



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2016 COMBINED RESULTS

For 2:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported that combined net income for the quarter ended March 31, 2016 was \$1.157 billion, as compared with combined net income of \$1.132 billion for the same period of the prior year.

“The System’s earnings and capital remain strong as we enter 2016, positioning us well to fulfill our mission in a more challenging and lower price environment,” remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation.

Results of Operations

First Quarter 2016 Compared to First Quarter 2015

Net interest income was \$1.811 billion for the first quarter of 2016, as compared with \$1.727 billion for the first quarter of the prior year. The increase in net interest income primarily resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the investment portfolio. Average earning assets grew \$23.206 billion or 8.6% to \$291.758 billion for the first quarter of 2016, as compared with the first quarter of 2015.

The net interest margin was 2.48% for the quarter ended March 31, 2016, as compared with 2.57% for the quarter ended March 31, 2015. The decline in the net interest margin resulted from a decrease in the net interest spread of 12 basis points to 2.31%, as compared with the first quarter of 2015. The decline in the net interest spread resulted primarily from competitive pressures and an increase in certain debt costs. The net interest margin was positively impacted by a three basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized a provision for loan losses of \$69 million for the first quarter of 2016, as compared with a provision for loan losses of \$27 million during the first quarter of 2015. The provision for loan losses for the first quarters of both 2016 and 2015 primarily reflected industry-specific reserves due to continued low grain commodity prices and modest deterioration of credit quality in certain sectors of the loan portfolio.

Noninterest expense increased \$25 million or 3.9% to \$672 million for the first quarter of 2016, as compared with the first quarter of 2015, due primarily to increases in salaries and employee benefits, occupancy and equipment expense and other operating expense. Salaries and

employee benefits increased \$11 million as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased \$7 million primarily due to increases in facilities and maintenance expenses, while other operating expense increased \$6 million due to increases in various administrative expenses.

The provision for income taxes was \$53 million and \$62 million for the first quarter of 2016 and 2015. The effective tax rate decreased from 5.2% for the first quarter of 2015 to 4.4% for the first quarter of 2016 due to decreased earnings at certain taxable System institutions and from a greater amount of patronage declared.

First Quarter 2016 Compared to Fourth Quarter 2015

Net income decreased to \$1.157 billion for the first quarter of 2016, as compared with \$1.207 billion for the fourth quarter of 2015. Contributing to the decrease in net income was a decrease in noninterest income of \$66 million and increases in the provision for loan losses of \$50 million and the provision for income taxes of \$23 million. Noninterest income decreased primarily as a result of a decrease in fees for financially related services due to the seasonality of multi-peril crop insurance commissions. Partially offsetting these decreases in net income was a decrease in noninterest expense of \$76 million, largely due to decreases in salaries and employee benefits and all other operating expenses, and an increase in net interest income of \$13 million.

Loan Portfolio Activity

Gross loans increased \$2.549 billion or 1.1% to \$238.439 billion at March 31, 2016, as compared with \$235.890 billion at December 31, 2015. The increase primarily resulted from increases in agribusiness and real estate mortgage loans, offset in part by a decrease in production and intermediate-term loans. Agribusiness loans increased due to increased lending to food and agribusiness companies, higher levels of seasonal financing at grain cooperatives, and growth in processing and marketing loans. The increase in real estate mortgage loans resulted primarily from continued demand for cropland. The decrease in production and intermediate-term loans was primarily driven by borrowers' tax planning strategies at the end of 2015 which resulted in significant repayments in early 2016 and to seasonal repayments on operating lines of credit.

