

FEDERAL AGRICULTURAL

Rating Analysis - 4/17/17

Debt: \$13.7B, Cash: \$265.2M

Est. Share Value: \$57.82 Price: \$56.56

*EJR Sen Rating(Curr/Prj) A/ A

*EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.5%

EJR 3 yr. Recov. Rate: 68.6%

Federal Agricultural Mortgage Corporation (AGM) is in the govt support firms sector and its operating income were \$44.6M for the quarter ending Dec' 2016 vs \$28.2M for the prior year. Net Income for Q4'16 was \$28.8M vs the prior year's \$18.3M income.

Lower loan loss provisioning (-86.3% YOY at \$0.5M) and \$15.4M in gains from derivatives helped AGM post a 69.4% YOY growth in Q4 2016 net income. Total revs rose by 49.7% YOY to \$56.0M with net interest inc (post prov) rose 31.3% YOY, to \$36.3M while non int income jumped to \$19.3M from yr-ago's \$6.4M. Net effective spread was 0.89% vs. 0.85% last year, helped by reduction in AGM's cash and cash equivalents balances and improvements in LIBOR-based funding costs. During FY 2016, outstanding business vols rose by over \$1.5B to \$17.4B and core earnings was up by 14.5%, at \$53.8M. Watch for earnings weakness, given AGM's expectation of modest deterioration in the agricultural credit environment. We are affirming.

CREDIT POSITION	Annual Ratios		Ratios for 4 Rolling Quarters				
	Dec-16	PDec18	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Fixed Chg Cov(x)	1.7	1.8	1.8	1.7	1.6	1.6	1.7
Return on Equity (%)	12.0	11.6	10.9	12.7	10.1	11.1	12.0
PT Ret. on Avg Assets(%)	0.8	0.8	0.7	0.7	0.6	0.6	0.8
Ret on Perm Cap (%)	0.8	0.9	0.7	0.7	0.6	0.7	0.8
T Debt/Cap(w Debt)(%)	95.5	94.9	96.2	96.4	96.2	95.9	95.5
Short Term Debt/ Total Debt (%)	61.8	62.8	64.7	63.9	68.2	65.9	61.8
Implied Sen. Rating	A-	A-	A-	A-	A-	A-	A-

INDUSTRY RATIOS	AA	A	BBB	BB	B	CCC
Fixed Chg Cov(x)	2.3	1.8	1.3	0.9	0.7	0.5
Return on Equity (%)	4.5	4.0	3.5	3.0	2.5	2.0
PT Ret. on Avg Assets(%)	6.0	4.0	2.0	0.0	-2.0	-4.0
Ret on Perm Cap (%)	20.0	10.0	7.0	4.0	2.0	-2.0
T Debt/Cap(w Debt)(%)	85.0	90.0	95.0	97.0	98.2	100.0
Short Term Debt/ Total Debt (%)	47.5	62.2	75.3	84.9	90.7	94.2

PEER RATIOS	Other	Fixed	Return	Return	Return	Ratio-	
	NRSRO	Charge	on Avg	on Perm	T Debt/	Implied	
	Sen.	Cov(x)	ROE(%)	Assets	Cap(%)	Cap(%)	Rating
Federal Home Loan Mortgage Corporation	AAA	1.2	154.0	1.0	0.6	99.7	BBB
Federal National Mortgage Association	AAA	1.2	202.8	0.6	0.6	99.8	BBB
Starwood Property Trust, Inc.	BB	2.7	8.0	0.5	3.1	57.6	AA
Ocwen Financial Corporation	CCC+	0.4	-30.5	-2.7	-3.3	90.6	CCC-
Walter Investment Management Corp.	CCC	0.3	-188.8	1.5	-2.6	98.3	CCC

Note, annual and quarterly implied sen. ratings are smoothed using EJR's prior rating if any. Peers' implied ratings are not smoothed.

