FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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FARM CREDIT SYSTEM REPORTS NET INCOME OF $5.4 BILLION FOR 2019

For 8:30 a.m. (EST) Release

NEW YORK - The Farm Credit System today reported combined net income of $5.4 billion for the year ended December 31, 2019, as compared with $5.3 billion for the prior year. The System also reported combined net income of $1.4 billion for the fourth quarter of 2019, as compared with $1.3 billion for the fourth quarter of 2018.

“The System ended 2019 with stable earnings and solid loan growth,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “In a challenging year for our member-borrowers, our commitment to lending throughout the agricultural cycle remains strong.”

2019 Results of Operations

Combined net income increased $114 million or 2.1% for the year ended December 31, 2019, as compared with the prior year. The increase resulted primarily from an increase in net interest income of $290 million and decreases in the provision for loan losses of $25 million and the provision for income taxes of $23 million, partially offset by an increase in noninterest expense of $180 million and a decrease in noninterest income of $44 million.

Net interest income increased $290 million or 3.6% to $8.3 billion for 2019, as compared with $8.0 billion for the prior year. The increase in net interest income resulted from a higher level of average earning assets, driven largely by increased loan volume, partially offset by a lower net interest spread. Average earning assets grew $16.5 billion or 5.1% to $341.3 billion for 2019, as compared with the prior year.

The net interest margin decreased four basis points to 2.42% for 2019, as compared with 2.46% for 2018 due to a decrease in the net interest spread of eight basis points to 2.04% for 2019, as compared with 2.12% for 2018, partially offset by a four basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). The decline in the net interest spread was primarily attributable to an increase in debt costs and lower lending spreads due to continued competitive pressures.

The System recognized provisions for loan losses of $169 million and $194 million for the years ended December 31, 2019 and 2018. The 2019 provision for loan losses primarily reflected deterioration in credit quality in the agribusiness sector and the dairy, grain and cattle industries, as well as additional reserves due to increased credit risk exposure resulting from overall loan growth. The provision for loan losses in 2018 primarily reflected specific reserves associated with a limited number of customers in the agribusiness and rural power sectors, increased credit risk exposure resulting from overall loan growth and to industry-specific reserves related to the grain and dairy industries.

Noninterest income decreased $44 million or 5.8% to $711 million for 2019, as compared with $755 million for 2018, primarily due to an increase in losses on extinguishment of debt of $32 million and a decrease in net gains on sales of investments and other assets of $25 million, partially offset by an increase in income earned on Insurance Fund assets of $22 million. During 2019, the Banks called debt totaling $54 billion, as compared to $29 million in the prior year.

Noninterest expense increased $180 million or 5.8% to $3.3 billion for 2019, as compared with $3.1 billion for 2018, primarily due to increases in salaries and employee benefits, purchased services and occupancy and equipment expense. Salaries and employee benefits increased $99 million as a result of annual merit increases and higher staffing levels at certain System institutions. Purchased services increased $32 million primarily due to increases in digital, efficiency and process refinement projects and other business initiatives. Occupancy and equipment expense increased $28 million for 2019 primarily due to increases in facilities and related maintenance expenses.

The System recorded a provision for income taxes of $103 million for 2019, as compared with $126 million for 2018. The effective tax rate decreased to 1.9% for 2019 from 2.3% for 2018. The decrease in effective tax rate was primarily attributable to a significant one-time benefit resulting from amendments to prior period tax returns to realize the benefit of certain equipment leasing transactions.

Fourth Quarter 2019 Results of Operations

Combined net income increased $71 million or 5.4% to $1.4 billion for the fourth quarter of 2019, as compared with $1.3 billion for the fourth quarter of 2018. The increase in net income between these periods resulted from an increase in net interest income of $87 million and from a benefit from income taxes of $28 million in the fourth quarter of 2019, as compared with a provision for income taxes of $30 million for the same period of the prior year. The increase in net income was partially offset by increases in noninterest expense of $37 million and the provision for loan losses of $26 million.

Net interest income increased $87 million or 4.3% to $2.1 billion for the fourth quarter of 2019, as compared with the same period of the prior year primarily from lower debt costs and a higher level of average earning assets. Average earning assets grew $16.0 billion or 4.9% to $346.0 billion for the fourth quarter of 2019, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2019 declined to 2.45%, as compared with 2.46% for the same period in the prior year. This resulted primarily from a three basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital), partially offset by an increase in the net interest spread of two basis points to 2.10%. The increase in the net interest spread was primarily due to lower debt costs.

