FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS 2017 THIRD QUARTER AND NINE-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported that combined net income was relatively unchanged at $1.3 billion for the third quarter of 2017 and increased 3.5% to $3.7 billion for the nine months ended September 30, 2017, as compared with the same periods of the prior year.

"The System's stable earnings and increased capital levels provide the foundation to execute on our mission through varying agricultural conditions," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "System institutions remain focused on serving our customers in challenging times."

Results of Operations

Third Quarter and Nine-Month 2017 Results Compared to Third Quarter and Nine-Month 2016 Results

Net interest income increased $86 million or 4.6% to $2.0 billion for the third quarter of 2017 and $228 million or 4.1% to $5.8 billion for the nine months ended September 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. Average earning assets increased $7.8 billion or 2.6% to $310.2 billion and $12.3 billion or 4.1% to $310.2 billion for the three and nine months ended September 30, 2017, as compared with the prior year periods.

The net interest margin was 2.52% and 2.47% for the three and nine months ended September 30, 2017, as compared with 2.47% for both periods of the prior year. The net interest margin during these periods was positively impacted by a nine and five basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). Net interest spread decreased four and five basis points to 2.26% and 2.24% for the three- and nine-month periods of 2017, as compared with 2.30% and 2.29% for the same periods of the prior year. The decline in the net interest spread for the three and nine months ended September 30, 2017 was primarily the result of increased debt costs and lower lending spreads due to competitive pressures.

The System recognized provisions for loan losses of $71 million and $188 million for the three and nine months ended September 30, 2017, as compared with provisions for loan losses of $58 million and $218 million for the three and nine months ended September 30, 2016. The provision for loan losses for the first nine 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. Also included in the provision for loan losses for the first nine months of 2017 were specific reserves relating to certain processing and marketing cooperatives.

Noninterest income decreased $44 million or 27.0% to $119 million and $18 million or 4.0% to $430 million for the three and nine months ended September 30, 2017, as compared with the same periods of the prior year. The decrease for the three-month period primarily resulted from decreases in net gains on sales of investments and other assets of $31 million and loan-related fee income of $15 million, due in part to lower loan origination and conversion fees. Also contributing to the decrease for the three-month period was a $16 million increase in losses on extinguishment of debt. Partially offsetting the decrease in noninterest income for the three-month period was a $13 million decrease in net other-than-temporary impairment losses on investments. The decrease for the nine-month period was primarily due to decreases in net gains on sales of investments and other assets of $33 million and loan-related fee income of $17 million offset, in part, by a $15 million decrease in net other-than-temporary impairment losses on investments and an $8 million increase in income earned on Insurance Fund assets.

Noninterest expense increased $28 million or 4.1% to $713 million and $107 million or 5.3% to $2.1 billion for the three and nine months ended September 30, 2017, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in salaries and employee benefits and purchased services. Salaries and employee benefits increased $8 million and $64 million for the three and nine months ended September 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. Purchased services increased $10 million and $19 million for the three and nine months ended September 30, 2017, as compared to the same periods of the prior year, primarily due to increases in technology and other services related to various business initiatives. Also contributing to the increase in noninterest expense for the nine-month period ended September 30, 2017 was a $10 million increase in other operating expense primarily due to increases in various administrative expenses.

The provisions for income taxes were $41 million and $142 million for the three and nine months ended September 30, 2017, as compared with $38 million and $136 million for the three and nine months ended September 30, 2016. The effective tax rate was unchanged at 3.7% for the nine months ended September 30, 2017 and 2016.

Third Quarter 2017 Compared to Second Quarter 2017

Net income remained relatively unchanged at $1.3 billion for the third quarter of 2017, as compared with the second quarter of 2017; however, the components changed. Positively impacting net income for the three months ended September 30, 2017 was an increase in net interest income of $48 million, as well as decreases in the provision for loan losses of $9 million and the provision for income taxes of $5 million. However, these favorable items were partially offset by a decrease in noninterest income of $32 million. Net interest income for the third quarter of 2017 was positively impacted by a six basis point increase in the net interest margin to 2.52%. The decrease in noninterest income in the third quarter of 2017 was partially due to a $27 million increase in losses on extinguishment of debt due to one Bank's repurchases of fixed-rate debt to reposition its balance sheet and lower future interest expense.

Loan Portfolio Activity

Gross loans increased $2.4 billion or 1.0% to $251.2 billion at September 30, 2017, as compared with $248.8 billion at December 31, 2016. The increase primarily resulted from an increase in real estate mortgage loans offset, in part, by a decrease in loans to cooperatives. The increase in real estate mortgage loans resulted primarily from continued demand by new and existing customers. The decrease in loans to cooperatives resulted from lower seasonal loan volume, which typically reaches a low in late summer and early fall.

Credit Quality

The System's accruing loan volume was $249.5 billion at September 30, 2017, as compared with $247.2 billion at December 31, 2016. Nonaccrual loans increased $110 million during the first nine months of 2017 to $1.7 billion at September 30, 2017. At September 30, 2017, 60.3% 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 $74 million during the first nine months of 2017 to $2.0 billion at September 30, 2017. These nonperforming loans represented 0.81% of the System's loans at September 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 September 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 increased slightly to 0.22% at September 30, 2017, as compared with 0.21% at September 30, 2016.

