivables

A summary of finance receivables included in the Consolidated Statements of Financial Position was as follows:

<u>(Millions of dollars)</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Retail loans, net ⁽¹⁾	\$ 15,180	\$ 15,509
Retail leases, net ⁽²⁾	7,531	7,499
Caterpillar purchased receivables, net	4,175	4,691
Wholesale loans, net ⁽¹⁾	664	626
Wholesale leases, net	70	109
Recorded investment in finance receivables	27,620	28,434
Less: Allowance for credit losses	(434)	(511)
Total finance receivables, net ⁽³⁾	\$ 27,186	\$ 27,923

⁽¹⁾ Includes failed sale leasebacks.

⁽²⁾ Includes \$11 million and \$9 million of finance leases with Caterpillar as of September 30, 2019 and December 31, 2018, respectively.

⁽³⁾ Includes \$22 million and \$0 million of finance receivables classified as held for sale as of September 30, 2019 and December 31, 2018, respectively.

Allowance for Credit Losses

The allowance for credit losses is an estimate of the losses inherent in our finance receivable portfolio and includes consideration of accounts that have been individually identified as impaired, as well as pools of finance receivables where it is probable that certain receivables in the pool are impaired but the individual accounts cannot yet be identified. In identifying and measuring impairment, management takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions.

Accounts are identified for individual review based on past-due status and information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which our customers operate. The allowance for credit losses attributable to finance receivables that are individually evaluated and determined to be impaired is based on the present value of expected future cash flows discounted at the receivables' effective interest rate, the fair value of the collateral for collateral-dependent receivables or the observable market price of the receivable. In determining collateral value, we estimate the current fair market value of the collateral less selling costs. We also consider credit enhancements such as additional collateral and contractual third-party guarantees. The allowance for credit losses attributable to the remaining accounts not yet individually identified as impaired is estimated based on loss forecast models utilizing probabilities of default, our estimate of the loss emergence period and the estimated loss given default. In addition, qualitative factors not able to be fully captured in our loss forecast models including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

Our allowance for credit losses is segregated into three portfolio segments:

- **Customer** - Finance receivables with end-user customers.
- **Dealer** - Finance receivables with Caterpillar dealers.
- **Caterpillar Purchased Receivables** - Trade receivables purchased from Caterpillar entities.

A portfolio segment is the level at which the Company develops a systematic methodology for determining its allowance for credit losses.

We further evaluate our portfolio segments by the class of finance receivables, which is defined as a level of information (below a portfolio segment) in which the finance receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. Typically, our finance receivables within a geographic area have similar credit risk profiles and methods for assessing and monitoring credit risk. Our classes, which align with management reporting for credit losses, are as follows:

- **North America** - Finance receivables originated in the United States and Canada.
- **EAME** - Finance receivables originated in Europe, Africa, the Middle East and the Commonwealth of Independent States.
- **Asia/Pacific** - Finance receivables originated in Australia, New Zealand, China, Japan, Southeast Asia and India.
- **Mining** - Finance receivables related to large mining customers worldwide.
- **Latin America** - Finance receivables originated in Mexico and Central and South American countries.
- **Caterpillar Power Finance** - Finance receivables originated worldwide related to marine vessels with Caterpillar engines and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems.

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Our allowance for credit losses as of September 30, 2019 was \$434 million or 1.57 percent of our recorded investment in finance receivables compared with \$511 million or 1.80 percent as of December 31, 2018. An analysis of the allowance for credit losses was as follows:

(Millions of dollars)				
September 30, 2019				
Allowance for Credit Losses:	Customer	Dealer	Caterpillar Purchased Receivables	Total
Balance at beginning of year	\$ 486	\$ 21	\$ 4	\$ 511
Receivables written off	(238)	—	—	(238)
Recoveries on receivables previously written off	31	—	—	31
Provision for credit losses	120	24	—	144
Adjustment due to sale of receivables	(11)	—	—	(11)
Foreign currency translation adjustment	(3)	—	—	(3)
Balance at end of period	<u>\$ 385</u>	<u>\$ 45</u>	<u>\$ 4</u>	<u>\$ 434</u>
Individually evaluated for impairment	\$ 182	\$ 39	\$ —	\$ 221
Collectively evaluated for impairment	203	6	4	213
Ending Balance	<u>\$ 385</u>	<u>\$ 45</u>	<u>\$ 4</u>	<u>\$ 434</u>
Recorded Investment in Finance Receivables:				
Individually evaluated for impairment	\$ 665	\$ 78	\$ —	\$ 743
Collectively evaluated for impairment	18,301	4,401	4,175	26,877
Ending Balance	<u>\$ 18,966</u>	<u>\$ 4,479</u>	<u>\$ 4,175</u>	<u>\$ 27,620</u>

(Millions of dollars)				
December 31, 2018				
Allowance for Credit Losses:	Customer	Dealer	Caterpillar Purchased Receivables	Total
Balance at beginning of year	\$ 353	\$ 9	\$ 3	\$ 365
Receivables written off	(235)	—	—	(235)
Recoveries on receivables previously written off	46	—	—	46
Provision for credit losses	337	12	1	350
Adjustment due to sale of receivables	(7)	—	—	(7)
Foreign currency translation adjustment	(8)	—	—	(8)
Balance at end of year	<u>\$ 486</u>	<u>\$ 21</u>	<u>\$ 4</u>	<u>\$ 511</u>
Individually evaluated for impairment	\$ 288	\$ 14	\$ —	\$ 302
Collectively evaluated for impairment	198	7	4	209
Ending Balance	<u>\$ 486</u>	<u>\$ 21</u>	<u>\$ 4</u>	<u>\$ 511</u>
Recorded Investment in Finance Receivables:				
Individually evaluated for impairment	\$ 859	\$ 78	\$ —	\$ 937
Collectively evaluated for impairment	18,724	4,082	4,691	27,497
Ending Balance	<u>\$ 19,583</u>	<u>\$ 4,160</u>	<u>\$ 4,691</u>	<u>\$ 28,434</u>

Credit quality of finance receivables

At origination, we evaluate credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, we monitor credit quality based on past-due status and collection experience as there is a meaningful correlation between the past-due status of customers and the risk of loss.

In determining past-due status, we consider the entire recorded investment in finance receivables past due when any installment is over 30 days past due. The tables below summarize our recorded investment in finance receivables by aging category.

(Millions of dollars)

	September 30, 2019						
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Recorded Investment in Finance Receivables	91+ Still Accruing
Customer							
North America	\$ 73	\$ 16	\$ 48	\$ 137	\$ 7,875	\$ 8,012	\$ 15
EAME	33	10	136	179	2,853	3,032	4
Asia/Pacific	36	21	24	81	2,972	3,053	6
Mining	1	24	19	44	1,810	1,854	—
Latin America	43	29	93	165	1,152	1,317	1
Caterpillar Power Finance	1	1	241	243	1,455	1,698	14
Dealer							
North America	—	—	—	—	2,481	2,481	—
EAME	—	—	—	—	624	624	—
Asia/Pacific	—	—	—	—	472	472	—
Mining	—	—	—	—	4	4	—
Latin America	—	—	81	81	814	895	—
Caterpillar Power Finance	—	—	—	—	3	3	—
Caterpillar Purchased Receivables⁽¹⁾							
North America	12	5	17	34	2,675	2,709	
EAME	1	—	2	3	507	510	
Asia/Pacific	1	—	1	2	467	469	
Mining	—	—	—	—	—	—	
Latin America	—	—	—	—	471	471	
Caterpillar Power Finance	—	—	—	—	16	16	
Total	\$ 201	\$ 106	\$ 662	\$ 969	\$ 26,651	\$ 27,620	\$ 40

⁽¹⁾ Caterpillar Purchased Receivables are non-interest bearing trade receivables purchased at a discount.

UNAUDITED

(Millions of dollars)

	December 31, 2018							
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Recorded Investment in Finance Receivables	91+ Still Accruing	
Customer								
North America	\$ 65	\$ 18	\$ 84	\$ 167	\$ 7,883	\$ 8,050	\$ 14	
EAME	19	9	153	181	2,850	3,031	5	
Asia/Pacific	25	9	8	42	2,923	2,965	5	
Mining	28	1	9	38	1,642	1,680	—	
Latin America	38	29	71	138	1,421	1,559	—	
Caterpillar Power Finance	10	1	384	395	1,903	2,298	—	
Dealer								
North America	—	—	—	—	2,210	2,210	—	
EAME	—	—	—	—	619	619	—	
Asia/Pacific	—	—	—	—	514	514	—	
Mining	—	—	—	—	4	4	—	
Latin America	—	—	78	78	731	809	—	
Caterpillar Power Finance	—	—	—	—	4	4	—	
Caterpillar Purchased Receivables⁽¹⁾								
North America	22	12	18	52	2,982	3,034		
EAME	1	—	1	2	546	548		
Asia/Pacific	5	1	1	7	756	763		
Mining	—	—	—	—	—	—		
Latin America	—	—	—	—	338	338		
Caterpillar Power Finance	—	—	—	—	8	8		
Total	\$ 213	\$ 80	\$ 807	\$ 1,100	\$ 27,334	\$ 28,434	\$ 24	

⁽¹⁾ Caterpillar Purchased Receivables are non-interest bearing trade receivables purchased at a discount.

Impaired finance receivables

For all classes, a finance receivable is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms. Impaired finance receivables include finance receivables that have been restructured and are considered to be troubled debt restructures.

