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FARM CREDIT SYSTEM REPORTS NET INCOME OF $5.2 BILLION FOR 2017

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

NEW YORK - The Farm Credit System today reported combined net income of $5.2 billion for the year ended December 31, 2017, as compared with $4.8 billion for the prior year. The System also reported combined net income of $1.5 billion for the fourth quarter of 2017, as compared with $1.3 billion for the fourth quarter of 2016.

"Growth in net interest income, stable credit quality and net deferred tax adjustments all contributed to a successful year for the System despite challenges in U.S. agriculture," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The System has maintained strong capital levels and liquidity to support agriculture and rural America through these uncertain times."

2017 Results of Operations

Combined net income increased $341 million or 7.0% for the year ended December 31, 2017, as compared with the prior year. The increase resulted primarily from increases in net interest income of $265 million and noninterest income of $29 million and decreases in the provision for income taxes of $137 million and the provision for loan losses of $69 million, partially offset by an increase in noninterest expense of $159 million.

Net interest income increased 3.6% to $7.7 billion for 2017, as compared with $7.4 billion for the prior year. The increase in net interest income resulted from a higher level of average earning assets, partially offset by a lower net interest spread. Average earning assets grew $11.4 billion or 3.8% to $311.0 billion for 2017, as compared with the prior year.

Net interest margin decreased one basis point to 2.48% for 2017, as compared with 2.49% for 2016. The decline in the net interest margin was due to a decrease in the net interest spread of six basis points to 2.25% for 2017, as compared with 2.31% for 2016. The decline in the net interest spread was largely driven by an increase in debt costs and lower lending spreads due to competitive pressures. The net interest margin was positively impacted by a five basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $197 million and $266 million for the years ended December 31, 2017 and 2016. The provision for loan losses for both 2017 and 2016 primarily reflected industry-specific reserves for the livestock and grain industries, increased loan volume and slight deterioration in the credit quality of certain sectors of the loan portfolio.

Also included in the provision for loan losses for 2017 were specific reserves relating to certain processing and marketing cooperatives.

Noninterest income increased $29 million or 4.6% to $663 million for 2017, as compared with $634 million for 2016, primarily due to decreases in losses on extinguishment of debt of $17 million and net other-than-temporary impairment losses of $16 million and increases in income earned on Insurance Fund assets of $12 million and mineral income of $9 million. Partially offsetting these increases in noninterest income was a decrease in net gains on sales of investments and other assets of $33 million.

Noninterest expense increased $159 million or 5.7% to $3.0 billion for 2017, as compared with $2.8 billion for 2016, primarily due to increases in salaries and employee benefits, purchased services and other operating expense. Salaries and employee benefits increased $76 million as a result of annual merit increases and higher staffing levels at certain System institutions. Purchased services increased $28 million primarily due to increases in technology and other consulting services related to various business initiatives. Other operating expense increased $36 million due to increases in various administrative expenses.

The System recorded a provision for income taxes of $38 million for 2017, as compared with $175 million for 2016. The effective tax rate decreased to 0.7% for 2017 from 3.5% for 2016. The decrease in the effective tax rate was primarily attributable to a significant one-time benefit of $162 million due to remeasurement of deferred tax assets and deferred tax liabilities resulting from the enactment of federal tax legislation in late December 2017, which among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018.

Fourth Quarter 2017 Results of Operations

Combined net income increased $214 million or 17.0% to $1.5 billion for the fourth quarter of 2017, as compared with $1.3 billion for the fourth quarter of 2016. The increase in net income between these periods resulted from a benefit from income taxes of $104 million in the fourth quarter of 2017, as compared with a provision for income taxes of $39 million for the same period of the prior year, increases in noninterest income of $47 million and net interest income of $37 million and a decrease in the provision for loan losses of $39 million. Partially offsetting these increases in net income was an increase in noninterest expense of $52 million.

Net interest income increased 1.9% to $2.0 billion for the fourth quarter of 2017, as compared with $1.9 billion for the fourth quarter of 2016. The increase in net interest income primarily resulted from a higher level of average earning assets, due to increased loan volume, partially offset by a lower net interest spread. Average earning assets grew $8.7 billion or 2.8% to $313.3 billion for the fourth quarter of 2017, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2017 declined to 2.50%, as compared with 2.52% for the same period in the prior year. This resulted primarily from a decrease in the net interest spread of 10 basis points to 2.24%, as compared with the fourth quarter of 2016, partially offset by an eight basis point increase in income earned on earning assets funded by noninterest-bearing sources. The decline in the net interest spread was primarily due to an increase in debt costs and lower lending spreads due to competitive pressures.

