



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS 2016 SECOND QUARTER AND SIX-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported its combined results of operations for the three and six months ended June 30, 2016.

“Positive second quarter results driven by increased loan volume were indicative of the System’s continued commitment to lend to rural America, even in the current challenging environment,” remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Despite continued lower agricultural commodity prices and global economic challenges, the overall credit quality of the System’s loan portfolio remained favorable.”

Results of Operations

Second Quarter and Six-Month 2016 Results Compared to Second Quarter and Six-Month 2015 Results

Combined net income increased \$39 million or 3.4% to \$1.180 billion and \$64 million or 2.8% to \$2.337 billion for the three and six months ended June 30, 2016, as compared with the same periods in 2015. These results reflected an increase in net interest income and a decrease in the provision for income taxes, partially offset by increases in the provision for loan losses and noninterest expense.

Net interest income increased \$120 million or 7.0% to \$1.843 billion for the second quarter of 2016 and \$204 million or 5.9% to \$3.654 billion for the six months ended June 30, 2016, as compared with the same periods of the prior year. The increases in net interest income primarily resulted from higher levels of average earning assets, driven largely by increased loan volume. Average earning assets increased \$29.322 billion or 10.9% and \$26.268 billion or 9.8% to \$299.297 billion and \$295.521 billion for the three and six months ended June 30, 2016, as compared with the prior year periods.

The net interest margin was 2.46% and 2.47% for the three and six months ended June 30, 2016, as compared with 2.55% and 2.56% for the same periods of the prior year. The decline in the net interest margin for the three- and six-month periods primarily resulted from decreases in the net interest spread of 11 basis points for both periods to 2.29% and 2.30%, as compared with 2.40% and 2.41% for same periods of the prior year. The decline in the net interest spread was the result of competitive pressures and an increase in certain debt costs.

The System recognized provisions for loan losses of \$91 million and \$160 million for the three and six months ended June 30, 2016, as compared with provisions for loan losses of \$23 million and \$50 million for the three and six months ended June 30, 2015. The provision for loan losses for the first six months of both 2016 and 2015 primarily reflected industry-specific reserves due to continued low grain commodity prices, increased loan volume and modest deterioration of credit quality in certain sectors of the loan portfolio.

Noninterest expense increased \$28 million to \$672 million and \$53 million to \$1.344 billion for the three and six months ended June 30, 2016, as compared with the same periods of the prior year. The increases for the three- and six-month periods were primarily due to increases in salaries and employee benefits and occupancy and equipment expense. Salaries and employee benefits increased \$15 million and \$26 million for the three and six months ended June 30, 2016, as compared to the same periods of the prior year, as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased \$8 million and \$15 million for the three and six months ended June 30, 2016, as compared to the same periods of the prior year, primarily due to increases in facilities and maintenance expenses.

The provisions for income taxes were \$45 million and \$98 million for the three and six months ended June 30, 2016, as compared with \$60 million and \$122 million for the three and six months ended June 30, 2015. The effective tax rate decreased from 5.1% for the six months ended June 30, 2015 to 4.0% for the six months ended June 30, 2016 due to decreased earnings at certain taxable System institutions and from a greater amount of patronage.

Second Quarter 2016 Compared to First Quarter 2016

Net income was \$1.180 billion for the second quarter of 2016, as compared to \$1.157 billion for the first quarter of 2016. The increase in net income was primarily due to an increase in net interest income of \$32 million and a decrease in the provision for income taxes of \$8 million offset, in part, by an increase in the provision for loan losses of \$22 million. Net interest income increased primarily as a result of an increase in average earning assets in the second quarter.

Loan Portfolio Activity

Gross loans increased \$7.996 billion or 3.4% to \$243.886 billion at June 30, 2016, as compared with \$235.890 billion at December 31, 2015. The increase primarily resulted from increases in real estate mortgage and agribusiness loans, offset in part by a decrease in production and intermediate-term loans. The increase in real estate mortgage loans resulted primarily from continued demand for cropland. Agribusiness loans increased due to higher levels of seasonal financing at many grain cooperatives, increased lending to food and agribusiness companies, and growth in processing and marketing loans. The decrease in production and intermediate-term loans was primarily driven by borrowers' tax planning strategies at the end of 2015, which resulted in significant repayments in early 2016 and to seasonal repayments on operating lines of credit. These paydowns were partially offset by seasonal draws on lines of credit during planting season.