There were \$78 million in impaired finance receivables with a related allowance of \$39 million and \$14 million as of September 30, 2019 and December 31, 2018, respectively, for the Dealer portfolio segment, all of which was in Latin America. There were no impaired finance receivables as of September 30, 2019 and December 31, 2018, for the Caterpillar Purchased Receivables portfolio segment. Our recorded investment in impaired finance receivables and the related unpaid principal balances and allowance for the Customer portfolio segment were as follows:

(Millions of dollars)						
	As of September 30, 2019			As of December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Finance Receivables With No Allowance Recorded						
North America	\$ 9	\$ 9	\$ —	\$ 10	\$ 10	\$ —
EAME	—	—	—	1	1	—
Asia/Pacific	—	—	—	1	1	—
Mining	23	23	—	33	33	—
Latin America	25	25	—	29	29	—
Caterpillar Power Finance	71	113	—	69	83	—
Total	\$ 128	\$ 170	\$ —	\$ 143	\$ 157	\$ —
Impaired Finance Receivables With An Allowance Recorded						
North America	\$ 31	\$ 30	\$ 9	\$ 40	\$ 41	\$ 14
EAME	60	60	27	92	92	57
Asia/Pacific	10	10	4	4	4	2
Mining	61	59	18	56	55	26
Latin America	66	64	22	75	75	25
Caterpillar Power Finance	309	322	102	449	455	164
Total	\$ 537	\$ 545	\$ 182	\$ 716	\$ 722	\$ 288
Total Impaired Finance Receivables						
North America	\$ 40	\$ 39	\$ 9	\$ 50	\$ 51	\$ 14
EAME	60	60	27	93	93	57
Asia/Pacific	10	10	4	5	5	2
Mining	84	82	18	89	88	26
Latin America	91	89	22	104	104	25
Caterpillar Power Finance	380	435	102	518	538	164
Total	\$ 665	\$ 715	\$ 182	\$ 859	\$ 879	\$ 288

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(Millions of dollars)

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Finance Receivables With No Allowance Recorded				
North America	\$ 10	\$ —	\$ 19	\$ —
EAME	15	—	4	—
Asia/Pacific	—	—	30	1
Mining	26	—	35	—
Latin America	22	—	37	1
Caterpillar Power Finance	57	1	94	2
Total	\$ 130	\$ 1	\$ 219	\$ 4
Impaired Finance Receivables With An Allowance Recorded				
North America	\$ 30	\$ —	\$ 47	\$ —
EAME	80	1	59	—
Asia/Pacific	12	1	2	—
Mining	65	1	60	1
Latin America	69	1	51	1
Caterpillar Power Finance	376	1	374	4
Total	\$ 632	\$ 5	\$ 593	\$ 6
Total Impaired Finance Receivables				
North America	\$ 40	\$ —	\$ 66	\$ —
EAME	95	1	63	—
Asia/Pacific	12	1	32	1
Mining	91	1	95	1
Latin America	91	1	88	2
Caterpillar Power Finance	433	2	468	6
Total	\$ 762	\$ 6	\$ 812	\$ 10

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(Millions of dollars)				
	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Finance Receivables With No Allowance Recorded				
North America	\$ 10	\$ —	\$ 17	\$ 1
EAME	7	—	17	—
Asia/Pacific	—	—	31	2
Mining	29	1	65	2
Latin America	22	1	41	2
Caterpillar Power Finance	53	2	149	5
Total	\$ 121	\$ 4	\$ 320	\$ 12
Impaired Finance Receivables With An Allowance Recorded				
North America	\$ 36	\$ 1	\$ 51	\$ 1
EAME	88	2	41	1
Asia/Pacific	9	1	5	—
Mining	49	2	43	2
Latin America	73	4	69	3
Caterpillar Power Finance	422	8	364	8
Total	\$ 677	\$ 18	\$ 573	\$ 15
Total Impaired Finance Receivables				
North America	\$ 46	\$ 1	\$ 68	\$ 2
EAME	95	2	58	1
Asia/Pacific	9	1	36	2
Mining	78	3	108	4
Latin America	95	5	110	5
Caterpillar Power Finance	475	10	513	13
Total	\$ 798	\$ 22	\$ 893	\$ 27

Recognition of income is suspended and the finance receivable is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Recognition is resumed and previously suspended income is recognized when the finance receivable becomes current and collection of remaining amounts is considered probable. Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

As of September 30, 2019 and December 31, 2018, there were \$81 million and \$78 million, respectively, in finance receivables on non-accrual status for the Dealer portfolio segment, all of which was in Latin America. The recorded investment in Customer finance receivables on non-accrual status was as follows:

(Millions of dollars)		
	September 30, 2019	December 31, 2018
North America	\$ 38	\$ 77
EAME	168	154
Asia/Pacific	19	4
Mining	44	50
Latin America	103	106
Caterpillar Power Finance	372	416
Total	\$ 744	\$ 807

Troubled debt restructurings

A restructuring of a finance receivable constitutes a troubled debt restructuring (TDR) when the lender grants a concession it would not otherwise consider to a borrower experiencing financial difficulties. Concessions granted may include extended contract maturities, inclusion of interest only periods, below market interest rates, extended skip payment periods and reduction of principal and/or accrued interest.

As of September 30, 2019 and December 31, 2018, there were no additional funds committed to lend to a borrower whose terms have been modified in a TDR.

There were no finance receivables modified as TDRs during the three and nine months ended September 30, 2019 and 2018 for the Dealer or Caterpillar Purchased Receivables portfolio segments. Our recorded investment in finance receivables in the Customer portfolio segment modified as TDRs was as follows:

(Dollars in millions)	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
North America	4	\$ —	\$ —	4	\$ —	\$ —
Caterpillar Power Finance	4	56	55	2	40	40
Total	8	\$ 56	\$ 55	6	\$ 40	\$ 40
	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
North America	12	\$ 5	\$ 4	34	\$ 13	\$ 13
EAME	21	21	17	—	—	—
Mining	1	6	6	1	29	29
Latin America	4	2	2	1	3	3
Caterpillar Power Finance	19	154	152	7	93	60
Total	57	\$ 188	\$ 181	43	\$ 138	\$ 105

TDRs in the Customer portfolio segment with a payment default (defined as 91+ days past due) which had been modified within twelve months prior to the default date, were as follows:

(Dollars in millions)	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
North America	—	\$ —	7	\$ 9
Latin America	—	—	1	—
Caterpillar Power Finance	—	—	3	33
Total	—	\$ —	11	\$ 42
	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
North America	—	\$ —	10	\$ 10
Latin America	—	—	3	1
Caterpillar Power Finance	—	—	3	33
Total	—	\$ —	16	\$ 44

4. Leases

A. Lessor Arrangements

We lease Caterpillar equipment, machinery and engines and other equipment to customers and dealers around the world, primarily through sales-type (non-tax) leases, where the lessee for tax purposes is considered to be the owner of the equipment during the term of the lease. We also offer tax leases that are classified as either operating or direct finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, we are considered the owner of the equipment.

Our lease agreements may include options for the lessee to purchase the underlying asset at the end of the lease term for either a stated fixed price or fair market value.

The residual values for leased assets, which are an estimate of the market value of leased equipment at the end of the lease term, are based on an analysis of historical wholesale market sales prices, projected forward on a level trend line without consideration for inflation or possible future pricing action. At the inception of the lease, residual values are estimated with consideration of the following critical factors: market size and demand, any known significant market/product trends, total expected hours of usage, machine configuration, application, location, model changes, quantities, past remarketing experience, third-party residual guarantees and contractual customer purchase options. Many of these factors are gathered in an application survey that is completed prior to quotation. The lease agreement also clearly defines applicable return conditions and remedies for non-compliance, to ensure that the leased equipment will be in good operating condition upon return. Model changes and updates, as well as market strength and product acceptance, are monitored and adjustments are made to residual values in accordance with the significance of any such changes. Our sales staff work closely with customers and dealers to manage the sale of lease returns and the recovery of residual exposure.

The residuals for leases classified as operating leases are included in Equipment on operating leases, net in the Consolidated Statements of Financial Position. The residuals for leases classified as finance leases are included in Finance receivables, net in the Consolidated Statements of Financial Position.

During the term of our operating leases, we evaluate the carrying value of our equipment on a regular basis taking into consideration expected residual values at lease termination. Adjustments to depreciation expense reflecting revised estimates of expected residual values at the end of the lease terms are recorded prospectively on a straight-line basis. For finance leases, residual value adjustments are recognized through a reduction of finance revenue.

Contractual maturities for finance lease receivables (classified as sales-type and direct finance leases) were as follows:

(Millions of dollars)	September 30, 2019		
	Retail leases	Wholesale leases	Total
Amounts due in			
Remaining three months of 2019	\$ 917	\$ 3	\$ 920
2020	2,840	19	2,859
2021	1,766	12	1,778
2022	881	5	886
2023	383	2	385
Thereafter	204	2	206
Total	6,991	43	7,034
Guaranteed residual value	398	26	424
Unguaranteed residual value	825	5	830
Unearned income	(683)	(4)	(687)
Total	\$ 7,531	\$ 70	\$ 7,601

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(Millions of dollars)		December 31, 2018		
Amounts due in	Retail leases	Wholesale leases	Total	
2019	\$ 3,024	\$ 29	\$ 3,053	
2020	2,055	21	2,076	
2021	1,092	12	1,104	
2022	465	5	470	
2023	171	2	173	
Thereafter	62	2	64	
Total	6,869	71	6,940	
Guaranteed residual value	416	42	458	
Unguaranteed residual value	854	3	857	
Unearned income	(640)	(7)	(647)	
Total	\$ 7,499	\$ 109	\$ 7,608	

Our finance lease receivables generally may be repaid or refinanced without penalty prior to contractual maturity and we also sell finance lease receivables to third parties to mitigate the concentration of credit risk with certain customers. Accordingly, this presentation should not be regarded as a forecast of future cash collections.

The carrying amount of Equipment on operating leases, net in the Consolidated Statements of Financial Position was as follows:

(Millions of dollars)	September 30, 2019	December 31, 2018
Equipment on operating leases, at cost	\$ 5,229	\$ 5,201
Less: Accumulated depreciation	(1,662)	(1,639)
Equipment on operating leases, net ⁽¹⁾	\$ 3,567	\$ 3,562

⁽¹⁾ Includes \$101 million and \$45 million of operating leases with Caterpillar as of September 30, 2019 and December 31, 2018, respectively.