Rating Change Anticipator (1 is best, 100 worst): 44.4 Last EJR Sen.: A

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REVENUE & PROFITABILITY

The Company's revenues rose at an average annual rate of 4% over the last five years while operating margin rose to 1.11% for the fiscal year ending December 2016, above the 1.08% average over the prior four years. Return on Assets rose to 0.50%, above the 0.41% average for the prior years.

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	PDec17	PDec18
Interest Income (mill \$)	265	235	231	265	312	327	344
Growth Rate (%)		(11.06)	(2.05)	14.85	17.78	5.00	5.00
Net Interest Income/Total Interest Income (%)	46.09	41.68	25.96	47.51	44.97	45.76	47.60
Loan Loss Coverage(%)	NMF	NMF	NMF	NMF	NMF	NMF	NMF
Pretax Return On Avg Assets (%)	0.72	1.01	0.53	0.72	0.77	0.80	0.85
Oper Return/ Earning Assets (%)	1.02	1.41	0.80	1.05	1.11	1.16	1.22
Non-Interest Inc/Revs (%)	0.8	7.5	12.1	3.86	7.25	7.10	6.96
Efficiency Ratio(%)	25.8	(11.1)	23.9	20.63	26.89	27.34	27.27
Return on Assets (%)	0.4	0.6	0.3	0.44	0.50	0.51	0.54

LEVERAGE & ASSET LIQUIDITY

The Quick Asset Ratio has become weaker recently, slipping to 2.5:1 for the FYE December 2016, and Quick Assets/ ST Dep & Debt declined.

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	PDec17	PDec18
Quick Asset Ratio(%)	7.1	6.5	10.4	8.6	2.5	2.6	2.7
Quick Assets/ ST Dep & Debt(%)	13.7	11.9	20.1	14.6	4.7	4.8	4.9
LT Debt/ Capital (%)	89.5	89.7	87.5	90.0	89.0	88.2	87.3
T Debt/Cap(w Debt)(%)	95.1	95.6	94.3	96.2	95.5	95.2	94.9

ASSUMPTIONS FOR FINANCIALS

Valuation Driver: Interest Income Growth:

Federal Agricultural has grown its interest income at 17.8% per annum in the last fiscal year which is more than the average for its peers. We expect Company's revenues will grow approximately 5.0% per annum over the next couple of years and 5.0% per annum for the next couple of years thereafter.

Valuation Driver: Net Interest Margin:

The Company's net interest margin has been more than its peers and we assumed a 1.4% growth in net interest margin over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Interest Income Growth%	(3.1)	17.8	5.0	5.0
Interest Expense (% of outstanding debt)	3.7	1.3	1.3	1.3
Net Interest Margin (% of earning assets)	0.3	1.3	1.4	1.3
Provisions for Loan Losses(% of earning assets)	0.0	0.0	0.0	0.0
Trading Account Profit Growth%	0.0	19.7	4.0	2.2
Commissions & Fees Earned Growth%	(13.6)	1.3	3.0	2.7
Other Operating Income Growth%	(45.3)	(252.5)	2.0	2.0
Non-Interest Expense Growth%	(17.3)	57.3	8.0	8.0
Net Non-Operating Loss Growth%	(59.2)	0.0		
Income Tax Rate%	31.8	35.2	35.2	31.7
Special Items (millions \$)	0.0			
Cash & Near Cash Growth%	10.4	(78.1)	4.5	4.5
Accounts & Notes Receivable Growth%	(2.1)	5.7	6.0	6.0
Marketable Secs. & ST Investments Growth%	0.0	0.0	6.3	6.3
Loans & Mortgages Growth%	(2.8)	0.0		
Real Estate Investments Growth%	0.0	0.0		
Other Long-Term Investments Growth%	16.5	4.4	3.0	3.0
Long-Term Investments before Reserves Growth%	(2.4)	4.4	4.0	4.0
Loan Loss Reserves (% of Earn. Assets.)	0.0	0.0	5.0	5.0
Loans Net of Reserves Growth%	0.0			
Net Fixed Assets Growth%	0.0	0.0		
Other Assets Growth%	0.0	0.0		
Demand Deposits Growth%	0.0			
Short-Term Borrowings Growth%	(71.5)	(7.4)	0.5	0.5
Customer Deposits Growth%	0.0	0.0		
Other ST Liabilities Growth%	0.0	0.0		
Long-Term Borrowings Growth%	7.4	5.2	5.2	5.2
Deferred Tax Liability Growth%	0.0	(100.0)	3.0	3.0
Other Long-Term Liabilities Growth%	(8.5)	43.1	6.5	6.5
Shares sold (% of shares out.)	0.0	(5.0)	(1.0)	(1.0)
Additional ST debt (1st year)(millions \$)	0.0	0.0	0.0	