Credit Quality

The System's accruing loan volume was \$242.462 billion at June 30, 2016, as compared with \$234.566 billion at December 31, 2015. Nonaccrual loans increased \$100 million to \$1.424

billion at June 30, 2016, as compared with \$1.324 billion at December 31, 2015. This increase in nonaccrual loans was primarily due to continued low commodity prices and deterioration in the credit quality of a limited number of borrowers. At June 30, 2016, 56.4% of nonaccrual loans were current as to principal and interest, as compared with 60.5% at December 31, 2015.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$196 million to \$1.825 billion at June 30, 2016, as compared with \$1.629 billion at December 31, 2015. These nonperforming loans represented 0.75% of the System's loans at June 30, 2016 and 0.69% at December 31, 2015.

The System's other credit quality indicators also remained at generally favorable levels during the second quarter of 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 97.6% at June 30, 2016 and 98.1% at December 31, 2015. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.24% at June 30, 2016, as compared with 0.21% at June 30, 2015.

The allowance for loan losses was \$1.433 billion at June 30, 2016, as compared with \$1.280 billion at December 31, 2015. Net loan charge-offs of \$12 million were recorded during the first six months of 2016, as compared with net loan charge-offs of \$16 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.59% at June 30, 2016 and 0.54% at December 31, 2015. The allowance for loan losses was 79% of the System's total nonperforming loans and 101% of its nonaccrual loans at June 30, 2016, as compared with 79% and 97% at December 31, 2015. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$52.834 billion at June 30, 2016 and \$50.114 billion at December 31, 2015, and represented 21.7% of System loans at June 30, 2016, as compared with 21.2% at December 31, 2015.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) was \$62.778 billion at June 30, 2016 and \$59.378 billion at December 31, 2015. The System's liquidity position represented 180 days coverage of maturing debt obligations at June 30, 2016, as compared with 181 days at December 31, 2015.

During the second quarter of 2016, two System institutions redeemed \$455 million of subordinated debt at par.

Total capital increased \$2.567 billion during the first six months of 2016 to \$51.401 billion. The System's surplus increased \$1.649 billion to \$42.107 billion during the first six months of 2016 due to net income earned and retained. During the second quarter of 2016, one System institution issued preferred stock totaling \$375 million. The proceeds from the issuance were used to increase regulatory capital and for general corporate purposes. Capital as a percentage of total assets increased to 16.3% at June 30, 2016, as compared with 16.1% at December 31, 2015.

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 74 affiliated Associations. Farm Credit has been fulfilling this mission for 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

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

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Cash and investments	\$ 62,778	\$ 59,378
Loans	243,886	235,890
Less: allowance for loan losses	<u>(1,433)</u>	<u>(1,280)</u>
Net loans	<u>242,453</u>	<u>234,610</u>
Accrued interest receivable	2,056	1,973
Other assets	3,771	3,503
Restricted assets	<u>4,234</u>	<u>4,039</u>
Total assets	<u>\$315,292</u>	<u>\$303,503</u>
Systemwide Debt Securities:		
Due within one year	\$ 106,597	\$ 91,622
Due after one year	<u>148,037</u>	<u>151,713</u>
Total Systemwide Debt Securities	254,634	243,335
Subordinated debt	1,097	1,550
Other bonds	1,820	2,879
Other liabilities	<u>6,340</u>	<u>6,905</u>
Total liabilities	<u>263,891</u>	<u>254,669</u>
Preferred stock	3,051	2,742
Capital stock	1,749	1,726
Additional paid-in-capital	1,385	1,316
Restricted capital	4,234	4,039
Accumulated other comprehensive loss	(1,125)	(1,447)
Surplus	<u>42,107</u>	<u>40,458</u>
Total capital	<u>51,401</u>	<u>48,834</u>
Total liabilities and capital	<u>\$315,292</u>	<u>\$303,503</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Interest income	\$2,589	\$2,296	\$5,115	\$4,579
Interest expense	<u>(746)</u>	<u>(573)</u>	<u>(1,461)</u>	<u>(1,129)</u>
Net interest income	1,843	1,723	3,654	3,450
Provision for loan losses	(91)	(23)	(160)	(50)
Noninterest income	145	145	285	286
Noninterest expense	<u>(672)</u>	<u>(644)</u>	<u>(1,344)</u>	<u>(1,291)</u>
Income before income taxes	1,225	1,201	2,435	2,395
Provision for income taxes	<u>(45)</u>	<u>(60)</u>	<u>(98)</u>	<u>(122)</u>
Net income	<u>\$1,180</u>	<u>\$1,141</u>	<u>\$2,337</u>	<u>\$2,273</u>