The carrying amount of residual assets covered by residual value guarantees and subject to operating leases was \$20 million and \$25 million as of September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019, payments due for operating leases were as follows:

(Millions of dollars)	Remaining Three Months of 2019	2020	2021	2022	2023	Thereafter	Total
	\$ 245	\$ 758	\$ 433	\$ 216	\$ 96	\$ 58	\$ 1,806

At December 31, 2018, scheduled minimum rental payments for operating leases were as follows:

(Millions of dollars)	2019	2020	2021	2022	2023	Thereafter	Total
	\$ 808	\$ 503	\$ 257	\$ 115	\$ 41	\$ 15	\$ 1,739

We sell operating lease receivables to third parties to mitigate the concentration of credit risk with certain customers. Accordingly, this presentation should not be regarded as a forecast of future cash collections.

Revenues from finance and operating leases were as follows:

(Millions of dollars)		
	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Finance lease revenue (included in retail and wholesale finance revenue)	\$ 135	\$ 388
Operating lease revenue	262	777
Total	\$ 397	\$ 1,165

We typically pay property taxes on tax leases directly to the taxing authorities and invoice the lessee for reimbursement. These property tax reimbursements are accounted for as variable lease payments and are included in Operating lease revenues in the Consolidated Statements of Profit. We individually assess our operating lease receivables for impairment. If collectability of a recorded operating lease receivable is not considered probable, we recognize a current-period adjustment against operating lease revenue.

B. Lessee Arrangements

We lease certain property, vehicles and other equipment primarily through operating leases. We recognize a lease liability and corresponding right-of-use asset based on the present value of lease payments. To determine the present value of lease payments for most of our leases, we use our incremental borrowing rate based on information available on the lease commencement date. We have elected not to separate payments for lease components from non-lease components. Our lease agreements may include options to extend or terminate the lease. When it is reasonably certain that we will exercise that option, we have included the option in the recognition of right-of-use assets and lease liabilities. Our variable lease costs primarily include maintenance, taxes and insurance. We have elected not to recognize right-of-use assets or lease liabilities for leases with a term of twelve months or less.

Our finance leases are not significant and therefore are not included in the following disclosures.

The components of lease cost were as follows:

(Millions of dollars)		
	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 2	\$ 6
Short-term lease cost	\$ —	\$ 1
Variable lease cost	\$ —	\$ —

Supplemental information related to operating leases was as follows:

(Millions of dollars)			
	Consolidated Statements of Financial Position Location	September 30, 2019	January 1, 2019
Right-of-use assets	Other assets	\$ 22	\$ 22
Lease liabilities	Other liabilities	\$ 22	\$ 23
Weighted average remaining lease term		5 years	4 years
Weighted average discount rates		2.4%	2.6%

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At September 30, 2019, maturities of operating lease liabilities were as follows:

(Millions of dollars)	
Remaining three months of 2019	\$ 2
2020	7
2021	4
2022	3
2023	3
Thereafter	4
Total lease payments	23
Less: imputed interest	(1)
Total	\$ 22

At December 31, 2018, minimum payments for operating leases having initial non-cancelable terms in excess of one year were as follows:

(Millions of dollars)	
2019	\$ 8
2020	6
2021	4
2022	2
2023	2
Thereafter	2
Total	\$ 24

Supplemental cash flow information related to operating leases was as follows:

(Millions of dollars)	
	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 6
Right-of-use assets obtained in exchange for operating lease obligations ⁽¹⁾	\$ 24

⁽¹⁾ Includes a \$23 million impact of initial recognition of right-of-use assets and lease liabilities.

5. Derivative Financial Instruments and Risk Management

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to manage foreign currency exchange rate and interest rate exposures. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward, option and cross currency contracts and interest rate contracts. Our derivative activities are subject to the management, direction and control of our senior financial officers. Risk management practices, including the use of financial derivative instruments, are presented to our Board of Directors and the Audit Committee of the Caterpillar Inc. Board of Directors at least annually.

All derivatives are recognized on the Consolidated Statements of Financial Position at their fair value. On the date the derivative contract is entered into, the derivative instrument is (1) designated as a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) designated as a hedge of a forecasted transaction or the variability of cash flows (cash flow hedge) or (3) undesignated. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income/(loss) (AOCI), to the extent effective, on the Consolidated Statements of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments are reported in current earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statements of Cash Flows. Cash flows from undesignated derivative financial instruments are included in the investing category on the Consolidated Statements of Cash Flows.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the Consolidated Statements of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively in accordance with derecognition criteria for hedge accounting.

Foreign currency exchange rate risk

We have balance sheet positions and expected future transactions denominated in foreign currencies, thereby creating exposure to movements in exchange rates. In managing foreign currency risk, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions and future transactions denominated in foreign currencies. Our policy allows the use of foreign currency forward, option and cross currency contracts to offset the risk of currency mismatch between our assets and liabilities and exchange rate risk associated with future transactions denominated in foreign currencies. Our foreign currency forward and option contracts are primarily undesignated. We designate fixed-to-fixed cross currency contracts as cash flow hedges to protect against movements in exchange rates on foreign currency fixed-rate assets and liabilities.

Interest rate risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate contracts to manage our exposure to interest rate changes.

We have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate and duration) of our debt portfolio with the interest rate profile of our finance receivable portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the finance receivable portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed and floating-to-floating interest rate contracts to meet the match-funding objective. We designate fixed-to-floating interest rate contracts as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate contracts as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

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As of September 30, 2019, \$3 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statements of Financial Position), related to our floating-to-fixed interest rate contracts, are expected to be reclassified to Interest expense over the next twelve months. The actual amount recorded in Interest expense will vary based on interest rates at the time the hedged transactions impact earnings.

We have, at certain times, liquidated fixed-to-floating interest rate contracts that resulted in deferred gains at the time of liquidation. The deferred gains associated with these interest rate contracts are included in Long-term debt in the Consolidated Statements of Financial Position and are being amortized to Interest expense over the remaining term of the previously designated hedged item.

The location and fair value of derivative instruments reported in the Consolidated Statements of Financial Position were as follows:

(Millions of dollars)		Asset (Liability) Fair Value	
	Consolidated Statements of Financial Position Location	September 30, 2019	December 31, 2018
Designated derivatives			
Interest rate contracts	Other assets	\$ 7	\$ 4
Interest rate contracts	Accrued expenses	(61)	(40)
Cross currency contracts	Other assets	118	88
Cross currency contracts	Accrued expenses	(6)	(9)
		<u>\$ 58</u>	<u>\$ 43</u>
Undesignated derivatives			
Foreign exchange contracts	Other assets	\$ 22	\$ 15
Foreign exchange contracts	Accrued expenses	(14)	(12)
Cross currency contracts	Other assets	6	5
Cross currency contracts	Accrued expenses	—	(2)
		<u>\$ 14</u>	<u>\$ 6</u>

The total notional amount of our derivative instruments was \$8.64 billion and \$10.21 billion as of September 30, 2019 and December 31, 2018, respectively. The notional amounts of derivative financial instruments do not represent amounts exchanged by the parties. The amounts exchanged by the parties are calculated by reference to the notional amounts and by other terms of the derivatives, such as foreign currency exchange rates and interest rates.

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The effect of derivatives designated as hedging instruments on the Consolidated Statements of Profit was as follows:

Cash Flow Hedges				
(Millions of dollars)				
Three Months Ended September 30, 2019				
	Amount of Gains (Losses) Recognized in AOCI	Classification	Recognized in Earnings	
			Amount of Gains (Losses) Reclassified from AOCI	Amount of the line items in the Consolidated Statements of Profit
Interest rate contracts	\$ (12)	Interest expense	\$ (3)	\$ (198)
Cross currency contracts	100	Other income (expense)	89	(4)
		Interest expense	9	(198)
	<u>\$ 88</u>		<u>\$ 95</u>	
Three Months Ended September 30, 2018				
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification	Recognized in Earnings	
			Reclassified from AOCI to Earnings (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Interest rate contracts	\$ 3	Interest expense	\$ —	\$ —
Cross currency contracts	53	Other income (expense)	51	—
		Interest expense	5	—
	<u>\$ 56</u>		<u>\$ 56</u>	<u>\$ —</u>
Nine Months Ended September 30, 2019				
	Amount of Gains (Losses) Recognized in AOCI	Classification	Recognized in Earnings	
			Amount of Gains (Losses) Reclassified from AOCI	Amount of the line items in the Consolidated Statements of Profit
Interest rate contracts	\$ (72)	Interest expense	\$ (2)	\$ (599)
Cross currency contracts	132	Other income (expense)	91	(14)
		Interest expense	23	(599)
	<u>\$ 60</u>		<u>\$ 112</u>	
Nine Months Ended September 30, 2018				
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification	Recognized in Earnings	
			Reclassified from AOCI to Earnings (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Interest rate contracts	\$ 8	Interest expense	\$ 1	\$ —
Cross currency contracts	143	Other income (expense)	141	—
		Interest expense	13	—
	<u>\$ 151</u>		<u>\$ 155</u>	<u>\$ —</u>

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The effect of derivatives not designated as hedging instruments on the Consolidated Statements of Profit was as follows:

(Millions of dollars)		Three Months Ended September 30,	
	Classification	2019	2018
Foreign exchange contracts	Other income (expense)	\$ 12	\$ 12
Cross currency contracts	Other income (expense)	3	1
		<u>\$ 15</u>	<u>\$ 13</u>
		Nine Months Ended September 30,	
	Classification	2019	2018
Foreign exchange contracts	Other income (expense)	\$ (26)	\$ 23
Cross currency contracts	Other income (expense)	2	6
		<u>\$ (24)</u>	<u>\$ 29</u>

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits us or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or us under the master netting agreements. As of September 30, 2019 and December 31, 2018, no cash collateral was received or pledged under the master netting agreements.

The effect of net settlement provisions of the master netting agreements on our derivative balances upon an event of default or a termination event was as follows:

(Millions of dollars)	September 30, 2019	December 31, 2018
Derivative Assets		
Gross Amount of Recognized Assets	\$ 153	\$ 112
Gross Amounts Offset	—	—
Net Amount of Assets ⁽¹⁾	<u>153</u>	<u>112</u>
Gross Amounts Not Offset	(39)	(34)
Net Amount	<u>\$ 114</u>	<u>\$ 78</u>
Derivative Liabilities		
Gross Amount of Recognized Liabilities	\$ (81)	\$ (63)
Gross Amounts Offset	—	—
Net Amount of Liabilities ⁽¹⁾	<u>(81)</u>	<u>(63)</u>
Gross Amounts Not Offset	39	34
Net Amount	<u>\$ (42)</u>	<u>\$ (29)</u>

⁽¹⁾ As presented in the Consolidated Statements of Financial Position.