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ANNUAL INCOME STATEMENTS

Below are Federal Agricultural's annual income statements with the projected years based on the assumptions listed on page 3.

ANNUAL INCOME STATEMENTS (MILLIONS \$, EXCEPT PER SHARE AMOUNTS)

	Dec-13	Dec-14	Dec-15	Dec-16	PDec17	PDec18
Interest Income	235	231	265	312	327	344
Interest Expense	137	171	139	172	178	180
Net Interest Income	98	60	126	140	150	164
Provisions for Loan Losses	0	-3	0	1	1	1
Trading Account Profit	-1	39	1	1	2	2
Commissions & Fees Earned	27	25	15	15	15	16
Other Operating Income	-7	-32	-5	8	8	8
Non-Interest Expense	-13	22	28	44	48	52
Operating Income	130	73	108	119	126	137
Net Non-Operating Loss	-1	0	0	0	0	0
Income Tax Expenses	34	3	34	42	44	48
Income Before XO Items	98	70	74	77	82	88
Extraordinary Item Net of Tax	0	0	0	0	0	0
Minority Interests	22	22	5	0	0	0
Consolidated Net Income	<u>75</u>	<u>48</u>	<u>69</u>	<u>77</u>	<u>82</u>	<u>89</u>
Total Cash Preferred Dividends	3	10	21	13	13	13
Net Income	72	38	47	64	68	75
Common Dividends	8	6	20	11	10	9
Total Revenues	255	262	275	336	353	370
Comprehensive Income per Share	5.7	2.8	2.4	5.0		
Basic EPS Before Abnormal Items	6.4	3.4	4.2	6.0	7.6	
Basic EPS Before XO Items	6.3	3.4	4.2	6.0	7.6	8.3
Basic EPS	6.6	3.5	4.3	6.1	7.6	8.3
EBITDA						

REVENUE & PROFITABILITY

Interest Income (mill \$)	235	231	265	312	327	344
Growth Rate (%)	-11.1	-2.0	14.9	17.8	5.0	5.0
Net Interest Income/Total Interest Income (%)	41.7	26.0	47.5	45.0	45.8	47.6
Loan Loss Coverage(%)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Return On Avg Assets (%)	1.0	0.5	0.7	0.8	0.8	0.8
Oper Return/ Earning Assets (%)	1.4	0.8	1.1	1.1	1.2	1.2
Non-Interest Inc/Revs (%)	7.5	12.1	3.9	7.2	7.1	7.0
Efficiency Ratio(%)	-11.1	23.9	20.6	26.9	27.3	27.3
Return on Assets (%)	0.6	0.3	0.4	0.5	0.5	0.5

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ANNUAL BALANCE SHEETS

Below are Federal Agricultural's balance sheets with the projected years based on the assumptions listed on page 3. As of Dec18, the Company's total cash is assumed to increase from \$265M to \$290M while its total debt is assumed to rise from \$13.7B to \$14.1B.

