FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2018 COMBINED RESULTS

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

NEW YORK - The Farm Credit System today reported that combined net income increased 1.8% to $1.27 billion for the first quarter of 2018, as compared with $1.24 billion for the same period of the prior year.

“The System’s earnings for the first quarter remained stable despite less favorable agricultural economic conditions and continued downward pressures on the net interest spread,” remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “System institutions remain well-positioned to support customers in rural America as they face the challenges of uncertain global economic conditions ahead.”

Results of Operations

First Quarter 2018 Compared to First Quarter 2017

Net interest income was $2.0 billion for the first quarter of 2018, as compared with $1.9 billion for the first quarter of 2017. The increase in net interest income primarily resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets grew $11.1 billion or 3.6% to $321.3 billion for the first quarter of 2018, as compared with the first quarter of 2017.

The net interest margin increased one basis point to 2.44% for the quarter ended March 31, 2018, as compared with 2.43% for the same period of the prior year. This increase in the net interest margin resulted from a nine basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital) due to increased interest rates. Substantially offsetting this increase was a decline of eight basis points to 2.15% in the net interest spread for the first quarter of 2018, as compared with the first quarter of 2017. Interest rates on loans did not increase as much as borrowing costs during the first quarter of 2018 due to competitive pressures in the lending markets.

The System recognized a provision for loan losses of $69 million for the first quarter of 2018, as compared with $37 million during the first quarter of 2017. The provision for loan losses for the first quarter of 2018 primarily reflected specific reserves associated with a small number of customers in the agribusiness and rural power sectors, as well as increased credit risk exposure resulting from credit quality deterioration and growth in agribusiness loan volume. The first quarter 2018 provision for loan losses also included industry-specific reserves for the grain industry. The provision for loan losses for the first quarter of 2017 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.

Noninterest expense increased $25 million or 3.5% to $737 million for the first quarter of 2018, as compared with the first quarter of 2017, primarily due to increases in salaries and employee benefits and purchased services. Salaries and employee benefits increased $19 million primarily as a result of annual merit increases and higher staffing levels at certain System institutions. Purchased services increased $9 million due to increases in technology and other consulting services related to various business initiatives.

The provision for income taxes was $44 million and $55 million for the first quarter of 2018 and 2017. The effective tax rate decreased to 3.4% for the first quarter of 2018 from 4.2% for the first quarter of 2017 primarily due to the decrease in the federal corporate tax rate from 35% to 21% beginning in January 2018.

First Quarter 2018 Compared to Fourth Quarter 2017

Combined net income was $1.3 billion for the first quarter of 2018, as compared with $1.5 billion for the fourth quarter of 2017. The decrease in net income between these periods resulted primarily from a provision for income taxes of $44 million in the first quarter of 2018, as compared with a benefit from income taxes of $104 million in the fourth quarter of 2017, a decrease in noninterest income of $76 million and an increase in the provision for loan losses of $60 million. Partially offsetting these decreases in net income was a decrease in noninterest expense of $78 million, largely due to decreases in salaries and employee benefits and all other operating expenses. The change from a tax benefit to a provision for income taxes was primarily due to the remeasurement of deferred tax assets and deferred tax liabilities in the fourth quarter of 2017 resulting from the enactment of federal tax legislation in late December 2017.

Loan Portfolio Activity

Gross loans increased $2.6 billion or 1.0% to $261.4 billion at March 31, 2018, as compared with $258.8 billion at December 31, 2017. The increase primarily resulted from an increase in agribusiness loans, offset in part by a decrease in production and intermediate-term loans. Agribusiness loans increased primarily due to seasonal financing at grain and farm supply cooperatives and growth in processing and marketing loans. The decrease in production and intermediate-term loans was primarily driven by repayments following draws made prior to year-end 2017 for advance purchases of 2018 inputs as part of tax planning strategies.

Credit Quality

The System's accruing loan volume was $259.5 billion at March 31, 2018, as compared with $257.1 billion at December 31, 2017. Nonaccrual loans increased $203 million during the first quarter of 2018 to $1.9 billion at March 31, 2018. This increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of loans in the agribusiness and rural power sectors. At March 31, 2018, 57.9% of nonaccrual loans were current as to principal and interest, as compared with 60.7% at December 31, 2017.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased $242 million during the first quarter of 2018 to $2.2 billion at March 31, 2018. These nonperforming loans represented 0.85% of the System's loans at March 31, 2018 and 0.76% at December 31, 2017.

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 March 31, 2018 and 96.9% at December 31, 2017. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased slightly to 0.33% at March 31, 2018, as compared with 0.31% at March 31, 2017.