The System reported provisions for loan losses of $74 million and $48 million for the fourth quarters of 2019 and 2018. The provision for loan losses recorded in the fourth quarter of 2019 primarily reflected deterioration in credit quality, collateral revaluations and increased credit risk exposure resulting from overall loan growth.

Noninterest income decreased 4.8% to $217 million for the fourth quarter of 2019, as compared with $228 million for the fourth quarter of 2018. The decrease was primarily due to an increase in losses on extinguishment of debt of $12 million. Noninterest expense increased 4.3% to $896 million for the fourth quarter of 2019, as compared with $859 million for the fourth quarter of 2018, primarily due to increases in salaries and employee benefits of $18 million and purchased services of $14 million.

The benefit from income taxes was $28 million for the fourth quarter of 2019, as compared with a provision for income taxes of $30 million for the same period of the prior year primarily due to the one-time benefit discussed above.

Fourth Quarter 2019 Compared to Third Quarter 2019

Net income remained relatively unchanged at $1.4 billion for the fourth quarter of 2019, as compared with the third quarter of 2019. Net income for the fourth quarter of 2019 was positively impacted by a benefit from income taxes of $28 million in the fourth quarter of 2019, as compared with a provision for income taxes of $48 million for the third quarter of 2019. Also contributing to increased net income were increases in noninterest income of $43 million and net interest income of $31 million. The increase in noninterest income was primarily due to an increase in financially related services income of $38 million due to the seasonality of crop insurance revenue. Negatively impacting net income for the fourth quarter of 2019 were increases in noninterest expense of $101 million and the provision for loan losses of $45 million. The increase in noninterest expense was primarily as a result of increases in salaries due to increased performance-based compensation and other operating expense.

Loan Portfolio Activity

Gross loans increased $13.6 billion or 5.0% since year-end 2018 to $287.0 billion at December 31, 2019. This increase was primarily attributable to growth in the real estate mortgage, processing and marketing and production and intermediate-term sectors related to new originations to new and existing customers throughout the year.

Credit Quality

The System's accruing loan volume was $285.1 billion at December 31, 2019, as compared with $271.5 billion at December 31, 2018. Nonaccrual loans increased $27 million to $1.9 billion at December 31, 2019, as compared with the same period of the prior year. The increase in nonaccrual loans was due to credit quality deterioration impacting a limited number of borrowers primarily in dairy, cattle and nut industries. At December 31, 2019, 60.1% 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, loans 90 days or more past due and other property owned) increased $65 million to $2.3 billion at December 31, 2019. These nonperforming assets represented 0.82% of the System's loans and other property owned at December 31, 2019, as compared with 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 was 96.5% at both December 31, 2019 and 2018. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased slightly to 0.32% at December 31, 2019, as compared with 0.33% at December 31, 2018.

The allowance for loan losses was $1.8 billion at December 31, 2019, as compared with $1.7 billion at December 31, 2018. Net loan charge-offs of $59 million were recorded during 2019, as compared with $89 million for 2018. The allowance for loan losses as a percentage of total loans was 0.63% at both December 31, 2019 and 2018. The allowance for loan losses was 77% of the System's total nonperforming assets and 95% of its nonaccrual loans at December 31, 2019, as compared with 75% and 91% at December 31, 2018. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $63.5 billion at December 31, 2019 and $60.2 billion at December 31, 2018, and represented 22.1% of System loans at December 31, 2019, as compared with 22.0% at December 31, 2018.

Agricultural Outlook

The February 2020 United States Department of Agriculture (USDA) forecast estimates 2019 net farm income (income after expenses from production in the current year) at $93.6 billion, up $9.8 billion from 2018. The USDA's outlook for the farm economy, as a whole, forecasts 2020 net farm income to increase to $96.7 billion, a $3.1 billion increase from 2019. The projected increase in net farm income from 2019 to 2020 is primarily due to expected increases in cash receipts for animals and products of $8.2 billion and crop receipts of $1.9 billion, partially offset by a decrease in direct government payments of $8.7 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased $1.8 billion to $68.3 billion at December 31, 2019, as compared with $66.5 billion at year-end 2018. The System's liquidity position was 177 days and 182 days at December 31, 2019 and 2018.