6. Accumulated Other Comprehensive Income/(Loss)

Comprehensive income/(loss) and its components are presented in the Consolidated Statements of Comprehensive Income. Changes in Accumulated other comprehensive income/(loss), net of tax, included in the Consolidated Statements of Changes in Shareholder's Equity, consisted of the following:

(Millions of dollars)	Foreign currency translation	Derivative financial instruments	Total
<u>Three Months Ended September 30, 2018</u>			
Balance at June 30, 2018	\$ (776)	\$ (8)	\$ (784)
Other comprehensive income/(loss) before reclassifications	(44)	42	(2)
Amounts reclassified from accumulated other comprehensive (income)/loss	—	(42)	(42)
Other comprehensive income/(loss)	(44)	—	(44)
Balance at September 30, 2018	\$ (820)	\$ (8)	\$ (828)
<u>Three Months Ended September 30, 2019</u>			
Balance at June 30, 2019	\$ (758)	\$ (73)	\$ (831)
Other comprehensive income/(loss) before reclassifications	(160)	68	(92)
Amounts reclassified from accumulated other comprehensive (income)/loss	—	(73)	(73)
Other comprehensive income/(loss)	(160)	(5)	(165)
Balance at September 30, 2019	\$ (918)	\$ (78)	\$ (996)
<u>Nine Months Ended September 30, 2018</u>			
Balance at December 31, 2017	\$ (587)	\$ (5)	\$ (592)
Other comprehensive income/(loss) before reclassifications	(233)	115	(118)
Amounts reclassified from accumulated other comprehensive (income)/loss	—	(118)	(118)
Other comprehensive income/(loss)	(233)	(3)	(236)
Balance at September 30, 2018	\$ (820)	\$ (8)	\$ (828)
<u>Nine Months Ended September 30, 2019</u>			
Balance at December 31, 2018	\$ (889)	\$ (36)	\$ (925)
Other comprehensive income/(loss) before reclassifications	(127)	46	(81)
Amounts reclassified from accumulated other comprehensive (income)/loss	—	(87)	(87)
Adjustment to adopt new accounting guidance ⁽¹⁾	98	(1)	97
Other comprehensive income/(loss)	(29)	(42)	(71)
Balance at September 30, 2019	\$ (918)	\$ (78)	\$ (996)

⁽¹⁾ See Note 2 regarding new accounting guidance related to reclassification of certain tax effects from accumulated other comprehensive income/(loss).

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The effect of the reclassifications out of Accumulated other comprehensive income/(loss) on the Consolidated Statements of Profit was as follows:

(Millions of dollars)		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative financial instruments	Classification of income (expense)	2019	2018	2019	2018
Cross currency contracts	Other income (expense)	\$ 89	\$ 51	\$ 91	\$ 141
Cross currency contracts	Interest expense	9	5	23	13
Interest rate contracts	Interest expense	(3)	—	(2)	1
Reclassifications before tax		95	56	112	155
Tax (provision) benefit		(22)	(14)	(25)	(37)
Total reclassifications from Accumulated other comprehensive income/(loss)		\$ 73	\$ 42	\$ 87	\$ 118

7. Segment Information

A. Basis for Segment Information

We report information internally for operating segments based on management responsibility. Our operating segments provide financing alternatives to customers and dealers around the world for Caterpillar products, as well as financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans within each of the operating segments.

B. Description of Segments

We have six operating segments that offer financing services. Following is a brief description of our segments:

- **North America** - Includes our operations in the United States and Canada.
- **EAME** - Includes our operations in Europe, Africa, the Middle East and the Commonwealth of Independent States.
- **Asia/Pacific** - Includes our operations in Australia, New Zealand, China, Japan, Southeast Asia and India.
- **Latin America** - Includes our operations in Mexico and Central and South American countries.
- **Caterpillar Power Finance** - Provides financing worldwide for marine vessels with Caterpillar engines and for Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems.
- **Mining** - Provides financing for large mining customers worldwide.

C. Segment Measurement and Reconciliations

Cash, debt and other expenses are allocated to our segments based on their respective portfolios. The related Interest expense is calculated based on the amount of allocated debt and the rates associated with that debt. The performance of each segment is assessed based on a consistent leverage ratio. The Provision for credit losses is based on each segment's respective finance receivable portfolio. Capital expenditures include expenditures for equipment on operating leases and other miscellaneous capital expenditures.

Reconciling items are created based on accounting differences between segment reporting and consolidated external reporting. For the reconciliation of Profit before income taxes, we have grouped the reconciling items as follows:

- **Unallocated** - This item is related to corporate requirements and strategies that are considered to be for the benefit of the entire organization. Also included are the consolidated results of the special purpose corporation (see Note 8 for additional information) and other miscellaneous items.
- **Timing** - Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

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- **Methodology** - Methodology differences between segment reporting and consolidated external reporting are as follows:
 - Segment assets include off-balance sheet managed assets for which we maintain servicing responsibilities.
 - The impact of differences between the actual leverage and the segment leverage ratios.
 - Interest expense includes realized forward points on foreign currency forward contracts.
 - The net gain or loss from interest rate derivatives is excluded from segment reporting.

Supplemental segment data and reconciliations to consolidated external reporting for the three months ended September 30 was as follows:

(Millions of dollars)							
2019	External Revenues	Profit before income taxes	Interest Expense	Depreciation on equipment leased to others	Provision for credit losses	Assets at September 30, 2019	Capital expenditures
North America	\$ 414	\$ 127	\$ 99	\$ 147	\$ 3	\$ 15,764	\$ 265
EAME	72	14	13	16	6	4,924	21
Asia/Pacific	96	45	26	3	6	4,488	(1)
Latin America	67	19	25	6	2	2,996	2
Caterpillar Power Finance	23	9	10	1	(3)	1,766	—
Mining	69	10	14	32	6	2,471	99
Total Segments	741	224	187	205	20	32,409	386
Unallocated	14	(87)	66	—	—	1,986	2
Timing	(7)	(4)	—	—	—	19	—
Methodology	—	51	(55)	—	—	(144)	—
Inter-segment Eliminations ⁽¹⁾	—	—	—	—	—	(363)	—
Total	\$ 748	\$ 184	\$ 198	\$ 205	\$ 20	\$ 33,907	\$ 388

2018	External Revenues	Profit before income taxes	Interest Expense	Depreciation on equipment leased to others	Provision for credit losses	Assets at December 31, 2018	Capital expenditures
North America	\$ 402	\$ 121	\$ 94	\$ 148	\$ 7	\$ 15,632	\$ 204
EAME	69	12	12	17	8	4,862	20
Asia/Pacific	92	44	29	4	—	4,639	3
Latin America	61	15	23	6	6	2,972	1
Caterpillar Power Finance	33	(21)	13	1	34	2,259	—
Mining	64	19	15	32	(7)	2,234	67
Total Segments	721	190	186	208	48	32,598	295
Unallocated	23	(72)	62	—	(1)	1,957	3
Timing	(9)	6	—	—	—	55	—
Methodology	—	39	(54)	—	—	(159)	—
Inter-segment Eliminations ⁽¹⁾	—	—	—	—	—	(270)	—
Total	\$ 735	\$ 163	\$ 194	\$ 208	\$ 47	\$ 34,181	\$ 298

⁽¹⁾ Elimination is primarily related to intercompany loans.

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Supplemental segment data and reconciliations to consolidated external reporting for the nine months ended September 30 was as follows:

(Millions of dollars)							
2019	External Revenues	Profit before income taxes	Interest Expense	Depreciation on equipment leased to others	Provision for credit losses	Assets at September 30, 2019	Capital expenditures
North America	\$ 1,229	\$ 374	\$ 295	\$ 437	\$ 12	\$ 15,764	\$ 832
EAME	217	60	40	50	3	4,924	62
Asia/Pacific	295	139	85	9	14	4,488	9
Latin America	189	25	73	17	31	2,996	21
Caterpillar Power Finance	78	(40)	34	2	65	1,766	—
Mining	208	29	42	96	19	2,471	158
Total Segments	2,216	587	569	611	144	32,409	1,082
Unallocated	48	(253)	195	—	—	1,986	11
Timing	(23)	(13)	—	—	—	19	—
Methodology	—	146	(165)	—	—	(144)	—
Inter-segment Eliminations ⁽¹⁾	—	—	—	—	—	(363)	—
Total	\$ 2,241	\$ 467	\$ 599	\$ 611	\$ 144	\$ 33,907	\$ 1,093

2018	External Revenues	Profit before income taxes	Interest Expense	Depreciation on equipment leased to others	Provision for credit losses	Assets at December 31, 2018	Capital expenditures
North America	\$ 1,141	\$ 321	\$ 267	\$ 427	\$ 32	\$ 15,632	\$ 870
EAME	208	24	35	56	32	4,862	56
Asia/Pacific	269	128	84	14	(5)	4,639	10
Latin America	193	(1)	77	21	54	2,972	28
Caterpillar Power Finance	98	(60)	40	2	98	2,259	—
Mining	196	35	45	95	1	2,234	131
Total Segments	2,105	447	548	615	212	32,598	1,095
Unallocated	68	(204)	182	1	(1)	1,957	97
Timing	(25)	12	—	—	7	55	—
Methodology	—	132	(172)	—	—	(159)	—
Inter-segment Eliminations ⁽¹⁾	—	—	—	—	—	(270)	—
Total	\$ 2,148	\$ 387	\$ 558	\$ 616	\$ 218	\$ 34,181	\$ 1,192

⁽¹⁾ Elimination is primarily related to intercompany loans.