The allowance for loan losses was $1.6 billion at September 30, 2017, as compared with $1.5 billion at December 31, 2016. Net loan charge-offs of $21 million were recorded during the first nine months of 2017, as compared with net loan charge-offs of $20 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.64% at September 30, 2017 and 0.61% at December 31, 2016. The allowance for loan losses was 79% of the System's total nonperforming loans and 95% of its nonaccrual loans at September 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 $57.1 billion at September 30, 2017 and $53.8 billion at December 31, 2016, and represented 22.7% of System loans at September 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 $60.9 billion at September 30, 2017 and $62.6 billion at December 31, 2016. The System's liquidity position provided for 172 days coverage of maturing debt at September 30, 2017, as compared with 180 days coverage at December 31, 2016.

During the first nine months of 2017, one System institution redeemed $500 million of subordinated debt at par.

Total capital increased $3.2 billion during the first nine months of 2017 to $55.5 billion. The System's retained earnings increased $380 million to $43.6 billion during the first nine months of 2017 due to net income earned and retained, substantially offset by the re-characterization of retained earnings to additional paid-in-capital related to Association mergers. Capital as a percentage of total assets increased to 17.3% at September 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 69 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

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Cash and investments	$ 60,866	$ 62,575
Loans	251,162	248,768
Less: allowance for loan losses	(1,610)	(1,506)
Net loans	249,552	247,262
Accrued interest receivable	2,736	2,140
Other assets	3,689	3,485
Restricted assets	4,748	4,453
Total assets	$321,591	$319,915
Systemwide Debt Securities:		
Due within one year	$101,071	$103,770
Due after one year	156,780	154,012
Total Systemwide Debt Securities	257,851	257,782
Subordinated debt		499
Other bonds	2,348	2,431
Other liabilities	5,887	6,892
Total liabilities	266,086	267,604
Preferred stock	3,085	3,018
Capital stock	1,857	1,800
Additional paid-in-capital	3,642	1,391
Restricted capital	4,748	4,453
Accumulated other comprehensive loss	(1,390)	(1,534)
Retained earnings	43,563	43,183
Total capital	55,505	52,311
Total liabilities and capital	$321,591	$319,915

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	(unaudited)			
	2017	2016	2017	2016
Interest income	$2,989	$2,623	$8,601	$7,738
Interest expense	(1,033)	(753)	(2,849)	(2,214)
Net interest income	1,956	1,870	5,752	5,524
Provision for loan losses	(71)	(58)	(188)	(218)
Noninterest income	119	163	430	448
Noninterest expense	(713)	(685)	(2,136)	(2,029)
Income before income taxes	1,291	1,290	3,858	3,725
Provision for income taxes	(41)	(38)	(142)	(136)
Net income	$1,250	$1,252	$3,716	$3,589

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	September 30, 2017 (unaudited)	June 30, 2017 (unaudited)	March 31, 2017 (unaudited)	December 31, 2016 (audited)	September 30, 2016 (unaudited)
Cash and investments	$ 60,866	$ 61,443	$ 61,775	$ 62,575	$ 63,178
Loans	251,162	250,464	250,234	248,768	242,124
Less: allowance for loan losses	(1,610)	(1,588)	(1,543)	(1,506)	(1,457)
Net loans	249,552	248,876	248,691	247,262	240,667
Accrued interest receivable	2,736	2,136	1,912	2,140	2,508
Other assets	3,689	3,274	3,196	3,485	3,665
Restricted assets	4,748	4,652	4,553	4,453	4,343
Total assets	$321,591	$320,381	$320,127	$319,915	$314,361
Systemwide Debt Securities	$257,851	$258,391	$258,905	$257,782	$251,992
Subordinated debt			499	499	598
Other bonds	2,348	1,868	1,743	2,431	3,269
Other liabilities	5,887	5,605	5,549	6,892	6,111
Total liabilities	266,086	265,864	266,696	267,604	261,970
Preferred stock	3,085	3,079	3,076	3,018	3,147
Capital stock	1,857	1,829	1,798	1,800	1,773
Additional paid-in-capital	3,642	1,557	1,557	1,391	1,385
Restricted capital	4,748	4,652	4,553	4,453	4,343
Accumulated other comprehensive loss	(1,390)	(1,416)	(1,478)	(1,534)	(1,226)
Retained earnings	43,563	44,816	43,925	43,183	42,969
Total capital	55,505	54,517	53,431	52,311	52,391
Total liabilities and capital	$321,591	$320,381	$320,127	$319,915	$314,361

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	September 30, 2017	June 30, 2017	March 30, 2017	December 31, 2016	September 30, 2016
Interest income	$2,989	$2,862	$2,750	$2,693	$2,623
Interest expense	(1,033)	(954)	(862)	(770)	(753)
Net interest income	1,956	1,908	1,888	1,923	1,870
Provision for loan losses	(71)	(80)	(37)	(48)	(58)
Noninterest income	119	151	160	186	163
Noninterest expense	(713)	(711)	(712)	(763)	(685)
Income before income taxes	1,291	1,268	1,299	1,298	1,290
Provision for income taxes	(41)	(46)	(55)	(39)	(38)
Net income	$1,250	$1,222	$1,244	$1,259	$1,252