The allowance for loan losses was $1.7 billion at March 31, 2018, as compared with $1.6 billion at December 31, 2017. Net loan charge-offs of $7 million were recorded during the first quarter of 2018, as compared with $4 million for the first quarter of 2017. The allowance for loan losses as a percentage of total loans was 0.64% at March 31, 2018, as compared with 0.62% at December 31, 2017. The allowance for loan losses was 76% of the System's total nonperforming loans and 90% of nonaccrual loans at March 31, 2018, as compared with 81% and 96% at December 31, 2017. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $57.8 billion at March 31, 2018 and $57.0 billion at December 31, 2017, and represented 22.1% of System loans at March 31, 2018, as compared with 22.0% at December 31, 2017.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were $63.0 billion at March 31, 2018 and $61.8 billion at December 31, 2017. The System's liquidity position provided for 176 days of coverage of maturing debt at March 31, 2018, as compared with 175 days at December 31, 2017.

Total capital increased $787 million during the first quarter of 2018 to $56.2 billion. The System's retained earnings increased $1.1 billion to $44.7 billion during the first quarter of 2018 due to net income earned and retained as well as a $176 million transfer of restricted capital to retained earnings as a result of excess insurance funds returned by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Accumulated other comprehensive loss increased $230 million during the first quarter of 2018 as a result of an increase in unrealized losses on investments available-for-sale due to an increase in long-term interest rates lowering the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 16.9% at March 31, 2018, as compared with 16.8% at December 31, 2017.

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 the Farm Credit System 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

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
Cash and investments	$ 62,992	$ 61,784
Loans	261,378	258,777
Less: allowance for loan losses	(1,674)	(1,596)
Net loans	259,704	257,181
Accrued interest receivable	2,168	2,354
Other assets	3,423	3,351
Restricted assets	4,742	4,848
Total assets	$333,029	$329,518
Systemwide Debt Securities:		
Due within one year	$102,331	$102,882
Due after one year	167,070	162,287
Total Systemwide Debt Securities	269,401	265,169
Other bonds	1,557	1,950
Other liabilities	5,902	7,017
Total liabilities	276,860	274,136
Preferred stock	3,093	3,052
Capital stock	1,870	1,879
Additional paid-in-capital	3,712	3,712
Restricted capital	4,742	4,848
Accumulated other comprehensive loss	(1,969)	(1,739)
Retained earnings	44,721	43,630
Total capital	56,169	55,382
Total liabilities and capital	$333,029	$329,518

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2018	2017
Interest income	$3,180	$2,750
Interest expense	(1,221)	(862)
Net interest income	1,959	1,888
Provision for loan losses	(69)	(37)
Noninterest income	157	160
Noninterest expense	(737)	(712)
Income before income taxes	1,310	1,299
Provision for income taxes	(44)	(55)
Net income	$1,266	$1,244

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	March 31, 2018 (unaudited)	December 31, 2017 (audited)	September 30, 2017 (unaudited)	June 30, 2017 (unaudited)	March 31, 2017 (unaudited)
Cash and investments	$ 62,992	$ 61,784	$ 60,866	$ 61,443	$ 61,775
Loans	261,378	258,777	251,162	250,464	250,234
Less: allowance for loan losses	(1,674)	(1,596)	(1,610)	(1,588)	(1,543)
Net loans	259,704	257,181	249,552	248,876	248,691
Accrued interest receivable	2,168	2,354	2,736	2,136	1,912
Other assets	3,423	3,351	3,689	3,274	3,196
Restricted assets	4,742	4,848	4,748	4,652	4,553
Total assets	$333,029	$329,518	$321,591	$320,381	$320,127
Systemwide Debt Securities	$269,401	$265,169	$257,851	$258,391	$258,905
Subordinated debt					499
Other bonds	1,557	1,950	2,348	1,868	1,743
Other liabilities	5,902	7,017	5,887	5,605	5,549
Total liabilities	276,860	274,136	266,086	265,864	266,696
Preferred stock	3,093	3,052	3,085	3,079	3,076
Capital stock	1,870	1,879	1,857	1,829	1,798
Additional paid-in-capital	3,712	3,712	3,642	1,557	1,557
Restricted capital	4,742	4,848	4,748	4,652	4,553
Accumulated other comprehensive loss	(1,969)	(1,739)	(1,390)	(1,416)	(1,478)
Retained earnings	44,721	43,630	43,563	44,816	43,925
Total capital	56,169	55,382	55,505	54,517	53,431
Total liabilities and capital	$333,029	$329,518	$321,591	$320,381	$320,127

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
Interest income	$3,180	$3,045	$2,989	$2,862	$2,750
Interest expense	(1,221)	(1,085)	(1,033)	(954)	(862)
Net interest income	1,959	1,960	1,956	1,908	1,888
Provision for loan losses	(69)	(9)	(71)	(80)	(37)
Noninterest income	157	233	119	151	160
Noninterest expense	(737)	(815)	(713)	(711)	(712)
Income before income taxes	1,310	1,369	1,291	1,268	1,299
(Provision for) benefit from income taxes	(44)	104	(41)	(46)	(55)
Net income	$1,266	$1,473	$1,250	$1,222	$1,244