8. Guarantees

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. These guarantees have varying terms and are secured by the machinery being financed. We also provide residual value guarantees to third-party lenders associated with machinery leased to customers. These guarantees have varying terms. In addition, we participate in standby letters of credit issued to third parties on behalf of our customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

No significant loss has been experienced or is anticipated under any of these guarantees. At September 30, 2019 and December 31, 2018, the related recorded liability was less than \$1 million. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees was \$84 million and \$97 million at September 30, 2019 and December 31, 2018, respectively.

We provide guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a VIE (see Note 1 for additional information regarding the accounting guidance on the consolidation of VIEs). The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the SPC that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the SPC. We are the primary beneficiary of the SPC as our guarantees result in us having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses and therefore we have consolidated the financial statements of the SPC. As of September 30, 2019 and December 31, 2018, the SPC's assets of \$1.39 billion and \$1.15 billion, respectively, were primarily comprised of loans to dealers, which are included in Finance receivables, net in the Consolidated Statements of Financial Position, and the SPC's liabilities of \$1.39 billion and \$1.15 billion, respectively, were primarily comprised of commercial paper, which is included in Short-term borrowings in the Consolidated Statements of Financial Position. The assets of the SPC are not available to pay our creditors. We may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

9. Fair Value Measurements

A. Fair Value Measurements

The guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, we use quoted market prices to determine fair value and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon valuations in which one or more significant inputs are unobservable, including internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Fair value measurement includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

Derivative financial instruments

The fair value of interest rate contracts is primarily based on standard industry accepted models that utilize the appropriate market-based forward swap curves and zero-coupon interest rates to determine discounted cash flows. The fair value of foreign currency forward and cross currency contracts is based on standard industry accepted valuation models that discount cash flows resulting from the differential between the contract price and the market-based forward rate.

Derivative financial instruments are measured on a recurring basis at fair value and are classified as Level 2 measurements. We had derivative financial instruments in a net asset position included in our Consolidated Statements of Financial Position of \$72 million and \$49 million as of September 30, 2019 and December 31, 2018, respectively.

Impaired loans

Our impaired loans are subject to measurement at fair value on a nonrecurring basis and are classified as Level 3 measurements. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses may be established based either on the present value of expected future cash flows discounted at the receivables' effective interest rate, the fair value of the collateral for collateral-dependent receivables or the observable market price of the receivable. In determining collateral value, we estimate the current fair market value of the collateral less selling costs. We had impaired loans carried at the fair value of \$373 million and \$469 million as of September 30, 2019 and December 31, 2018, respectively.

B. Fair Values of Financial Instruments

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair Value Measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments:

Cash and cash equivalents – carrying amount approximated fair value.

Finance receivables, net – fair value was estimated by discounting the future cash flows using current rates representative of receivables with similar remaining maturities.

Restricted cash and cash equivalents – carrying amount approximated fair value.

Short-term borrowings – carrying amount approximated fair value.

Long-term debt – fair value for fixed and floating-rate debt was estimated based on quoted market prices.

Guarantees – fair value of guarantees is based on our estimate of the premium a market participant would require to issue the same guarantee in a stand-alone, arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.

Please refer to the table below for the fair values of our financial instruments.

(Millions of dollars)	September 30, 2019		December 31, 2018		Fair Value Levels	Reference
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
Cash and cash equivalents	\$ 1,366	\$ 1,366	\$ 766	\$ 766	1	
Restricted cash and cash equivalents ⁽²⁾	\$ 4	\$ 4	\$ 7	\$ 7	1	
Finance receivables, net (excluding finance leases ⁽¹⁾)	\$ 19,507	\$ 19,612	\$ 20,451	\$ 20,510	3	Note 3
Interest rate contracts:						
In a receivable position	\$ 7	\$ 7	\$ 4	\$ 4	2	Note 5
In a payable position	\$ (61)	\$ (61)	\$ (40)	\$ (40)	2	Note 5
Cross currency contracts:						
In a receivable position	\$ 124	\$ 124	\$ 93	\$ 93	2	Note 5
In a payable position	\$ (6)	\$ (6)	\$ (11)	\$ (11)	2	Note 5
Foreign exchange contracts:						
In a receivable position	\$ 22	\$ 22	\$ 15	\$ 15	2	Note 5
In a payable position	\$ (14)	\$ (14)	\$ (12)	\$ (12)	2	Note 5
Short-term borrowings	\$ (4,268)	\$ (4,268)	\$ (5,723)	\$ (5,723)	1	
Long-term debt	\$ (24,479)	\$ (24,798)	\$ (22,815)	\$ (22,684)	2	
Guarantees	\$ —	\$ —	\$ —	\$ —	3	Note 8

⁽¹⁾ Represents finance leases and failed sale leasebacks of \$7.68 billion as of September 30, 2019 and finance leases of \$7.47 billion as of December 31, 2018.

⁽²⁾ Included in Other assets in the Consolidated Statements of Financial Position.

10. Contingencies

We are involved in unresolved legal actions that arise in the normal course of business. Although it is not possible to predict with certainty the outcome of our unresolved legal actions, we believe that these unresolved legal actions will neither individually nor in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

11. Income Taxes

The provision for income taxes reflected an estimated annual tax rate of 28 percent in the third quarter of 2019, compared with 24 percent in the third quarter of 2018, excluding the discrete item discussed in the following paragraph. The increase in the estimated annual tax rate was primarily due to changes in the geographic mix of profits.

A discrete tax benefit of \$7 million was recorded in the third quarter of 2018 for the write-down of net deferred tax liabilities resulting from the 2017 tax year return to provision adjustments. The write-down reflected the reduction in the U.S. corporate tax rate from 35 percent to 21 percent beginning January 1, 2018.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**OVERVIEW**

We reported third-quarter 2019 revenues of \$748 million, an increase of \$13 million, or 2 percent, compared with the third quarter of 2018. Third-quarter 2019 profit was \$129 million, a \$4 million, or 3 percent, increase from the third quarter of 2018.

The increase in revenues was primarily due to a \$29 million favorable impact from higher average financing rates, partially offset by a \$10 million unfavorable impact due to the termination of a committed credit facility with Caterpillar.

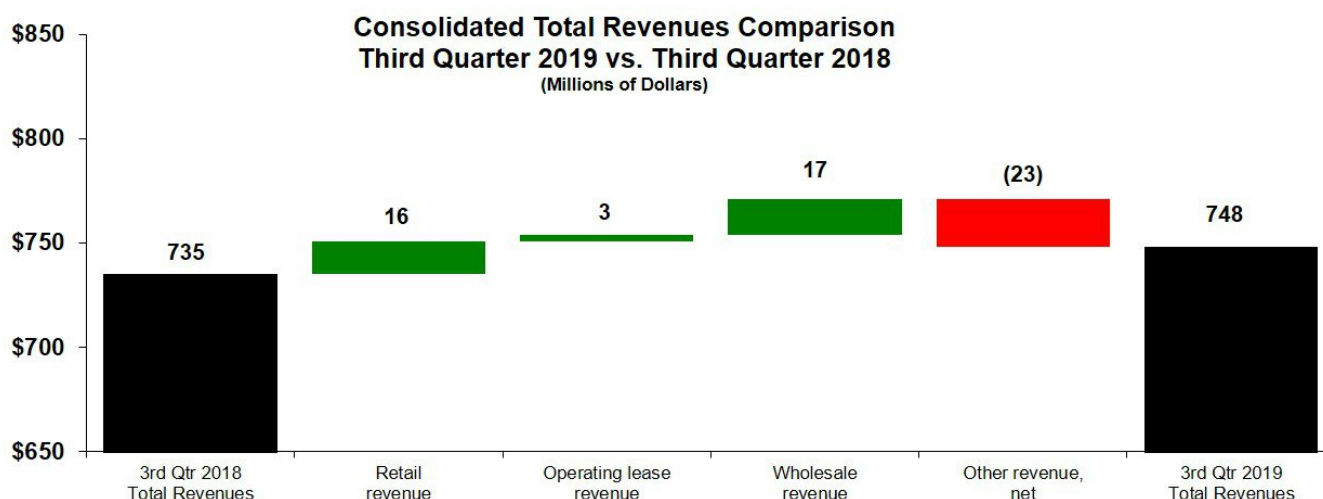
Third-quarter 2019 profit before income taxes was \$184 million, a \$21 million, or 13 percent, increase from the third quarter of 2018. The increase was primarily due to a \$31 million increase in net yield on average earning assets and a \$27 million decrease in provision for credit losses. These favorable impacts were partially offset by a \$14 million increase in general, operating and administrative expenses and the \$10 million unfavorable impact mentioned above related to the termination of a committed credit facility with Caterpillar.

The provision for income taxes reflected an estimated annual tax rate of 28 percent in the third quarter of 2019, compared with 24 percent in the third quarter of 2018, excluding the discrete item discussed in the following paragraph. The increase in the estimated annual tax rate was primarily due to changes in the geographic mix of profits.

A discrete tax benefit of \$7 million was recorded in the third quarter of 2018 for the write-down of net deferred tax liabilities resulting from the 2017 tax year return to provision adjustments. The write-down reflected the reduction in the U.S. corporate tax rate from 35 percent to 21 percent beginning January 1, 2018.

During the third quarter of 2019, retail new business volume was \$2.93 billion, an increase of \$51 million, or 2 percent, from the third quarter of 2018. The increase was primarily driven by higher volume in North America, partially offset by lower volume in Caterpillar Power Finance.

At the end of the third quarter of 2019, past dues were 3.19 percent, compared with 3.47 percent at the end of the third quarter of 2018. Write-offs, net of recoveries, were \$103 million for the third quarter of 2019, compared with \$40 million for the third quarter of 2018. The increase in write-offs, net of recoveries, was primarily driven by Caterpillar Power Finance, concentrated in the marine portfolio, and EAME, mostly in the Middle East. As of September 30, 2019, the allowance for credit losses totaled \$434 million, or 1.57 percent of finance receivables, compared with \$523 million, or 1.81 percent of finance receivables at June 30, 2019. The allowance for credit losses at year-end 2018 was \$511 million, or 1.80 percent of finance receivables.

