



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2017 COMBINED RESULTS

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

NEW YORK - The Farm Credit System today reported that combined net income increased 7.5% to \$1.2 billion for the first quarter of 2017, as compared with the same period of the prior year.

“The System continued to generate strong earnings and build capital during the first quarter of 2017, well positioning System institutions to continue to support rural America and agriculture as it enters into the fourth consecutive year of declines in net farm income,” remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation.

Results of Operations

First Quarter 2017 Compared to First Quarter 2016

Net interest income was \$1.9 billion for the first quarter of 2017, as compared with \$1.8 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 liquidity investment portfolio. Average earning assets grew \$18.4 billion or 6.3% to \$310.2 billion for the first quarter of 2017, as compared with the first quarter of 2016.

The net interest margin was 2.43% for the quarter ended March 31, 2017, as compared with 2.48% for the quarter ended March 31, 2016. The decline in the net interest margin resulted from a decrease in the net interest spread of eight basis points to 2.23%, as compared with the first quarter of 2016, which resulted primarily from an increase in debt costs and lower lending spreads due to competitive pressures. 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 \$37 million for the first quarter of 2017, as compared with \$69 million during the first quarter of 2016. The provision for loan losses for the first quarters of both 2017 and 2016 primarily reflected industry-specific reserves for the livestock and grain industries, increased loan volume and modest deterioration in credit quality in certain sectors of the loan portfolio.

Noninterest income increased \$20 million or 14.3% to \$160 million for the first quarter of 2017, as compared with the first quarter of 2016, due in part, to a \$9 million decrease in losses on

extinguishment of debt as the Banks called and repurchased less debt in the first quarter of 2017, as compared with the same period of the prior year, which was due to the interest rate environment. Also contributing to the increase in noninterest income was an increase in net gains on sales of investments and other assets of \$7 million.

Noninterest expense increased \$40 million or 6.0% to \$712 million for the first quarter of 2017, as compared with the first quarter of 2016, due primarily to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased \$26 million as a result of annual merit increases and higher staffing levels at certain System institutions. Other operating expense increased \$7 million due to increases in various administrative expenses.

The provision for income taxes was \$55 million and \$53 million for the first quarter of 2017 and 2016. The effective tax rate decreased to 4.2% for the first quarter of 2017 from 4.4% for the first quarter of 2016 due to higher levels of patronage and increased earnings attributable to non-taxable business activities.

First Quarter 2017 Compared to Fourth Quarter 2016

Net income remained relatively unchanged at \$1.2 billion for the first quarter of 2017, as compared with the fourth quarter of 2016. Changes between the periods included decreases in net interest income of \$35 million and noninterest income of \$26 million and an increase in the provision for income taxes of \$16 million for the first quarter of 2017, as compared with the prior year period. Net interest income decreased primarily as a result of increased debt costs due to the rising interest rate environment, which more than offset the increase in average earning assets. Partially offsetting these decreases in net income were decreases in noninterest expense of \$51 million, largely due to decreases in salaries and employee benefits and all other operating expenses, and the provision for loan losses of \$11 million.

Loan Portfolio Activity

Gross loans increased \$1.4 billion or 0.6% to \$250.2 billion at March 31, 2017, as compared with \$248.8 billion at December 31, 2016. The increase primarily resulted from an increase in agribusiness loans, offset in part by a decrease in production and intermediate-term loans. Agribusiness loans increased primarily due to seasonal financing at grain cooperatives, additional lending to food and agribusiness customers and growth in processing and marketing loans. The decrease in production and intermediate-term loans was primarily driven by repayments following draws made prior to year-end for advance purchases of 2017 inputs and to seasonal repayments on operating lines of credit.

Credit Quality

The System's accruing loan volume was \$248.6 billion at March 31, 2017, as compared with \$247.2 billion at December 31, 2016. Nonaccrual loans increased \$32 million during the first quarter of 2017 to \$1.6 billion at March 31, 2017. This increase in nonaccrual loans was primarily due to reduced net farm income in certain agriculture production sectors. At March 31, 2017, 54.6% of nonaccrual loans were current as to principal and interest, as compared with 55.6% at December 31, 2016.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$61 million during the first quarter of 2017

to \$2.0 billion at March 31, 2017. These nonperforming loans represented 0.81% of the System's loans at March 31, 2017 and 0.79% at December 31, 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 97.1% at March 31, 2017 and 97.4% at December 31, 2016. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased slightly to 0.31% at March 31, 2017, as compared with 0.32% at March 31, 2016.

The allowance for loan losses was \$1.5 billion at both March 31, 2017 and December 31, 2016. Net loan charge-offs of \$4 million were recorded during the first quarter of 2017, as compared with net loan charge-offs of \$5 million for the first quarter of 2016. The allowance for loan losses as a percentage of total loans was 0.62% at March 31, 2017, as compared with 0.61% at December 31, 2016. The allowance for loan losses was 76% of the System's total nonperforming loans and 95% of nonaccrual loans at March 31, 2017, as compared with 77% and 95% at December 31, 2016. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$55.0 billion at March 31, 2017 and \$53.8 billion at December 31, 2016, and represented 22.0% of System loans at March 31, 2017, as compared with 21.6% at December 31, 2016.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were \$61.8 billion at March 31, 2017 and \$62.6 billion at December 31, 2016. The System's liquidity position provided for 179 days of coverage of maturing debt at March 31, 2017, as compared with 180 days at December 31, 2016.

