FCA Board Meeting
June 2016

Quarterly Report on FCS Condition

June 9, 2016

Stephen Gabriel
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the FCS
- FCS Condition and Performance
Economic Conditions Affecting the Farm Credit System

Stephen Gabriel
Chief Economist
Office of Regulatory Policy
Economic growth continues to underwhelm

Consensus Forecasts (percent)
Red indicates forecast

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<tbody>
<tr>
<td>GDP growth*</td>
<td>0.6</td>
<td>3.9</td>
<td>2.0</td>
<td>1.4</td>
<td>0.8</td>
<td>2.2</td>
<td>2.5</td>
<td>2.4</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
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<tr>
<td>CPI*</td>
<td>-2.9</td>
<td>2.4</td>
<td>1.4</td>
<td>0.8</td>
<td>-0.3</td>
<td>1.9</td>
<td>2.2</td>
<td>2.3</td>
<td>2.1</td>
<td>2.4</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.6</td>
<td>5.4</td>
<td>5.2</td>
<td>5.0</td>
<td>4.9</td>
<td>4.9</td>
<td>4.8</td>
<td>4.7</td>
<td>4.7</td>
<td>4.6</td>
<td>4.6</td>
<td>4.5</td>
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<tr>
<td>10 Yr T-Bond</td>
<td>2.0</td>
<td>2.4</td>
<td>2.0</td>
<td>2.2</td>
<td>1.8</td>
<td>1.9</td>
<td>2.1</td>
<td>2.3</td>
<td>2.5</td>
<td>2.6</td>
<td>2.7</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Consensus Economics, Inc.
Survey date - May 9, 2016
* % change from prior quarter, seasonally adjusted annual rate
Farm sector developments and concerns

- Planting progress is generally good
- South American weather boosts soybean/corn futures
- USDA projects a record corn crop in 2016
- Production growth in the protein and dairy sectors is pressuring prices and margins
- There are signs of emerging credit problems
- Continued farmland market weakness
USDA projects a record corn crop and greater stocks
Reduced soybean plantings; more exports strengthen price prospects

Source: USDA
Large wheat supplies continue to weigh on prices

Source: USDA
Corn profit margins face fourth year in the red

**Iowa Season-average Corn Profit Margin Estimates**

Using Iowa State University Cost of Production Estimates

As of 5/10/16

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin w/ Government Payments</th>
<th>Iowa Price</th>
<th>Total Cost per Bushel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>1.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>0.96</td>
<td></td>
<td></td>
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<tr>
<td>2009</td>
<td>1.64</td>
<td></td>
<td></td>
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<tr>
<td>2010</td>
<td>2.23</td>
<td></td>
<td></td>
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<tr>
<td>2011</td>
<td>1.45</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>(0.10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>(0.18)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015F</td>
<td>(0.29)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016F</td>
<td>(0.09)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(0.34)</td>
<td></td>
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</tbody>
</table>

Source: FCA-ORP-AEPT using data from USDA and Iowa State University.
Current price outlook suggests tight margins for soybean producers

As of 5/10/16

Iowa Season-average Soybean Profit Margin Estimates

Iowa State University Cost of Production Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin w/ Gov. Payments</th>
<th>Iowa Price</th>
<th>Total Cost per Bushel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0.28</td>
<td>4.20</td>
<td>6.48</td>
</tr>
<tr>
<td>2007</td>
<td>1.98</td>
<td>4.20</td>
<td>6.18</td>
</tr>
<tr>
<td>2008</td>
<td>0.06</td>
<td>2.85</td>
<td>3.91</td>
</tr>
<tr>
<td>2009</td>
<td>2.85</td>
<td>3.55</td>
<td>6.40</td>
</tr>
<tr>
<td>2010</td>
<td>2.47</td>
<td>3.55</td>
<td>6.02</td>
</tr>
<tr>
<td>2011</td>
<td>1.20</td>
<td>3.55</td>
<td>4.75</td>
</tr>
<tr>
<td>2012</td>
<td>(0.90)</td>
<td>2.85</td>
<td>1.95</td>
</tr>
<tr>
<td>2013</td>
<td>(0.53)</td>
<td>1.20</td>
<td>0.73</td>
</tr>
<tr>
<td>2014</td>
<td>(0.75)</td>
<td>1.20</td>
<td>0.95</td>
</tr>
<tr>
<td>2015F</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016F</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: FCA-ORP-AEPT using data from USDA and Iowa State University.
Large supplies pressure wheat prices and profit margins