THIRD QUARTER 2019 COMPARED WITH THIRD QUARTER 2018**Consolidated Total Revenues**

The chart above graphically illustrates reasons for the change in Consolidated Total Revenues between third quarter 2018 (at left) and third quarter 2019 (at right). Items favorably impacting total revenues appear as upward stair steps with corresponding dollar amounts above each bar, while items negatively impacting total revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Management utilizes these charts internally to visually communicate results.

Retail revenue for the third quarter of 2019 was \$346 million, an increase of \$16 million from the same period in 2018. The increase was due to a \$19 million favorable impact from higher interest rates on retail finance receivables, partially offset by a \$3 million unfavorable impact from lower average earning assets. For the quarter ended September 30, 2019, retail average earning assets were \$22.94 billion, a decrease of \$175 million from the same period in 2018. The annualized average yield was 6.03 percent for the third quarter of 2019, compared with 5.71 percent for the third quarter of 2018.

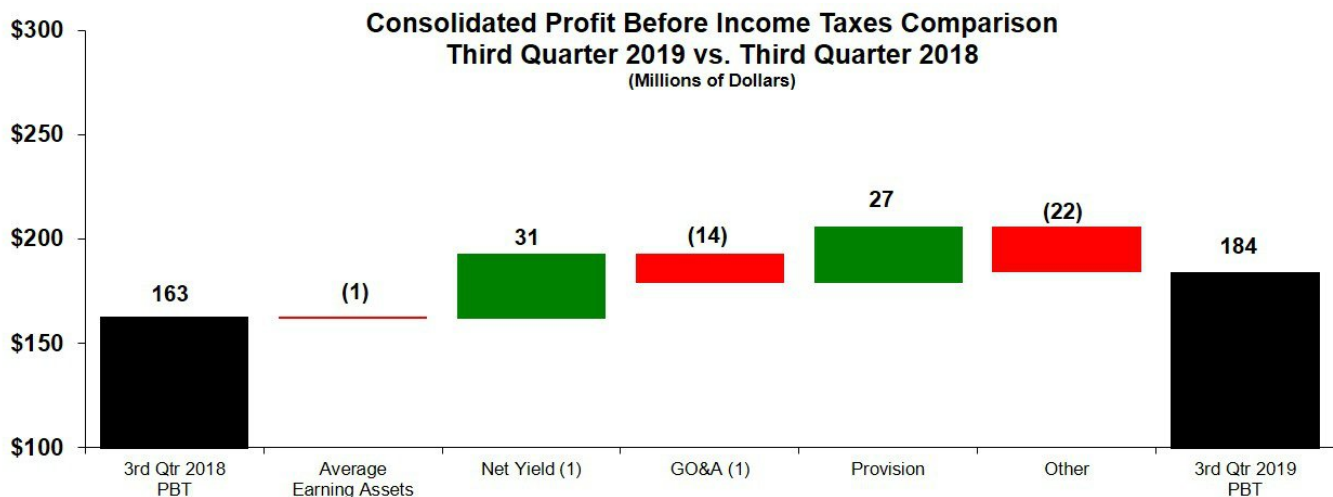
Operating lease revenue for the third quarter of 2019 was \$262 million, an increase of \$3 million from the same period in 2018. The increase was due to a \$5 million favorable impact from property tax revenues on operating leases as a result of the new lease accounting guidance and a \$4 million favorable impact from higher average rental rates on operating leases, partially offset by a \$6 million unfavorable impact from lower average earning assets.

Wholesale revenue for the third quarter of 2019 was \$125 million, an increase of \$17 million from the same period in 2018. The increase was due to an \$11 million favorable impact from higher interest rates on wholesale finance receivables and a \$6 million favorable impact from higher average earning assets. For the quarter ended September 30, 2019, wholesale average earning assets were \$5.33 billion, an increase of \$326 million from the same period in 2018. The annualized average yield was 9.35 percent for the third quarter of 2019, compared with 8.63 percent for the third quarter of 2018.

Other revenue, net items were as follows:

(Millions of dollars)	Three Months Ended September 30,		
	2019	2018	Change
Finance receivable and operating lease fees (including late charges)	\$ 16	\$ 19	\$ (3)
Fees on committed credit facility extended to Caterpillar	—	10	(10)
Interest income on Notes receivable from Caterpillar	7	8	(1)
Net loss on returned or repossessed equipment	(12)	(7)	(5)
Miscellaneous other revenue, net	4	8	(4)
Total Other revenue, net	\$ 15	\$ 38	\$ (23)

There was a \$6 million unfavorable impact from currency on revenues in the third quarter of 2019. Currency represents the net translation impact resulting from changes in foreign currency exchange rates versus the U.S. dollar and is included in all financial statement line items and each of the items included in the above analysis.

Consolidated Profit Before Income Taxes

(1) Analysis excludes \$5 million in offsetting revenues and expenses for property taxes on operating leases.

The chart above graphically illustrates reasons for the change in Consolidated Profit Before Income Taxes between third quarter 2018 (at left) and third quarter 2019 (at right). Items favorably impacting profit before income taxes appear as upward stair steps with corresponding dollar amounts above each bar, while items negatively impacting profit before income taxes appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Management utilizes these charts internally to visually communicate results.

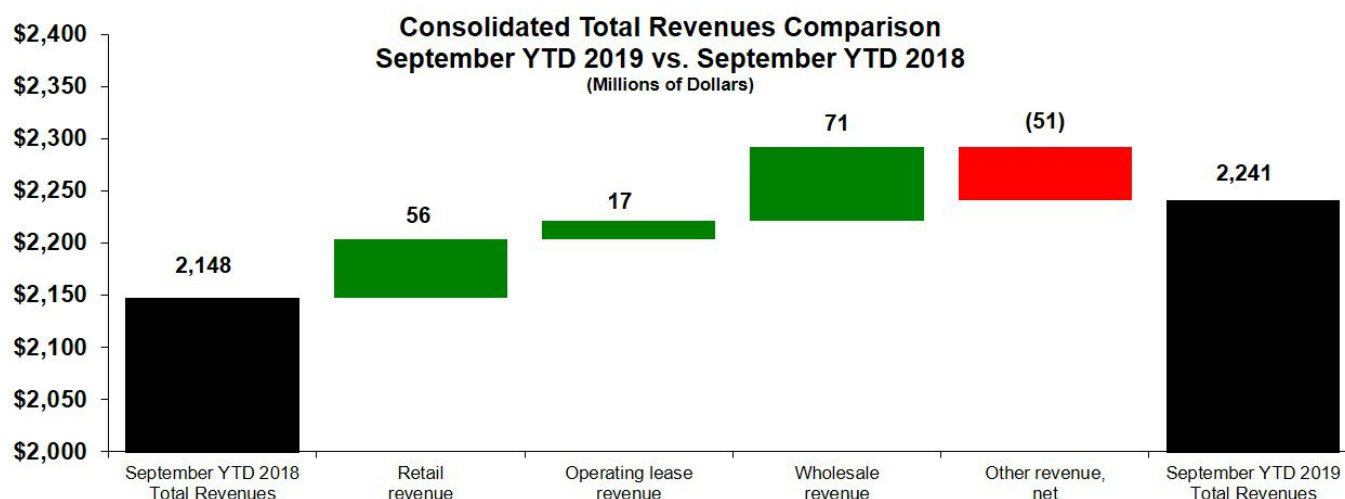
Profit before income taxes was \$184 million for the third quarter of 2019, compared with \$163 million for the third quarter of 2018. The increase was primarily due to a \$31 million increase in net yield on average earning assets and a \$27 million decrease in provision for credit losses. These favorable impacts were partially offset by a \$14 million increase in general, operating and administrative expenses and a \$10 million unfavorable impact due to the termination of a committed credit facility with Caterpillar.

There was a \$3 million unfavorable impact from currency on profit before income taxes in the third quarter of 2019. Currency represents the net translation impact resulting from changes in foreign currency exchange rates versus the U.S. dollar and is included in all financial statement line items and each of the items included in the above analysis.

Provision for Income Taxes

The provision for income taxes reflected an estimated annual tax rate of 28 percent in the third quarter of 2019, compared with 24 percent in the third quarter of 2018, excluding the discrete item discussed in the following paragraph. The increase in the estimated annual tax rate was primarily due to changes in the geographic mix of profits.

A discrete tax benefit of \$7 million was recorded in the third quarter of 2018 for the write-down of net deferred tax liabilities resulting from the 2017 tax year return to provision adjustments. The write-down reflected the reduction in the U.S. corporate tax rate from 35 percent to 21 percent beginning January 1, 2018.

NINE MONTHS ENDED SEPTEMBER 30, 2019 VS. NINE MONTHS ENDED SEPTEMBER 30, 2018***Consolidated Total Revenues***

The chart above graphically illustrates reasons for the change in Consolidated Total Revenues between September YTD 2018 (at left) and September YTD 2019 (at right). Items favorably impacting total revenues appear as upward stair steps with corresponding dollar amounts above each bar, while items negatively impacting total revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Management utilizes these charts internally to visually communicate results.

Retail revenue for the first nine months of 2019 was \$1.03 billion, an increase of \$56 million from the same period in 2018. The increase was due to a \$66 million favorable impact from higher interest rates on retail finance receivables, partially offset by a \$10 million unfavorable impact from lower average earning assets. For the nine months ended September 30, 2019, retail average earning assets were \$22.91 billion, a decrease of \$233 million from the same period in 2018. The annualized average yield was 6.00 percent for the first nine months of 2019, compared with 5.62 percent for the same period in 2018.