The System reported provisions for loan losses of $9 million and $48 million for the fourth quarters of 2017 and 2016. The fourth quarter provision for loan losses for both 2017 and 2016 were primarily due to increased loan volume and specific credit challenges at a limited number of customers.

Noninterest income increased 25.3% to $233 million for the fourth quarter of 2017, as compared with $186 million for the fourth quarter of 2016. The increase was primarily due to an increase in loan-related fees of $20 million and a decrease in losses on extinguishment of debt of $15 million. Noninterest expense increased 6.8% to $815 million for the fourth quarter of 2017, as compared with $763 million for the fourth quarter of 2016. The increase in noninterest expense was primarily due to increases in other operating expense of $26 million, salaries and employee benefits of $12 million and purchased services of $9 million.

The benefit from income taxes was $104 million for the fourth quarter of 2017, as compared with a provision for income taxes of $39 million for the same period of the prior year. The benefit from income taxes was primarily due to the significant one-time benefit resulting from the enactment of federal tax legislation in late December 2017, as discussed above. As a result, the effective tax rate decreased to (7.6)% for the fourth quarter of 2017 from 3.0% for the fourth quarter of 2016.

Fourth Quarter 2017 Compared to Third Quarter 2017

Combined net income was $1.5 billion for the fourth quarter of 2017, as compared with $1.3 billion for the third quarter of 2017. The increase in net income between these periods resulted primarily from a benefit from income taxes of $104 million in the fourth quarter of 2017, as compared with a provision for income taxes of $41 million for the third quarter of 2017, an increase in noninterest income of $114 million and a decrease in the provision for loan losses of $62 million. Noninterest income increased in the fourth quarter, as compared with the third quarter, primarily as a result of increases in loan-related fees of $43 million and financially related services income of $38 million and a decrease in losses on extinguishment of debt of $30 million.

Offsetting the positive impact on net income in the fourth quarter of 2017, as compared with the third quarter of 2017, was an increase in noninterest expense of $102 million primarily due to increases in salaries and other operating expense. Salaries increased primarily due to increases in performance-based compensation.

Loan Portfolio Activity

Gross loans increased $10.0 billion or 4.0% to $258.8 billion at December 31, 2017, as compared with $248.8 billion at December 31, 2016. This increase was primarily attributable to increases in real estate mortgage, agribusiness and production and intermediate-term loans. Real estate mortgage loans increased primarily due to continued demand by new and existing customers. The increase in agribusiness loans was mainly due to higher levels of seasonal financing at many grain and farm supply cooperatives. Production and intermediate-term loans increased due to loan growth driven by borrower year-end tax planning strategies.

Credit Quality

The System's accruing loan volume was $257.1 billion at December 31, 2017, as compared with $247.2 billion at December 31, 2016. Nonaccrual loans were $1.7 billion at December 31, 2017, as compared with $1.6 billion at December 31, 2016. At December 31, 2017, 60.7% 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 loans 90 days or more past due) remained relatively unchanged at $2.0 billion at December 31, 2017, as compared to December 31, 2016. These loans represented 0.76% of the System's loans at December 31, 2017, a decrease from 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 96.9% at December 31, 2017, as compared with 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 0.25% at December 31, 2017, as compared with 0.26% at December 31, 2016.

The allowance for loan losses was $1.6 billion at December 31, 2017, as compared with $1.5 billion at December 31, 2016. Net loan charge-offs of $80 million were recorded during 2017, as compared with $45 million for 2016. The allowance for loan losses as a percentage of total loans was 0.62% at December 31, 2017 and 0.61% at December 31, 2016. The allowance for loan losses was 81% of the System's total nonperforming loans and 96% of its nonaccrual loans at December 31, 2017, as compared with 77% and 95% at December 31, 2016. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $57.0 billion at December 31, 2017 and $53.8 billion at December 31, 2016, and represented 22.0% of System loans at December 31, 2017, as compared with 21.6% at December 31, 2016.

Agricultural Outlook

The February 2018 United States Department of Agriculture (USDA) forecast estimates 2017 farmers' net cash income (a measure of the cash income after payment of business expenses) at $96.9 billion, up $2.9 billion from 2016 and $9.0 billion below its 10-year average of $105.9 billion. The USDA's February 2018 outlook for the farm economy, as a whole, forecasts 2018 farmers' net cash income to decrease to $91.9 billion, a $5.0 billion decrease from 2017 and $14.0 billion below the 10-year average. The projected decrease in farmers' net cash income from 2017 to 2018 is primarily due to an increase in cash expenses of $3.0 billion and a decrease in cash receipts for crops and livestock of $2.0 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) decreased $791 million to $61.8 billion at December 31, 2017, as compared with $62.6 billion at year-end 2016. The System's liquidity position was 175 days and 180 days at December 31, 2017 and 2016. The Banks utilize investments for purposes of maintaining a diverse source of liquidity and for managing short-term surplus funds.