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)
Cash and investments	\$ 62,778	\$ 58,303	\$ 59,378	\$ 55,880	\$ 54,400
Loans	243,886	238,439	235,890	226,844	220,535
Less: allowance for loan losses	<u>(1,433)</u>	<u>(1,350)</u>	<u>(1,280)</u>	<u>(1,246)</u>	<u>(1,233)</u>
Net loans	242,453	237,089	234,610	225,598	219,302
Accrued interest receivable	2,056	1,835	1,973	2,366	1,897
Other assets	3,771	3,623	3,503	3,533	3,587
Restricted assets	<u>4,234</u>	<u>4,136</u>	<u>4,039</u>	<u>3,964</u>	<u>3,889</u>
Total assets	<u>\$315,292</u>	<u>\$304,986</u>	<u>\$303,503</u>	<u>\$291,341</u>	<u>\$283,075</u>
Systemwide Debt Securities	\$254,634	\$245,049	\$243,335	\$231,219	\$225,160
Subordinated debt	1,097	1,550	1,550	1,550	1,550
Other bonds	1,820	2,090	2,879	3,410	2,690
Other liabilities	<u>6,340</u>	<u>6,254</u>	<u>6,905</u>	<u>6,284</u>	<u>5,890</u>
Total liabilities	<u>263,891</u>	<u>254,943</u>	<u>254,669</u>	<u>242,463</u>	<u>235,290</u>
Preferred stock	3,051	2,768	2,742	2,783	2,729
Capital stock	1,749	1,724	1,726	1,714	1,692
Additional paid-in-capital	1,385	1,373	1,316	1,183	1,180
Restricted capital	4,234	4,136	4,039	3,964	3,889
Accumulated other comprehensive loss	(1,125)	(1,215)	(1,447)	(1,108)	(1,181)
Surplus	<u>42,107</u>	<u>41,257</u>	<u>40,458</u>	<u>40,342</u>	<u>39,476</u>
Total capital	<u>51,401</u>	<u>50,043</u>	<u>48,834</u>	<u>48,878</u>	<u>47,785</u>
Total liabilities and capital	<u>\$315,292</u>	<u>\$304,986</u>	<u>\$303,503</u>	<u>\$291,341</u>	<u>\$283,075</u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Interest income	\$2,589	\$2,526	\$2,430	\$2,369	\$2,296
Interest expense	<u>(746)</u>	<u>(715)</u>	<u>(632)</u>	<u>(602)</u>	<u>(573)</u>
Net interest income	1,843	1,811	1,798	1,767	1,723
Provision for loan losses	(91)	(69)	(19)	(37)	(23)
Noninterest income	145	140	206	177	145
Noninterest expense	<u>(672)</u>	<u>(672)</u>	<u>(748)</u>	<u>(654)</u>	<u>(644)</u>
Income before income taxes	1,225	1,210	1,237	1,253	1,201
Provision for income taxes	<u>(45)</u>	<u>(53)</u>	<u>(30)</u>	<u>(45)</u>	<u>(60)</u>
Net income	<u>\$1,180</u>	<u>\$1,157</u>	<u>\$1,207</u>	<u>\$1,208</u>	<u>\$1,141</u>