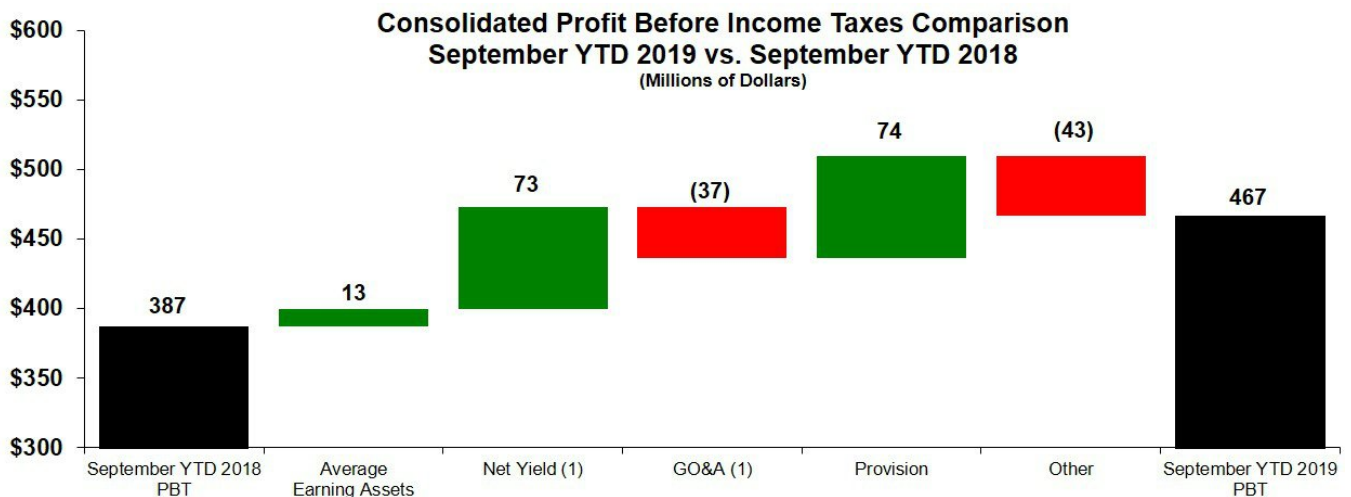
Operating lease revenue for the first nine months of 2019 was \$777 million, an increase of \$17 million from the same period in 2018. The increase was due to a \$15 million favorable impact from property tax revenues on operating leases as a result of the new lease accounting guidance and a \$13 million favorable impact from higher average rental rates on operating leases, partially offset by an \$11 million unfavorable impact from lower average earning assets.

Wholesale revenue for the first nine months of 2019 was \$375 million, an increase of \$71 million from the same period in 2018. The increase was due to a \$48 million favorable impact from higher average earning assets and a \$23 million favorable impact from higher interest rates on wholesale finance receivables. For the nine months ended September 30, 2019, wholesale average earning assets were \$5.48 billion, an increase of \$745 million from the same period in 2018. The annualized average yield was 9.11 percent for the first nine months of 2019, compared with 8.55 percent for the same period in 2018.

Other revenue, net items were as follows:

(Millions of dollars)	Nine Months Ended September 30,		
	2019	2018	Change
Finance receivable and operating lease fees (including late charges)	\$ 46	\$ 56	\$ (10)
Fees on committed credit facility extended to Caterpillar	5	30	(25)
Interest income on Notes receivable from Caterpillar	22	22	—
Net loss on returned or repossessed equipment	(27)	(14)	(13)
Miscellaneous other revenue, net	12	15	(3)
Total Other revenue, net	\$ 58	\$ 109	\$ (51)

There was a \$37 million unfavorable impact from currency on revenues in the first nine months of 2019. Currency represents the net translation impact resulting from changes in foreign currency exchange rates versus the U.S. dollar and is included in all financial statement line items and each of the items included in the above analysis.

Consolidated Profit Before Income Taxes

(1) Analysis excludes \$15 million in offsetting revenues and expenses for property taxes on operating leases.

The chart above graphically illustrates reasons for the change in Consolidated Profit Before Income Taxes between September YTD 2018 (at left) and September YTD 2019 (at right). Items favorably impacting profit before income taxes appear as upward stair steps with corresponding dollar amounts above each bar, while items negatively impacting profit before income taxes appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Management utilizes these charts internally to visually communicate results.

Profit before income taxes was \$467 million for the first nine months of 2019, compared with \$387 million for the same period in 2018. The increase was primarily due to a \$74 million decrease in provision for credit losses and a \$73 million increase in net yield on average earning assets. These favorable impacts were partially offset by a \$37 million increase in general, operating and administrative expenses and a \$25 million unfavorable impact due to the termination of a committed credit facility with Caterpillar.

There was a \$15 million unfavorable impact from currency on profit before income taxes in the first nine months of 2019. Currency represents the net translation impact resulting from changes in foreign currency exchange rates versus the U.S. dollar and is included in all financial statement line items and each of the items included in the above analysis.

Provision for Income Taxes

The provision for income taxes reflected an estimated annual tax rate of 28 percent for the first nine months of 2019, compared with 24 percent for the same period in 2018, excluding the discrete items discussed in the following paragraphs. The increase in the estimated annual tax rate was primarily due to changes in the geographic mix of profits.

The provision for income taxes for the first nine months of 2019 also included a \$13 million charge for a valuation allowance against the deferred tax assets of a non-U.S. subsidiary.

A discrete tax benefit of \$7 million was recorded in the nine months ended September 30, 2018 for the write-down of net deferred tax liabilities resulting from the 2017 tax year return to provision adjustments. The write-down reflected the reduction in the U.S. corporate tax rate from 35 percent to 21 percent beginning January 1, 2018.

*Finance Receivables and Equipment on Operating Leases***New Business Volume**

(Millions of dollars)	Nine Months Ended September 30,		
	2019	2018	Change
New retail financing	\$ 7,499	\$ 7,843	\$ (344)
New operating lease activity	1,129	1,132	(3)
New wholesale financing	33,721	32,817	904
Total	\$ 42,349	\$ 41,792	\$ 557

New retail financing decreased primarily due to lower volume in Asia/Pacific, EAME and Caterpillar Power Finance, partially offset by higher volume in Mining. New operating lease activity (which is substantially related to retail) decreased primarily due to lower rentals of Caterpillar equipment in North America, partially offset by higher rentals in Mining and EAME. New wholesale financing increased primarily due to higher purchases of trade receivables from Caterpillar.

Total Managed Portfolio

We define total portfolio as Finance receivables, net plus Equipment on operating leases, net. We also manage and service receivables and leases that have been sold by us to third parties with limited or no recourse in order to mitigate our concentration of credit risk with certain customers. These assets are not available to pay our creditors. Total managed portfolio was as follows:

(Millions of dollars)	September 30, 2019	December 31, 2018	Change
Finance receivables, net	\$ 27,186	\$ 27,923	\$ (737)
Equipment on operating leases, net	3,567	3,562	5
Total portfolio	\$ 30,753	\$ 31,485	\$ (732)
Retail loans, net	\$ 173	\$ 130	\$ 43
Retail leases, net	87	100	(13)
Operating leases	16	25	(9)
Total off-balance sheet managed assets	\$ 276	\$ 255	\$ 21
Total managed portfolio	\$ 31,029	\$ 31,740	\$ (711)

Total Portfolio Metrics

At the end of the third quarter of 2019, past dues were 3.19 percent, compared with 3.47 percent at the end of the third quarter of 2018. Total non-performing finance receivables, which represent finance receivables currently on non-accrual status, were \$825 million and \$885 million at September 30, 2019 and December 31, 2018, respectively. Total non-performing finance receivables as a percentage of our recorded investment in finance receivables were 2.99 percent and 3.11 percent at September 30, 2019 and December 31, 2018, respectively.

Our allowance for credit losses as of September 30, 2019 was \$434 million or 1.57 percent of finance receivables compared with \$511 million or 1.80 percent as of December 31, 2018. The allowance is subject to an ongoing evaluation based on many quantitative and qualitative factors, including past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. We believe our allowance is sufficient to provide for losses inherent in our existing finance receivable portfolio as of September 30, 2019.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources and liquidity provide us with the ability to meet our financial obligations on a timely basis. Maintaining and managing adequate capital and liquidity resources includes management of funding sources and their utilization based on current, future and contingent needs. Throughout the third quarter of 2019, we experienced favorable liquidity conditions. We ended the third quarter of 2019 with \$1.37 billion of cash, an increase of \$600 million from year-end 2018. Our cash balances are held in numerous locations throughout the world with approximately \$209 million held by our non-U.S. subsidiaries. Amounts held by non-U.S. subsidiaries are available for general corporate use and could be used in the U.S. without incurring significant additional U.S. taxes. We expect to meet our U.S. funding needs without repatriating undistributed profits that are indefinitely reinvested outside the U.S.

BORROWINGS

Borrowings consist primarily of medium-term notes and commercial paper, the combination of which is used to manage interest rate risk and funding requirements.

We receive debt ratings from the major credit rating agencies. Moody's long- and short-term ratings of our debt is A3 and Prime-2, while Fitch and S&P maintain a "mid-A" debt rating. This split rating has not had a material impact on our borrowing costs or our overall financial health. However, a downgrade of our credit ratings by any of the major credit rating agencies would result in increased borrowing costs and could make access to certain credit markets more difficult. In the event economic conditions deteriorate such that access to debt markets becomes unavailable, we would rely on cash flows from our existing portfolio, existing cash balances, access to our revolving credit facilities and other credit line facilities and potential borrowings from Caterpillar. In addition, Caterpillar maintains a support agreement with us, which requires Caterpillar to remain our sole owner and may, under certain circumstances, require Caterpillar to make payments to us should we fail to maintain certain financial ratios.

Total borrowings outstanding as of September 30, 2019 were \$29.55 billion, a decrease of \$511 million over December 31, 2018. Outstanding borrowings were as follows:

(Millions of dollars)	September 30, 2019	December 31, 2018
Medium-term notes, net of unamortized discount and debt issuance costs	\$ 23,861	\$ 22,169
Commercial paper, net of unamortized discount	3,444	4,759
Bank borrowings – long-term	618	646
Bank borrowings – short-term	441	526
Variable denomination floating rate demand notes	383	438
Notes payable to Caterpillar	798	1,518
Total outstanding borrowings	<u>\$ 29,545</u>	<u>\$ 30,056</u>

Medium-term notes

We issue medium-term unsecured notes through securities dealers or underwriters in the U.S., Canada, Europe, Australia, Japan, Hong Kong, and China to both retail and institutional investors. These notes are offered in several currencies and with a variety of maturities. These notes are senior unsecured obligations of the Company. Medium-term notes issued totaled \$5.59 billion and redeemed totaled \$3.89 billion for the nine months ended September 30, 2019. Medium-term notes outstanding as of September 30, 2019, mature as follows:

(Millions of dollars)	
2019	\$ 1,696
2020	7,455
2021	6,758
2022	3,814
2023	2,152
Thereafter	1,986
Total	<u>\$ 23,861</u>

Commercial paper

We issue unsecured commercial paper in the U.S., Europe and other international capital markets. These short-term promissory notes are issued on a discounted basis and are payable at maturity.