ANNUAL BALANCE SHEETS (MILLIONS \$, EXCEPT PER SHARE AMOUNTS)

Base Case

ASSETS

	Dec-13	Dec-14	Dec-15	Dec-16	PDec17	PDec18
Cash & Near Cash	749	1,363	1,210	265	277	290
Accounts & Notes Receivable	151	146	153	162	171	182
Marketable Secs. & ST Investments	0	0	0	0	0	0
Loans & Mortgages	0	0	0	0	0	0
Real Estate Investments	0	0	0	0	0	0
Other Long-Term Investments	9,207	9,169	10,123	10,572	10,889	11,215
Long-Term Investments before Reserves	9,207	9,169	10,123	10,572	10,889	11,215
Loan Loss Reserves	0	0	0	0	0	0
Loans Net of Reserves	9,210	9,169	10,125	10,572	10,889	11,215
Net Fixed Assets	0	0	0	0	0	0
Other Assets	0	0	0	0	4,608	4,608
Additional Assets	3,252	3,618	4,053	4,608	0	0
Total Assets	<u>13,362</u>	<u>14,297</u>	<u>15,541</u>	<u>15,606</u>	<u>15,945</u>	<u>16,294</u>

Earning Assets	9,207	9,169	10,278	10,733	10,889	11,215
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LIABILITIES

Demand Deposits	0	0	0	0	0	0
Short-Term Borrowings	7,339	7,354	9,111	8,440	8,639	8,835
Customer Deposits	0	0	0	0	0	0
Other ST Liabilities	0	0	0	0	0	0
Long-Term Borrowings	5,001	5,471	4,967	5,223	5,223	5,223
Deferred Tax Liability	1	9	1	0	0	0
Other Long-Term Liabilities	447	681	908	1,299	1,384	1,474
Other Liabilities	0	0	0	0	0	0
Total Liabilities	<u>12,788</u>	<u>13,515</u>	<u>14,987</u>	<u>14,962</u>	<u>15,246</u>	<u>15,531</u>
Total Preferred Equity	58	205	205	205	205	205
Minority Interest	242	236	0	0	0	0
Share Capital & APIC	122	124	129	129	126	123
Retained Earnings & Other Equity	153	217	220	309	368	435
Total Shareholders' Equity	<u>574</u>	<u>782</u>	<u>554</u>	<u>644</u>	<u>699</u>	<u>763</u>
Total Liabilities & Equity	<u>13,362</u>	<u>14,297</u>	<u>15,541</u>	<u>15,606</u>	<u>15,945</u>	<u>16,294</u>
Shares Outstanding	0	0	11	11	11	11

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A" whereas the ratio-implied rating for the most recent period is "A-"; the median rating for the peers is significantly lower than the Company's implied rating.

Comments on Industry Ratios

We have not made any adjustment in the industry ratios at this time.

CUSIPs and EJR rating

637432MK8 rated A; 637432MJ1 rated A; 637432MH5 rated A; 637432MG7 rated A; 637432MF9 rated A; 637432ME2 rated A; 637432MD4 rated A; 637432MC6 rated A; 637432MB8 rated A

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer FEDERAL AGRICULTURAL with the ticker of AGM we have assigned the senior unsecured rating of A. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology available in our Form NRSRO Exhibit #2 dated Feb. 24, 2017 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

EJR is not paid to determine this credit rating.

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11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Interest Income Growth%	5.0	9.0	1.0	A-	A	A-
Interest Expense (% of outstanding debt)	1.3	(1.7)	4.3	A-	BBB	BB
Provisions for Loan Losses(% of earning assets)	0.0	(3.0)	3.0	A-	AA-	BB
Commissions & Fees Earned Growth%	3.0	1.0	5.0	A-	A-	A-
Loan Loss Reserves (% of Earn. Assets.)	5.0	3.0	7.0	A-	A-	A-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

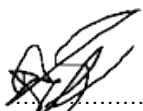
ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

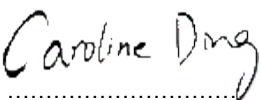


Subramanian NG
Senior Rating Analyst

April 17, 2017

Reviewer Signature:

Today's Date



Caroline Ding
Rating Analyst

April 17, 2017