FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS 2017 SECOND QUARTER AND SIX-MONTH NET INCOME

For 3:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported that combined net income increased 3.6% to $1.2 billion and 5.5% to $2.5 billion for the three and six months ended June 30, 2017, as compared with the same periods of the prior year.

"The System remains focused on its mission to support rural communities and agriculture," remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "With our consistently strong balance sheet, we are in a position to deliver credit and financial services to our customers as they face continued challenges in the agricultural sector."

Results of Operations

Second Quarter and Six-Month 2017 Results Compared to Second Quarter and Six-Month 2016 Results

Net interest income increased $65 million or 3.5% to $1.9 billion for the second quarter of 2017 and $142 million or 3.9% to $3.8 billion for the six months ended June 30, 2017, 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 and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets increased $10.8 billion or 3.6% and $14.6 billion or 5.0% to $310.1 billion and $310.2 billion for the three and six months ended June 30, 2017, as compared with the prior year periods.

The net interest margin was 2.46% for both the three months ended June 30, 2017 and 2016. Even though the margin was unchanged, the net interest spread decreased six basis points to 2.23% for the three months ended June 30, 2017 from the comparable prior year period and was offset by a six basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). For the six-month period ended June 30, 2017, the net interest margin was 2.45%, as compared with 2.47% for the same period of the prior year. The net interest margin was negatively impacted by a decrease in the net interest spread of seven basis points to 2.23% for the six months ended June 30, 2017, as compared with 2.30% for same period of the prior year and was positively impacted by a five basis point increase in income earned on earning assets funded by non-interest bearing sources. The decline in the net interest spread for the three- and six-month periods of 2017 was primarily the result of an increase in debt costs and lower lending spreads due to competitive pressures.

The System recognized provisions for loan losses of $80 million and $117 million for the three and six months ended June 30, 2017, as compared with provisions for loan losses of $91 million and $160 million for the three and six months ended June 30, 2016. The provision for loan losses for the first six months of both 2017 and 2016 primarily reflected industry-specific reserves for the livestock and grain industries, increased loan volume and modest deterioration in credit quality in certain sectors of the loan portfolio driven by a challenging agricultural economic environment.

Noninterest income increased $6 million or 4.1% to $151 million and $26 million or 9.1% to $311 million for the three and six months ended June 30, 2017, as compared with the same periods of the prior year. The increase for the six-month period was due, in part, to an $18 million decrease in losses on extinguishment of debt as interest rates rose, year-over-year, and the Banks called and repurchased less debt in the first six months of 2017.

Noninterest expense increased $39 million or 5.8% to $711 million and $79 million or 5.9% to $1.423 billion for the three and six months ended June 30, 2017, 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 all other operating expenses. Salaries and employee benefits increased $30 million and $56 million for the three and six months ended June 30, 2017, 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. All other operating expenses increased $9 million and $21 million for the three and six months ended June 30, 2017, as compared to the same periods of the prior year, primarily due to increases in purchased services and various administrative expenses.

The provisions for income taxes were $46 million and $101 million for the three and six months ended June 30, 2017, as compared with $45 million and $98 million for the three and six months ended June 30, 2016. The effective tax rate decreased slightly to 3.9% for the six months ended June 30, 2017 from 4.0% for the six months ended June 30, 2016, due to higher levels of patronage and increased earnings attributable to non-taxable business activities.

Second Quarter 2017 Compared to First Quarter 2017

Net income remained relatively unchanged at $1.2 billion for the second quarter of 2017, as compared with the first quarter of 2017; however, the components changed. Positively impacting net income for the three months ended June 30, 2017 was an increase in net interest income of $20 million, as well as a decrease in the provision for income taxes of $9 million. However, these favorable items were more than offset by an increase in the provision for loan losses of $43 million combined with a decrease in noninterest income of $9 million. The provision for loan losses increased in the second quarter of 2017 due to further deterioration in the credit quality of loans in certain agriculture production sectors. Net interest income for the second quarter of 2017 was positively impacted by a three basis point increase in the net interest margin to 2.46%.

Loan Portfolio Activity

Gross loans increased $1.7 billion or 0.7% to $250.5 billion at June 30, 2017, as compared with $248.8 billion at December 31, 2016. The increase primarily resulted from an increase in real estate mortgage loans and processing and marketing, offset in part by a decrease in production and intermediate-term loans. The increase in real estate mortgage loans resulted primarily from continued demand by new and existing customers. Processing and marketing loans increased primarily due to new loan growth and advances on existing loans within certain industries. The decrease in production and intermediate-term loans was primarily due to draws made prior to year-end 2016 for advance purchases of 2017 inputs, which resulted in significant repayments in early 2017, 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 $248.8 billion at June 30, 2017, as compared with $247.2 billion at December 31, 2016. Nonaccrual loans increased $80 million during the first six months of 2017 to $1.7 billion at June 30, 2017. This increase in nonaccrual loans was primarily due to the impact of reduced net farm income in certain agriculture production sectors. At June 30, 2017, 57.9% of nonaccrual loans were current as to principal and interest, as compared with 55.6% at December 31, 2016.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased $83 million during the first six months of 2017 to $2.0 billion at June 30, 2017. These nonperforming loans represented 0.82% of the System's loans at June 30, 2017 and 0.79% at December 31, 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 96.8% at June 30, 2017 and 97.4% at December 31, 2016. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased slightly to 0.23% at June 30, 2017, as compared with 0.24% at June 30, 2016.