Revolving credit facilities

We have three global credit facilities with a syndicate of banks totaling \$10.50 billion (Credit Facility) available in the aggregate to both Caterpillar and us for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to us as of September 30, 2019 was \$7.75 billion. Information on our Credit Facility is as follows:

- In September 2019, we entered into a new 364-day facility. The 364-day facility of \$3.15 billion (of which \$2.33 billion is available to us) expires in September 2020.
- In September 2019, we amended and restated the 2015 three-year facility (as amended and restated, the "three-year facility"). The three-year facility of \$2.73 billion (of which \$2.01 billion is available to us) expires in September 2022.
- In September 2019, we amended and restated the 2015 five-year facility (as amended and restated, the "five-year facility"). The five-year facility of \$4.62 billion (of which \$3.41 billion is available to us) expires in September 2024.

At September 30, 2019, Caterpillar's consolidated net worth was \$14.98 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined in the Credit Facility as the consolidated shareholders' equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income/(loss).

At September 30, 2019, our covenant interest coverage ratio was 1.62 to 1. This is above the 1.15 to 1 minimum ratio, calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense, calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at September 30, 2019, our six-month covenant leverage ratio was 8.01 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event that either Caterpillar or we do not meet one or more of our respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the syndicate of banks may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of our other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At September 30, 2019, there were no borrowings under the Credit Facility.

Bank borrowings

Available credit lines with banks as of September 30, 2019 totaled \$4.69 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our non-U.S. subsidiaries for local funding requirements. As of September 30, 2019, we had \$1.06 billion outstanding against these credit lines and were in compliance with all debt covenants under these credit lines. The remaining available credit commitments may be withdrawn any time at the lenders' discretion.

Variable denomination floating rate demand notes

We obtain funding from the sale of variable denomination floating rate demand notes, which may be redeemed at any time at the option of the holder without any material restriction. We do not hold reserves to fund the payment of the demand notes. The notes are offered on a continuous basis. As of September 30, 2019, there was \$383 million of variable denomination floating rate demand notes outstanding. The maximum amount of variable denomination floating rate demand notes that we may have outstanding at any time may not exceed \$1.25 billion.

Notes receivable from/payable to Caterpillar

Under our variable amount and term lending agreements and other notes receivable with Caterpillar, we may borrow up to \$2.60 billion from Caterpillar and Caterpillar may borrow up to \$2.05 billion from us. The variable amount lending agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. The term lending agreements have remaining maturities ranging up to nine years. We had notes payable of \$798 million and notes receivable of \$469 million outstanding under these agreements as of September 30, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

We have potential payment exposure for guarantees issued to third parties totaling \$84 million as of September 30, 2019.

CASH FLOWS

Operating cash flow was \$954 million in the first nine months of 2019, compared with \$882 million for the same period in 2018. Net cash provided by investing activities was \$84 million for the first nine months of 2019, compared with net cash used for investing activities of \$1.77 billion for the same period in 2018. The change was primarily due to the impact of Caterpillar purchased receivables and higher collections of finance receivables. Net cash used for financing activities was \$432 million for the first nine months of 2019, compared with net cash provided by financing activities of \$848 million for the same period in 2018. The change was primarily due to lower portfolio funding requirements.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Part I, Item 1. Note 2 - New Accounting Pronouncements.

CRITICAL ACCOUNTING POLICIES

For a discussion of the Company's critical accounting policies, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Annual Report on Form 10-K. There have been no significant changes to our critical accounting policies since our 2018 Annual Report on Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q relate to future events and expectations and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believe,” “estimate,” “will be,” “will,” “would,” “expect,” “anticipate,” “plan,” “project,” “intend,” “could,” “should” or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance and speak only as of the date they are made, and we do not undertake to update our forward-looking statements.

Cat Financial’s actual results may differ materially from those described or implied in our forward-looking statements based on a number of factors, including, but not limited to: (i) government monetary or fiscal policies; (ii) political and economic risks, commercial instability and events beyond our control in the countries in which we operate; (iii) demand for Caterpillar products; (iv) our ability to develop, produce and market quality products that meet our customers’ needs; (v) information technology security threats and computer crime; (vi) disruptions or volatility in global financial markets limiting our sources of liquidity or the liquidity of our customers, dealers and suppliers; (vii) failure to maintain our credit ratings and potential resulting increases to our cost of borrowing and adverse effects on our cost of funds, liquidity, competitive position and access to capital markets; (viii) changes in interest rates, currency fluctuations or market liquidity conditions; (ix) an increase in delinquencies, repossessions or net losses of our customers; (x) our compliance with financial and other restrictive covenants in debt agreements; (xi) alleged or actual violations of trade or anti-corruption laws and regulations; (xii) additional tax expense or exposure; (xiii) new regulations or changes in financial services regulations; (xiv) residual values of leased equipment; (xv) marketing, operational or administrative support received from Caterpillar; (xvi) changes in accounting guidance; and (xvii) other factors described in more detail in Cat Financial’s Forms 10-Q, 10-K and other filings with the Securities and Exchange Commission.

ITEM 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the third quarter of 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are involved in unresolved legal actions that arise in the normal course of business. Although it is not possible to predict with certainty the outcome of our unresolved legal actions, we believe that these unresolved legal actions will neither individually nor in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

ITEM 1A. RISK FACTORS

For a discussion of risks and uncertainties that may affect our business, please see Part I. Item 1A. Risk Factors in our annual report on Form 10-K filed with the SEC on February 14, 2019 for the year ended December 31, 2018. There has been no material change in this information for the current quarter.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
10.1	Credit Agreement (364-Day Facility), dated as of September 5, 2019, among the Company, Caterpillar Inc., Caterpillar International Finance Designated Activity Company and Caterpillar Finance Kabushiki Kaisha, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank Europe PLC, UK Branch, as Local Currency Agent, and MUFG Bank, Ltd., as Japan Local Currency Agent (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 10, 2019)
10.2	Local Currency Addendum, dated as of September 5, 2019, to the 364-Day Facility (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 10, 2019)
10.3	Japan Local Currency Addendum, dated as of September 5, 2019, to the 364-Day Facility (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 10, 2019)
10.4	Second Amended and Restated Credit Agreement (3-Year Facility), dated as of September 5, 2019, among the Company, Caterpillar Inc., Caterpillar International Finance Designated Activity Company and Caterpillar Finance Kabushiki Kaisha, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank Europe PLC, UK Branch, as Local Currency Agent, and MUFG Bank, Ltd., as Japan Local Currency Agent (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed September 10, 2019)
10.5	Local Currency Addendum, dated as of September 5, 2019, to the 3-Year Facility (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 10, 2019)
10.6	Japan Local Currency Addendum, dated as of September 5, 2019, to the 3-Year Facility (incorporated by reference from Exhibit 10.6 to the Company's Current Report on Form 8-K filed on September 10, 2019)
10.7	Second Amended and Restated Credit Agreement (5-Year Facility), dated as of September 5, 2019, among the Company, Caterpillar Inc., Caterpillar International Finance Designated Activity Company and Caterpillar Finance Kabushiki Kaisha, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank Europe PLC, UK Branch, as Local Currency Agent, and MUFG Bank, Ltd., as Japan Local Currency Agent (incorporated by reference from Exhibit 10.7 to the Company's Current Report on Form 8-K filed September 10, 2019)
10.8	Local Currency Addendum, dated as of September 5, 2019, to the 5-Year Facility (incorporated by reference from Exhibit 10.8 to the Company's Current Report on Form 8-K filed on September 10, 2019)
10.9	Japan Local Currency Addendum, dated as of September 5, 2019, to the 5-Year Facility (incorporated by reference from Exhibit 10.9 to the Company's Current Report on Form 8-K filed on September 10, 2019)
31.1	Certification of David T. Walton, President, Director and Chief Executive Officer of Caterpillar Financial Services Corporation, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Patrick T. McCartan, Executive Vice President and Chief Financial Officer of Caterpillar Financial Services Corporation, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of David T. Walton, President, Director and Chief Executive Officer of Caterpillar Financial Services Corporation, and Patrick T. McCartan, Executive Vice President and Chief Financial Officer of Caterpillar Financial Services Corporation, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Caterpillar Financial Services Corporation

Date: October 31, 2019

/s/David T. Walton

David T. Walton, President, Director and Chief Executive Officer

Date: October 31, 2019

/s/Patrick T. McCartan

Patrick T. McCartan, Executive Vice President and Chief Financial Officer

Date: October 31, 2019

/s/Michael G. Sposato

Michael G. Sposato, Secretary

Date: October 31, 2019

/s/Jeffry D. Everett

Jeffry D. Everett, Controller

SECTION 302 CERTIFICATIONS

I, David T. Walton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Financial Services Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
 - 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 registrant'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 registrant's internal control over financial reporting.

Date: October 31, 2019

/s/David T. Walton

David T. Walton, President, Director and Chief Executive Officer

SECTION 302 CERTIFICATIONS

I, Patrick T. McCartan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Financial Services Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
 - 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 registrant'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 registrant's internal control over financial reporting.

Date: October 31, 2019

/s/Patrick T. McCartan

Patrick T. McCartan, Executive Vice President and Chief
Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Caterpillar Financial Services Corporation (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2019

/s/David T. Walton

David T. Walton

President, Director and Chief Executive Officer

Date: October 31, 2019

/s/Patrick T. McCartan

Patrick T. McCartan

Executive Vice President and Chief Financial
Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.