



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2019 COMBINED RESULTS

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

NEW YORK - The Farm Credit System today reported that combined net income increased 1.7% to \$1.29 billion for the first quarter of 2019, as compared with \$1.27 billion for the same period of the prior year.

“The System’s earnings and balance sheet remain strong as we begin fiscal year 2019,” remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “As 2019 begins to unfold, many of our member-borrowers are grappling with uncertain trade policies, large inventories of agricultural products and low commodity prices. The System remains committed to providing reliable funding in this volatile environment.”

Results of Operations

First Quarter 2019 Compared to First Quarter 2018

Net interest income was \$2.03 billion for the first quarter of 2019, as compared with \$1.96 billion for the first quarter of 2018. The increase in net interest income primarily resulted from a higher level of average earning assets, driven largely by increased loan volume. Average earning assets grew \$16.7 billion or 5.2% to \$338.0 billion for the first quarter of 2019, as compared with the first quarter of 2018, primarily from growth in average real estate mortgage, production and intermediate-term and agribusiness loans.

The net interest margin decreased four basis points to 2.40% for the quarter ended March 31, 2019, as compared with 2.44% for the same period of the prior year. The decline in the net interest margin was due to a spread compression of 15 basis points to 2.00%, as compared with the first quarter of 2018. The spread compression resulted primarily from an increase in debt costs and lower lending spreads, which is attributable to continued competitive market pressures. The decline in the net interest margin was partially offset by an 11 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 \$65 million for the first quarter of 2019, as compared with \$69 million during the first quarter of 2018. The provision for loan losses for the first quarter of 2019 primarily reflected a higher level of overall agribusiness lending activity and a modest deterioration in credit quality in this sector. The first quarter 2019 provision for loan losses also included industry-specific reserves related to the dairy and grain industries. The provision for loan losses for the first quarter of 2018 primarily reflected specific reserves

associated with a limited number of customers in the agribusiness and rural power sectors, as well as increased credit risk exposure resulting from credit quality deterioration and growth in agribusiness loan volume. The first quarter 2018 provision for loan losses also included industry-specific reserves for the grain industry.

Noninterest expense increased \$45 million or 6.1% to \$782 million for the first quarter of 2019, as compared with the first quarter of 2018, primarily due to increases in salaries and employee benefits. Salaries and employee benefits increased \$31 million primarily as a result of annual merit increases and higher staffing levels at certain System institutions.

The provision for income taxes was \$39 million and \$44 million for the first quarter of 2019 and 2018. The decrease in the provision for income taxes was primarily due to a decrease in the effective tax rate to 2.9% for the first quarter of 2019 from 3.4% for the first quarter of 2018 primarily due to increased earnings attributable to non-taxable business activities.

First Quarter 2019 Compared to Fourth Quarter 2018

Combined net income was \$1.29 billion for the first quarter of 2019, as compared with \$1.32 billion for the fourth quarter of 2018. The decrease in net income between these periods resulted primarily from a decrease in noninterest income of \$80 million and an increase in the provision for loan losses of \$17 million. The decrease in noninterest income was primarily the result of a decrease in financially related services income of \$73 million due to the seasonality of crop insurance revenue. Partially offsetting these decreases in net income was a decrease in noninterest expense of \$77 million, largely due to decreases in incentive compensation and other operating expenses.

Loan Portfolio Activity

Gross loans increased \$773 million or 0.3% to \$274.2 billion at March 31, 2019, as compared with \$273.4 billion at December 31, 2018. 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 and farm supply cooperatives resulting from greater levels of grain ownership and growth in processing and marketing loans. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

Credit Quality

The System's accruing loan volume was \$272.2 billion at March 31, 2019, as compared with \$271.5 billion at December 31, 2018. Nonaccrual loans increased \$79 million during the first quarter of 2019 to \$2.0 billion at March 31, 2019. This increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of borrowers. At March 31, 2019, 60.6% of nonaccrual loans were current as to principal and interest, as compared with 65.3% at December 31, 2018.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased \$169 million during the first quarter of 2019 to \$2.5 billion at March 31, 2019. In addition to the increase in nonaccrual loans discussed above, accruing loans 90 days or more past due increased \$88 million to \$131 million at March 31, 2019 due to the seasonal payment pattern of the System's real estate mortgage and production and intermediate-term loans. These nonperforming assets

represented 0.89% of the System's loans and other property owned at March 31, 2019 and 0.83% at December 31, 2018.

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 96.3% at March 31, 2019 and 96.5% at December 31, 2018. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.48% at March 31, 2019, as compared with 0.34% at March 31, 2018.

The allowance for loan losses was \$1.8 billion at March 31, 2019, as compared with \$1.7 billion at December 31, 2018. Net loan charge-offs of \$11 million were recorded during the first quarter of 2019, as compared with \$7 million for the first quarter of 2018. The allowance for loan losses as a percentage of total loans was 0.64% at March 31, 2019, as compared with 0.63% at December 31, 2018. The allowance for loan losses was 72% of the System's total nonperforming assets and 90% of nonaccrual loans at March 31, 2019, as compared with 75% and 91% at December 31, 2018. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$61.5 billion at March 31, 2019 and \$60.2 billion at December 31, 2018, and represented 22.4% of System loans at March 31, 2019, as compared with 22.0% at December 31, 2018.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were \$64.9 billion at March 31, 2019 and \$66.5 billion at December 31, 2018. The System's liquidity position provided for 177 days coverage of maturing debt at March 31, 2019, as compared with 182 days coverage at December 31, 2018.