The allowance for loan losses was $1.6 billion at June 30, 2017, as compared with $1.5 billion at December 31, 2016. Net loan charge-offs of $16 million were recorded during the first six months of 2017, as compared with net loan charge-offs of $12 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.63% at June 30, 2017 and 0.61% at December 31, 2016. The allowance for loan losses was 78% of the System's total nonperforming loans and 95% of its nonaccrual loans at June 30, 2017, as compared with 77% and 95% at December 31, 2016. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $56.1 billion at June 30, 2017 and $53.8 billion at December 31, 2016, and represented 22.4% of System loans at June 30, 2017, as compared with 21.6% at December 31, 2016.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) was $61.4 billion at June 30, 2017 and $62.6 billion at December 31, 2016. The System's liquidity position provided for 170 days coverage of maturing debt at June 30, 2017, as compared with 180 days coverage at December 31, 2016.

During the second quarter of 2017, one System institution redeemed $500 million of subordinated debt at par.

Total capital increased $2.2 billion during the first six months of 2017 to $54.5 billion. The System's retained earnings increased $1.6 billion to $44.8 billion during the first six months of 2017 due to net income earned and retained. Capital as a percentage of total assets increased to 17.0% at June 30, 2017, as compared with 16.4% at December 31, 2016.

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 70 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

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, 2017 (unaudited)	December 31, 2016 (audited)
Cash and investments	$ 61,443	$ 62,575
Loans	250,464	248,768
Less: allowance for loan losses	(1,588)	(1,506)
Net loans	248,876	247,262
Accrued interest receivable	2,136	2,140
Other assets	3,274	3,485
Restricted assets	4,652	4,453
Total assets	$320,381	$319,915
Systemwide Debt Securities:		
Due within one year	$102,117	$103,770
Due after one year	156,274	154,012
Total Systemwide Debt Securities	258,391	257,782
Subordinated debt		499
Other bonds	1,868	2,431
Other liabilities	5,605	6,892
Total liabilities	265,864	267,604
Preferred stock	3,079	3,018
Capital stock	1,829	1,800
Additional paid-in-capital	1,557	1,391
Restricted capital	4,652	4,453
Accumulated other comprehensive loss	(1,416)	(1,534)
Retained earnings	44,816	43,183
Total capital	54,517	52,311
Total liabilities and capital	$320,381	$319,915

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2017	**2016**	**2017**	**2016**
Interest income	$2,862	$2,589	$5,612	$5,115
Interest expense	(954)	(746)	(1,816)	(1,461)
Net interest income	1,908	1,843	3,796	3,654
Provision for loan losses	(80)	(91)	(117)	(160)
Noninterest income	151	145	311	285
Noninterest expense	(711)	(672)	(1,423)	(1,344)
Income before income taxes	1,268	1,225	2,567	2,435
Provision for income taxes	(46)	(45)	(101)	(98)
Net income	$1,222	$1,180	$2,466	$2,337

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2017 (unaudited)	March 31, 2017 (unaudited)	December 31, 2016 (audited)	September 30, 2016 (unaudited)	June 30, 2016 (unaudited)
Cash and investments	$ 61,443	$ 61,775	$ 62,575	$ 63,178	$ 62,778
Loans	250,464	250,234	248,768	242,124	243,886
Less: allowance for loan losses	(1,588)	(1,543)	(1,506)	(1,457)	(1,433)
Net loans	248,876	248,691	247,262	240,667	242,453
Accrued interest receivable	2,136	1,912	2,140	2,508	2,056
Other assets	3,274	3,196	3,485	3,665	3,771
Restricted assets	4,652	4,553	4,453	4,343	4,234
Total assets	$320,381	$320,127	$319,915	$314,361	$315,292
Systemwide Debt Securities	$258,391	$258,905	$257,782	$251,992	$254,634
Subordinated debt		499	499	598	1,097
Other bonds	1,868	1,743	2,431	3,269	1,820
Other liabilities	5,605	5,549	6,892	6,111	6,340
Total liabilities	265,864	266,696	267,604	261,970	263,891
Preferred stock	3,079	3,076	3,018	3,147	3,051
Capital stock	1,829	1,798	1,800	1,773	1,749
Additional paid-in-capital	1,557	1,557	1,391	1,385	1,385
Restricted capital	4,652	4,553	4,453	4,343	4,234
Accumulated other comprehensive loss	(1,416)	(1,478)	(1,534)	(1,226)	(1,125)
Retained earnings	44,816	43,925	43,183	42,969	42,107
Total capital	54,517	53,431	52,311	52,391	51,401
Total liabilities and capital	$320,381	$320,127	$319,915	$314,361	$315,292

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
Interest income	$2,862	$2,750	$2,693	$2,623	$2,589
Interest expense	(954)	(862)	(770)	(753)	(746)
Net interest income	1,908	1,888	1,923	1,870	1,843
Provision for loan losses	(80)	(37)	(48)	(58)	(91)
Noninterest income	151	160	186	163	145
Noninterest expense	(711)	(712)	(763)	(685)	(672)
Income before income taxes	1,268	1,299	1,298	1,290	1,225
Provision for income taxes	(46)	(55)	(39)	(38)	(45)
Net income	$1,222	$1,244	$1,259	$1,252	$1,180