System capital increased $3.3 billion to $61.7 billion at December 31, 2019 since year-end 2018. Retained earnings increased $2.6 billion to $49.0 billion at December 31, 2019, as compared with $46.4 billion at December 31, 2018, due to net income earned and retained, as well as a $66 million transfer of restricted capital to retained earnings due to excess insurance funds returned to the System by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Patronage distributions of $2.3 billion partially offset the increase in retained earnings. Accumulated other comprehensive loss decreased $395 million to $1.3 billion during 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 was 16.9% at December 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 its four Banks and 68 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 Farm Credit, please visit farmcredit.com.

Additional Information

The 2019 financial results discussed herein are preliminary and unaudited. 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, including the completion of the System's year-end closing and review procedures, and third-party audit. 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

	December 31, 2019	December 31, 2018
Cash and investments	$ 68,266	$ 66,471
Loans	286,964	273,378
Less: allowance for loan losses	(1,806)	(1,713)
Net loans	285,158	271,665
Accrued interest receivable	2,864	2,732
Other assets	3,869	3,170
Restricted assets	5,202	4,954
Total assets	$365,359	$348,992
Systemwide Debt Securities:		
Due within one year	$114,127	$109,228
Due after one year	179,411	172,231
Total Systemwide Debt Securities	293,538	281,459
Other bonds	1,961	1,817
Other liabilities	8,130	7,272
Total liabilities	303,629	290,548
Preferred stock	3,121	3,131
Capital stock	2,009	1,937
Additional paid-in-capital	3,738	3,712
Restricted capital	5,202	4,954
Accumulated other comprehensive loss	(1,340)	(1,735)
Retained earnings	49,000	46,445
Total capital	61,730	58,444
Total liabilities and capital	$365,359	$348,992

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2019	2018	2019	2018
Interest income	$3,666	$3,651	$15,019	$13,680
Interest expense	(1,550)	(1,622)	(6,753)	(5,704)
Net interest income	2,116	2,029	8,266	7,976
Provision for loan losses	(74)	(48)	(169)	(194)
Noninterest income	217	228	711	755
Noninterest expense	(896)	(859)	(3,259)	(3,079)
Income before income taxes	1,363	1,350	5,549	5,458
(Provision for) benefit from income taxes	28	(30)	(103)	(126)
Net income	$1,391	$1,320	$ 5,446	$ 5,332

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Cash and investments	$ 68,266	$ 67,070	$ 66,096	$ 64,902	$ 66,471
Loans	286,964	276,112	276,229	274,151	273,378
Less: allowance for loan losses	(1,806)	(1,750)	(1,755)	(1,768)	(1,713)
Net loans	285,158	274,362	274,474	272,383	271,665
Accrued interest receivable	2,864	3,339	2,840	2,627	2,732
Other assets	3,869	4,083	4,063	3,812	3,170
Restricted assets	5,202	5,122	5,047	4,966	4,954
Total assets	$365,359	$353,976	$352,520	$348,690	$348,992
Systemwide Debt Securities	$293,538	$282,861	$283,538	$281,080	$281,459
Other bonds	1,961	2,085	1,571	1,529	1,817
Other liabilities	8,130	6,672	6,186	6,359	7,272
Total liabilities	303,629	291,618	291,295	288,968	290,548
Preferred stock	3,121	3,168	3,181	3,187	3,131
Capital stock	2,009	1,985	1,959	1,928	1,937
Additional paid-in-capital	3,738	3,738	3,712	3,712	3,712
Restricted capital	5,202	5,122	5,047	4,966	4,954
Accumulated other comprehensive loss	(1,340)	(1,005)	(1,094)	(1,484)	(1,735)
Retained earnings	49,000	49,350	48,420	47,413	46,445
Total capital	61,730	62,358	61,225	59,722	58,444
Total liabilities and capital	$365,359	$353,976	$352,520	$348,690	$348,992

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Interest income	$3,666	$3,788	$3,804	$3,761	$3,651
Interest expense	(1,550)	(1,703)	(1,765)	(1,735)	(1,622)
Net interest income	2,116	2,085	2,039	2,026	2,029
Provision for loan losses	(74)	(29)	(1)	(65)	(48)
Noninterest income	217	174	172	148	228
Noninterest expense	(896)	(795)	(786)	(782)	(859)
Income before income taxes	1,363	1,435	1,424	1,327	1,350
(Provision for) benefit from income taxes	28	(48)	(44)	(39)	(30)
Net income	$1,391	$1,387	$1,380	$1,288	$1,320