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

Total capital increased $3.1 billion to $55.4 billion at December 31, 2017, as compared with $52.3 billion at December 31, 2016. The System's retained earnings increased $447 million to $43.6 billion at December 31, 2017, as compared with $43.2 billion at December 31, 2016. The increase in retained earnings was due to net income earned and retained, partially offset by patronage distributions of $1.7 billion and the $2.3 billion re-characterization of retained earnings to additional paid-in-capital related to Association mergers during 2017. Capital as a percentage of total assets was 16.8% at December 31, 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 its 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

The 2017 financial results discussed herein are preliminary and unaudited. 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, including the completion of the System's year-end closing and review procedures, and third-party audit. 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

	December 31, 2017	December 31, 2016
Cash and investments	$ 61,784	$ 62,575
Loans	258,777	248,768
Less: allowance for loan losses	(1,596)	(1,506)
Net loans	257,181	247,262
Accrued interest receivable	2,354	2,140
Other assets	3,351	3,485
Restricted assets	4,848	4,453
Total assets	$329,518	$319,915
Systemwide Debt Securities:		
Due within one year	$102,882	$103,770
Due after one year	162,287	154,012
Total Systemwide Debt Securities	265,169	257,782
Subordinated debt		499
Other bonds	1,950	2,431
Other liabilities	7,017	6,892
Total liabilities	274,136	267,604
Preferred stock	3,052	3,018
Capital stock	1,879	1,800
Additional paid-in-capital	3,712	1,391
Restricted capital	4,848	4,453
Accumulated other comprehensive loss	(1,739)	(1,534)
Retained earnings	43,630	43,183
Total capital	55,382	52,311
Total liabilities and capital	$329,518	$319,915

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2017	2016	2017	2016
Interest income	$3,045	$2,693	$11,646	$10,431
Interest expense	(1,085)	(770)	(3,934)	(2,984)
Net interest income	1,960	1,923	7,712	7,447
Provision for loan losses	(9)	(48)	(197)	(266)
Noninterest income	233	186	663	634
Noninterest expense	(815)	(763)	(2,951)	(2,792)
Income before income taxes	1,369	1,298	5,227	5,023
(Provision for) benefit from income taxes	104	(39)	(38)	(175)
Net income	$1,473	$1,259	$ 5,189	$ 4,848

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Cash and investments	$ 61,784	$ 60,866	$ 61,443	$ 61,775	$ 62,575
Loans	258,777	251,162	250,464	250,234	248,768
Less: allowance for loan losses	(1,596)	(1,610)	(1,588)	(1,543)	(1,506)
Net loans	257,181	249,552	248,876	248,691	247,262
Accrued interest receivable	2,354	2,736	2,136	1,912	2,140
Other assets	3,351	3,689	3,274	3,196	3,485
Restricted assets	4,848	4,748	4,652	4,553	4,453
Total assets	$329,518	$321,591	$320,381	$320,127	$319,915
Systemwide Debt Securities	$265,169	$257,851	$258,391	$258,905	$257,782
Subordinated debt				499	499
Other bonds	1,950	2,348	1,868	1,743	2,431
Other liabilities	7,017	5,887	5,605	5,549	6,892
Total liabilities	274,136	266,086	265,864	266,696	267,604
Preferred stock	3,052	3,085	3,079	3,076	3,018
Capital stock	1,879	1,857	1,829	1,798	1,800
Additional paid-in-capital	3,712	3,642	1,557	1,557	1,391
Restricted capital	4,848	4,748	4,652	4,553	4,453
Accumulated other comprehensive loss	(1,739)	(1,390)	(1,416)	(1,478)	(1,534)
Retained earnings	43,630	43,563	44,816	43,925	43,183
Total capital	55,382	55,505	54,517	53,431	52,311
Total liabilities and capital	$329,518	$321,591	$320,381	$320,127	$319,915

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Interest income	$3,045	$2,989	$2,862	$2,750	$2,693
Interest expense	(1,085)	(1,033)	(954)	(862)	(770)
Net interest income	1,960	1,956	1,908	1,888	1,923
Provision for loan losses	(9)	(71)	(80)	(37)	(48)
Noninterest income	233	119	151	160	186
Noninterest expense	(815)	(713)	(711)	(712)	(763)
Income before income taxes	1,369	1,291	1,268	1,299	1,298
(Provision for) benefit from income taxes	104	(41)	(46)	(55)	(39)
Net income	$1,473	$1,250	$1,222	$1,244	$1,259