Total capital increased \$1.3 billion during the first quarter of 2019 to \$59.7 billion. The System's retained earnings increased \$1.0 billion to \$47.4 billion during the first quarter of 2019 due to net income earned and retained as well as a \$66 million transfer of restricted capital to retained earnings as a result of excess insurance funds returned by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Accumulated other comprehensive loss decreased \$251 million to \$1.484 billion during the first quarter of 2019 as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 17.1% at March 31, 2019, as compared with 16.7% at December 31, 2018.

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 69 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, 2019 (unaudited)	December 31, 2018 (audited)
Cash and investments	\$ 64,902	\$ 66,471
Loans	274,151	273,378
Less: allowance for loan losses	<u>(1,768)</u>	<u>(1,713)</u>
Net loans	<u>272,383</u>	<u>271,665</u>
Accrued interest receivable	2,627	2,732
Other assets	3,812	3,170
Restricted assets	<u>4,966</u>	<u>4,954</u>
Total assets	<u>\$348,690</u>	<u>\$348,992</u>
Systemwide Debt Securities:		
Due within one year	\$111,423	\$109,228
Due after one year	<u>169,657</u>	<u>172,231</u>
Total Systemwide Debt Securities	281,080	281,459
Other bonds	1,529	1,817
Other liabilities	<u>6,359</u>	<u>7,272</u>
Total liabilities	<u>288,968</u>	<u>290,548</u>
Preferred stock	3,187	3,131
Capital stock	1,928	1,937
Additional paid-in-capital	3,712	3,712
Restricted capital	4,966	4,954
Accumulated other comprehensive loss	(1,484)	(1,735)
Retained earnings	<u>47,413</u>	<u>46,445</u>
Total capital	<u>59,722</u>	<u>58,444</u>
Total liabilities and capital	<u>\$348,690</u>	<u>\$348,992</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2019	2018
Interest income	\$3,761	\$3,180
Interest expense	<u>(1,735)</u>	<u>(1,221)</u>
Net interest income	2,026	1,959
Provision for loan losses	(65)	(69)
Noninterest income	148	157
Noninterest expense	<u>(782)</u>	<u>(737)</u>
Income before income taxes	1,327	1,310
Provision for income taxes	<u>(39)</u>	<u>(44)</u>
Net income	<u>\$1,288</u>	<u>\$1,266</u>

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

Statement of Condition Data - Five Quarter Trend

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 64,902	\$ 66,471	\$ 60,264	\$ 62,802	\$ 61,765
Loans	274,151	273,378	265,007	261,985	262,605
Less: allowance for loan losses	<u>(1,768)</u>	<u>(1,713)</u>	<u>(1,682)</u>	<u>(1,666)</u>	<u>(1,674)</u>
Net loans	<u>272,383</u>	<u>271,665</u>	<u>263,325</u>	<u>260,319</u>	<u>260,931</u>
Accrued interest receivable	2,627	2,732	3,073	2,424	2,168
Other assets	3,812	3,170	3,445	3,471	3,423
Restricted assets	<u>4,966</u>	<u>4,954</u>	<u>4,881</u>	<u>4,811</u>	<u>4,742</u>
Total assets	<u><u>\$348,690</u></u>	<u><u>\$348,992</u></u>	<u><u>\$334,988</u></u>	<u><u>\$333,827</u></u>	<u><u>\$333,029</u></u>
Systemwide Debt Securities	\$281,080	\$281,459	\$268,462	\$268,881	\$269,401
Other bonds	1,529	1,817	2,056	1,587	1,557
Other liabilities	<u>6,359</u>	<u>7,272</u>	<u>6,253</u>	<u>6,027</u>	<u>5,902</u>
Total liabilities	<u>288,968</u>	<u>290,548</u>	<u>276,771</u>	<u>276,495</u>	<u>276,860</u>
Preferred stock	3,187	3,131	3,177	3,194	3,093
Capital stock	1,928	1,937	1,919	1,894	1,870
Additional paid-in-capital	3,712	3,712	3,712	3,712	3,712
Restricted capital	4,966	4,954	4,881	4,811	4,742
Accumulated other comprehensive loss	(1,484)	(1,735)	(2,132)	(2,044)	(1,969)
Retained earnings	<u>47,413</u>	<u>46,445</u>	<u>46,660</u>	<u>45,765</u>	<u>44,721</u>
Total capital	<u>59,722</u>	<u>58,444</u>	<u>58,217</u>	<u>57,332</u>	<u>56,169</u>
Total liabilities and capital	<u><u>\$348,690</u></u>	<u><u>\$348,992</u></u>	<u><u>\$334,988</u></u>	<u><u>\$333,827</u></u>	<u><u>\$333,029</u></u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Interest income	\$3,761	\$3,651	\$3,490	\$3,359	\$3,180
Interest expense	<u>(1,735)</u>	<u>(1,622)</u>	<u>(1,475)</u>	<u>(1,386)</u>	<u>(1,221)</u>
Net interest income	2,026	2,029	2,015	1,973	1,959
Provision for loan losses	(65)	(48)	(59)	(18)	(69)
Noninterest income	148	228	173	197	157
Noninterest expense	<u>(782)</u>	<u>(859)</u>	<u>(748)</u>	<u>(735)</u>	<u>(737)</u>
Income before income taxes	1,327	1,350	1,381	1,417	1,310
Provision for income taxes	<u>(39)</u>	<u>(30)</u>	<u>(18)</u>	<u>(34)</u>	<u>(44)</u>
Net income	<u><u>\$1,288</u></u>	<u><u>\$1,320</u></u>	<u><u>\$1,363</u></u>	<u><u>\$1,383</u></u>	<u><u>\$1,266</u></u>