Credit Quality

The System's accruing loan volume was \$236.964 billion at March 31, 2016, as compared with \$234.566 billion at December 31, 2015. Nonaccrual loans increased \$151 million to \$1.475 billion at March 31, 2016, as compared with \$1.324 billion at December 31, 2015. This increase in nonaccrual loans was primarily due to continued low commodity prices and deterioration in the credit quality of a limited number of borrowers. At March 31, 2016, 58.6% of nonaccrual loans were current as to principal and interest, as compared with 60.5% at December 31, 2015.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$203 million to \$1.832 billion at March 31, 2016, as compared with \$1.629 billion at December 31, 2015. These nonperforming loans represented 0.77% of the System's loans at March 31, 2016 and 0.69% at December 31, 2015.

The System's other credit quality indicators also remained at generally favorable levels during the first quarter of 2016. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of

loans and accrued interest receivable were 97.8% at March 31, 2016 and 98.1% at December 31, 2015. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased slightly to 0.32% at March 31, 2016, as compared with 0.28% at March 31, 2015.

The allowance for loan losses was \$1.350 billion at March 31, 2016, as compared with \$1.280 billion at December 31, 2015. Net loan charge-offs of \$5 million were recorded during the first quarter of 2016, as compared with net loan recoveries of \$1 million for the first quarter of 2015. The allowance for loan losses as a percentage of total loans was 0.57% at March 31, 2016, as compared with 0.54% at December 31, 2015. The allowance for loan losses was 74% of the System's total nonperforming loans and 92% of nonaccrual loans at March 31, 2016, as compared with 79% and 97% at December 31, 2015. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$51.393 billion at March 31, 2016 and \$50.114 billion at December 31, 2015, and represented 21.6% of System loans at March 31, 2016, as compared with 21.2% at December 31, 2015.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were \$58.303 billion at March 31, 2016 and \$59.378 billion at December 31, 2015. The System's liquidity position was 172 days of coverage of maturing debt at March 31, 2016, as compared with 181 days at December 31, 2015.

Total capital increased \$1.209 billion during the first quarter of 2016 to \$50.043 billion. The System's surplus increased \$799 million to \$41.257 billion during the first quarter of 2016 due to net income earned and retained. Capital as a percentage of total assets increased to 16.4% at March 31, 2016, as compared with 16.1% at December 31, 2015.

About the Farm Credit System

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow through the four Banks and 74 affiliated Associations. Farm Credit has been fulfilling this mission for a century by providing farmers with the capital they need to make their business successful and by financing vital infrastructure and communication services that rural communities need to create jobs and drive economic growth. For more information about the Farm Credit System please visit farmcredit.com.

Additional Information

Copies of this press release, as well as other financial information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at farmcreditfunding.com.

For further information and copies of annual and quarterly information statements, contact:

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Forward-Looking Statements

Any forward-looking statements in this press release are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the System's annual and quarterly information statements. The System undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)**

STATEMENT OF CONDITION DATA

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Cash and investments	\$ 58,303	\$ 59,378
Loans	238,439	235,890
Less: allowance for loan losses	<u>(1,350)</u>	<u>(1,280)</u>
Net loans	<u>237,089</u>	<u>234,610</u>
Accrued interest receivable	1,835	1,973
Other assets	3,623	3,503
Restricted assets	<u>4,136</u>	<u>4,039</u>
Total assets	<u>\$304,986</u>	<u>\$303,503</u>
Systemwide Debt Securities:		
Due within one year	\$ 98,229	\$ 91,622
Due after one year	<u>146,820</u>	<u>151,713</u>
Total Systemwide Debt Securities	<u>245,049</u>	<u>243,335</u>
Subordinated debt	1,550	1,550
Other bonds	2,090	2,879
Other liabilities	<u>6,254</u>	<u>6,905</u>
Total liabilities	<u>254,943</u>	<u>254,669</u>
Preferred stock	2,768	2,742
Capital stock	1,724	1,726
Additional paid-in-capital	1,373	1,316
Restricted capital	4,136	4,039
Accumulated other comprehensive loss	(1,215)	(1,447)
Surplus	<u>41,257</u>	<u>40,458</u>
Total capital	<u>50,043</u>	<u>48,834</u>
Total liabilities and capital	<u>\$304,986</u>	<u>\$303,503</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2016	2015
Interest income	\$2,526	\$2,283
Interest expense	<u>(715)</u>	<u>(556)</u>
Net interest income	1,811	1,727
Provision for loan losses	(69)	(27)
Noninterest income	140	141
Noninterest expense	<u>(672)</u>	<u>(647)</u>
Income before income taxes	1,210	1,194
Provision for income taxes	<u>(53)</u>	<u>(62)</u>
Net income	<u>\$1,157</u>	<u>\$1,132</u>

**FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)**

Statement of Condition Data - Five Quarter Trend

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 58,303	\$ 59,378	\$ 55,880	\$ 54,400	\$ 54,946
Loans	238,439	235,890	226,844	220,535	216,163
Less: allowance for loan losses	<u>(1,350)</u>	<u>(1,280)</u>	<u>(1,246)</u>	<u>(1,233)</u>	<u>(1,251)</u>
Net loans	<u>237,089</u>	<u>234,610</u>	<u>225,598</u>	<u>219,302</u>	<u>214,912</u>
Accrued interest receivable	1,835	1,973	2,366	1,897	1,686
Other assets	3,623	3,503	3,533	3,587	3,496
Restricted assets	<u>4,136</u>	<u>4,039</u>	<u>3,964</u>	<u>3,889</u>	<u>3,816</u>
Total assets	<u>\$304,986</u>	<u>\$303,503</u>	<u>\$291,341</u>	<u>\$283,075</u>	<u>\$278,856</u>
Systemwide Debt Securities	\$245,049	\$243,335	\$231,219	\$225,160	\$222,064
Subordinated debt	1,550	1,550	1,550	1,550	1,550
Other bonds	2,090	2,879	3,410	2,690	2,496
Other liabilities	<u>6,254</u>	<u>6,905</u>	<u>6,284</u>	<u>5,890</u>	<u>5,902</u>
Total liabilities	<u>254,943</u>	<u>254,669</u>	<u>242,463</u>	<u>235,290</u>	<u>232,012</u>
Preferred stock	2,768	2,742	2,783	2,729	2,732
Capital stock	1,724	1,726	1,714	1,692	1,670
Additional paid-in-capital	1,373	1,316	1,183	1,180	1,180
Restricted capital	4,136	4,039	3,964	3,889	3,816
Accumulated other comprehensive loss	(1,215)	(1,447)	(1,108)	(1,181)	(1,158)
Surplus	<u>41,257</u>	<u>40,458</u>	<u>40,342</u>	<u>39,476</u>	<u>38,604</u>
Total capital	<u>50,043</u>	<u>48,834</u>	<u>48,878</u>	<u>47,785</u>	<u>46,844</u>
Total liabilities and capital	<u>\$304,986</u>	<u>\$303,503</u>	<u>\$291,341</u>	<u>\$283,075</u>	<u>\$278,856</u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Interest income	\$2,526	\$2,430	\$2,369	\$2,296	\$2,283
Interest expense	<u>(715)</u>	<u>(632)</u>	<u>(602)</u>	<u>(573)</u>	<u>(556)</u>
Net interest income	1,811	1,798	1,767	1,723	1,727
Provision for loan losses	(69)	(19)	(37)	(23)	(27)
Noninterest income	140	206	177	145	141
Noninterest expense	<u>(672)</u>	<u>(748)</u>	<u>(654)</u>	<u>(644)</u>	<u>(647)</u>
Income before income taxes	1,210	1,237	1,253	1,201	1,194
Provision for income taxes	<u>(53)</u>	<u>(30)</u>	<u>(45)</u>	<u>(60)</u>	<u>(62)</u>
Net income	<u>\$1,157</u>	<u>\$1,207</u>	<u>\$1,208</u>	<u>\$1,141</u>	<u>\$1,132</u>