Total capital increased \$1.1 billion during the first quarter of 2017 to \$53.4 billion. The System's retained earnings increased \$742 million to \$43.9 billion during the first quarter of 2017 due to net income earned and retained. Capital as a percentage of total assets increased to 16.7% at March 31, 2017, as compared with 16.4% at December 31, 2016.

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 73 affiliated Associations. Farm Credit has been fulfilling this mission for over 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, 2017 (unaudited)	December 31, 2016 (audited)
Cash and investments	\$ 61,775	\$ 62,575
Loans	250,234	248,768
Less: allowance for loan losses	<u>(1,543)</u>	<u>(1,506)</u>
Net loans	<u>248,691</u>	<u>247,262</u>
Accrued interest receivable	1,912	2,140
Other assets	3,196	3,485
Restricted assets	<u>4,553</u>	<u>4,453</u>
Total assets	<u>\$320,127</u>	<u>\$319,915</u>
Systemwide Debt Securities:		
Due within one year	\$102,033	\$103,770
Due after one year	<u>156,872</u>	<u>154,012</u>
Total Systemwide Debt Securities	258,905	257,782
Subordinated debt	499	499
Other bonds	1,743	2,431
Other liabilities	<u>5,549</u>	<u>6,892</u>
Total liabilities	<u>266,696</u>	<u>267,604</u>
Preferred stock	3,076	3,018
Capital stock	1,798	1,800
Additional paid-in-capital	1,557	1,391
Restricted capital	4,553	4,453
Accumulated other comprehensive loss	(1,478)	(1,534)
Retained earnings	<u>43,925</u>	<u>43,183</u>
Total capital	<u>53,431</u>	<u>52,311</u>
Total liabilities and capital	<u>\$320,127</u>	<u>\$319,915</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2017	2016
Interest income	\$2,750	\$2,526
Interest expense	<u>(862)</u>	<u>(715)</u>
Net interest income	1,888	1,811
Provision for loan losses	(37)	(69)
Noninterest income	160	140
Noninterest expense	<u>(712)</u>	<u>(672)</u>
Income before income taxes	1,299	1,210
Provision for income taxes	<u>(55)</u>	<u>(53)</u>
Net income	<u>\$1,244</u>	<u>\$1,157</u>

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

Statement of Condition Data - Five Quarter Trend

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 61,775	\$ 62,575	\$ 63,178	\$ 62,778	\$ 58,303
Loans	250,234	248,768	242,124	243,886	238,439
Less: allowance for loan losses	<u>(1,543)</u>	<u>(1,506)</u>	<u>(1,457)</u>	<u>(1,433)</u>	<u>(1,350)</u>
Net loans	<u>248,691</u>	<u>247,262</u>	<u>240,667</u>	<u>242,453</u>	<u>237,089</u>
Accrued interest receivable	1,912	2,140	2,508	2,056	1,835
Other assets	3,196	3,485	3,665	3,771	3,623
Restricted assets	<u>4,553</u>	<u>4,453</u>	<u>4,343</u>	<u>4,234</u>	<u>4,136</u>
Total assets	<u><u>\$320,127</u></u>	<u><u>\$319,915</u></u>	<u><u>\$314,361</u></u>	<u><u>\$315,292</u></u>	<u><u>\$304,986</u></u>
Systemwide Debt Securities	\$258,905	\$257,782	\$251,992	\$254,634	\$245,049
Subordinated debt	499	499	598	1,097	1,550
Other bonds	1,743	2,431	3,269	1,820	2,090
Other liabilities	<u>5,549</u>	<u>6,892</u>	<u>6,111</u>	<u>6,340</u>	<u>6,254</u>
Total liabilities	<u>266,696</u>	<u>267,604</u>	<u>261,970</u>	<u>263,891</u>	<u>254,943</u>
Preferred stock	3,076	3,018	3,147	3,051	2,768
Capital stock	1,798	1,800	1,773	1,749	1,724
Additional paid-in-capital	1,557	1,391	1,385	1,385	1,373
Restricted capital	4,553	4,453	4,343	4,234	4,136
Accumulated other comprehensive loss	(1,478)	(1,534)	(1,226)	(1,125)	(1,215)
Retained earnings	<u>43,925</u>	<u>43,183</u>	<u>42,969</u>	<u>42,107</u>	<u>41,257</u>
Total capital	<u>53,431</u>	<u>52,311</u>	<u>52,391</u>	<u>51,401</u>	<u>50,043</u>
Total liabilities and capital	<u><u>\$320,127</u></u>	<u><u>\$319,915</u></u>	<u><u>\$314,361</u></u>	<u><u>\$315,292</u></u>	<u><u>\$304,986</u></u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Interest income	\$2,750	\$2,693	\$2,623	\$2,589	\$2,526
Interest expense	<u>(862)</u>	<u>(770)</u>	<u>(753)</u>	<u>(746)</u>	<u>(715)</u>
Net interest income	1,888	1,923	1,870	1,843	1,811
Provision for loan losses	(37)	(48)	(58)	(91)	(69)
Noninterest income	160	186	163	145	140
Noninterest expense	<u>(712)</u>	<u>(763)</u>	<u>(685)</u>	<u>(672)</u>	<u>(672)</u>
Income before income taxes	1,299	1,298	1,290	1,225	1,210
Provision for income taxes	<u>(55)</u>	<u>(39)</u>	<u>(38)</u>	<u>(45)</u>	<u>(53)</u>
Net income	<u><u>\$1,244</u></u>	<u><u>\$1,259</u></u>	<u><u>\$1,252</u></u>	<u><u>\$1,180</u></u>	<u><u>\$1,157</u></u>