As of 5/10/16

Kansas Season-average Wheat Profit Margin Estimates

Kansas State University Cost of Production Estimates

Source: FCA/ORP/AEPT using data from USDA and Kansas State University.
Ample production pressures on protein and dairy prices and profits.
Farmland prices continue soft in the Corn Belt and Plains

Percent change from the previous year, 1st quarter 2016

- Nonirrigated Cropland
- Irrigated Cropland
- Ranchland

Source: Kansas City Federal Reserve Bank

Percent change in the value of "good" farmland from previous year, 1st quarter 2016

Source: Chicago Federal Reserve Bank
There is evidence of rising carryover debt

Borrowers with an increase in carryover debt, 1st quarter (percent*)

* Average response of banks in each region.
** Mountain States include Colorado, northern New Mexico and Wyoming.

Source: Ag Credit Survey, Federal Reserve Bank of Kansas City
Commercial banks show signs of emerging credit issues

Source: Ag Credit Survey, Federal Reserve Bank of Kansas City
Risks to watch

- Growing conditions this summer
- Interest rates
- Strength of the dollar
- Deteriorating agricultural credit quality
- Market response to U.S. presidential election
- Geopolitical developments
Questions

THANK YOU
Farm Credit System
Condition and Performance

as of
March 31, 2016

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Loan Portfolio
- Earnings
- Capital
- FIRS
Balances inch higher in the 1st quarter

Source: FCS Quarterly Information Statements
Loan growth influenced by seasonal factors

<table>
<thead>
<tr>
<th>District</th>
<th>Mar-14</th>
<th>Mar-15</th>
<th>Mar-16</th>
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<tbody>
<tr>
<td>AgFirst District (11%)</td>
<td>-0.2%</td>
<td>-1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>AgriBank District (39%)</td>
<td>-1.1%</td>
<td>-1.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>CoBank District (41%)</td>
<td>5.2%</td>
<td>0.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Texas District (9%)</td>
<td>1.3%</td>
<td>1.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total System</td>
<td>1.7%</td>
<td>-0.4%</td>
<td>1.1%</td>
</tr>
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</table>

Source: FCS Quarterly Information Statements
Portfolio credit quality continues to be strong; risk measures edge upwards

Portfolio Credit Quality as of March 2016

- Nonperforming loans equaled 0.77% of System loans outstanding
- Over 95% of System loans were classified as Acceptable
- Loan delinquencies were 0.32% of accruing loans
- The System’s allowance for loan losses equaled 74% of nonperforming loans
- Total capital and the allowance for loan losses represented 21.6% of System loans at quarter-end

Source: FCS Quarterly Information Statements
System reports solid 1st quarter financial results

System Earnings

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<tbody>
<tr>
<td>Qtrly SN Income ($M)</td>
<td>1,145</td>
<td>1,196</td>
<td>1,228</td>
<td>1,155</td>
<td>1,141</td>
<td>1,208</td>
<td>1,207</td>
<td>1,157</td>
<td></td>
</tr>
<tr>
<td>P/L Losses ($M)</td>
<td>42</td>
<td>33</td>
<td>27</td>
<td>23</td>
<td>37</td>
<td>19</td>
<td>69</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net Interest Spread

- Rate: Earning Assets
- Rate: Interest-Bearing Liabilities
- Net Interest Spread

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Q1 '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Earning Assets</td>
<td>175,000</td>
<td>250,000</td>
<td>325,000</td>
<td>379,000</td>
<td>424,000</td>
<td>465,000</td>
<td>523,000</td>
</tr>
</tbody>
</table>

Source: FCS Quarterly Information Statements
Strong earnings support continued growth in capital

Capital and Liquidity
as of March 2016

- System capital as a percentage of total assets was 16.4% compared to 16.1% at year end 2015
- Surplus as a percentage of total capital equaled 82.4%
- System liquidity equaled 172 days of coverage. Days of available liquidity for the four funding banks ranged from 144 days to 216 days.

Source: FCS Quarterly Information Statements
System FIRS ratings

source: FCA's FIRS ratings database

- Composite FIRS ratings slip compared to the previous quarter
- 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for less than 1.2% of total System assets
Summary and final points

- Challenges for agriculture:
  - General economic factors – *lackluster economic growth in the U.S. and abroad, strong dollar, rising interest rates*
  - Farm sector concerns – *stress on cash grain producers, Midwest farmland values, shrinking margins for dairy and protein sectors*
- The System continues to be safe and financially sound
- Portfolio credit risk remains low but loan quality expected to deteriorate
- System institutions remain well-positioned for the current risk environment with favorable earnings and strong capital levels
Questions

THANK YOU