FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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FARM CREDIT SYSTEM REPORTS 2018 SECOND QUARTER AND SIX-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported combined net income of $1.4 billion and $2.6 billion for the three and six months ended June 30, 2018, as compared with $1.2 billion and $2.5 billion for the same periods of the prior year.

"The System remains well positioned to support our agricultural borrowers as they face an exceptionally uncertain external landscape," remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation.

Results of Operations

Second Quarter and Six-Month 2018 Results Compared to Second Quarter and Six-Month 2017 Results

Net interest income increased $65 million or 3.4% to $2.0 billion for the second quarter of 2018 and $136 million or 3.6% to $3.9 billion for the six months ended June 30, 2018, 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 $14.4 billion or 4.7% and $12.8 billion or 4.1% to $324.6 billion and $322.9 billion for the three and six months ended June 30, 2018, as compared with the prior year periods.

The net interest margin was 2.43% and 2.44% for the three and six months ended June 30, 2018, as compared with 2.46% and 2.45% 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 12 and 10 basis points to 2.11% and 2.13%, as compared with 2.23% for both periods of the prior year. The decline in the net interest spread was the result of increased debt costs and lower lending spreads due to competitive pressures. The net interest margin during both of these periods was positively impacted by a nine basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $18 million and $87 million for the three and six months ended June 30, 2018, as compared with provisions for loan losses of $80 million and $117 million for the three and six months ended June 30, 2017. The provision for loan losses for the second quarter of 2018 primarily reflected additional industry-specific reserves for the grain industry recorded by certain System institutions offset, in part, by loan loss reversals at other System institutions. The provision for loan losses for the first six months of 2018 primarily reflected specific reserves associated with a limited 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 provision for loan losses for the first six months of 2018 also included industry-specific reserves for the grain industry. The provision for loan losses for the second quarter and first six months 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 income increased $46 million or 30.5% to $197 million and $43 million or 13.8% to $354 million for the three and six months ended June 30, 2018, as compared with the same periods of the prior year. The increase for the three- and six-month periods were primarily due to increases in net gains on sales of investments and other assets of $36 million and $28 million and net gains on derivatives and other transactions of $10 million and $11 million.

Noninterest expense increased $24 million or 3.4% to $735 million and $49 million or 3.4% to $1.5 billion for the three and six months ended June 30, 2018, 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 purchased services. Salaries and employee benefits increased $19 million and $38 million for the three and six months ended June 30, 2018, 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 $4 million and $13 million due to increases in technology and other consulting services related to various business initiatives for the three- and six-month periods ended June 30, 2018.

The provisions for income taxes were $34 million and $78 million for the three and six months ended June 30, 2018, as compared with $46 million and $101 million for the three and six months ended June 30, 2017. The effective tax rate decreased to 2.9% for the six months ended June 30, 2018 from 3.9% for the six months ended June 30, 2017 primarily due to the decrease in the federal corporate tax rate from 35% to 21% beginning in January 2018.

Second Quarter 2018 Compared to First Quarter 2018

Combined net income was $1.4 billion for the second quarter of 2018, as compared with $1.3 billion for the first quarter of 2018. Positively impacting net income for the three months ended June 30, 2018 were decreases in the provision for loan losses of $51 million and the provision for income taxes of $10 million and increases in noninterest income of $40 million and net interest income of $14 million. The provision for loan losses decreased in the second quarter of 2018 due, in part, to loan loss reversals at certain System institutions. Noninterest income for the second quarter of 2018 was positively impacted by a $34 million increase in net gains on sales of investments and other assets.

Loan Portfolio Activity

Gross loans increased $1.9 billion or 0.7% to $260.7 billion at June 30, 2018, as compared with $258.8 billion at December 31, 2017. The increase primarily resulted from an increase in real estate mortgage and processing and marketing 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 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 2017 for advance purchases of 2018 inputs, which resulted in significant repayments in early 2018. These paydowns were partially offset by seasonal draws on lines of credit during planting season.

Credit Quality

The System's accruing loan volume was $258.7 billion at June 30, 2018, as compared with $257.1 billion at December 31, 2017. Nonaccrual loans increased $376 million during the first six months of 2018 to $2.0 billion at June 30, 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 both June 30, 2018 and December 31, 2017, 60.7% of nonaccrual loans were current as to principal and interest.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased $434 million during the first six months of 2018 to $2.4 billion at June 30, 2018. These nonperforming loans represented 0.92% of the System's loans at June 30, 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 96.7% at June 30, 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 to 0.26% at June 30, 2018, as compared with 0.23% at June 30, 2017.

The allowance for loan losses was $1.7 billion at June 30, 2018, as compared with $1.6 billion at December 31, 2017. Net loan charge-offs of $25 million were recorded during the first six months of 2018, 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 0.64% at June 30, 2018 and 0.62% at December 31, 2017. The allowance for loan losses was 69% of the System's total nonperforming loans and 82% of its nonaccrual loans at June 30, 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 $59.0 billion at June 30, 2018 and $57.0 billion at December 31, 2017, and represented 22.6% of System loans at June 30, 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 $64.1 billion at June 30, 2018 and $61.8 billion at December 31, 2017. The System's liquidity position provided for 180 days coverage of maturing debt at June 30, 2018, as compared with 175 days coverage at December 31, 2017.

Total capital increased $2.0 billion during the first six months of 2018 to $57.3 billion. The System's retained earnings increased $2.1 billion to $45.8 billion during the first six months 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). During the second quarter of 2018, one System institution issued preferred stock totaling $100 million. Accumulated other comprehensive loss increased $305 million during the first six months of 2018 as a result of an increase in unrealized losses on investments available-for-sale due to an increase in interest rates lowering the fair value of existing fixed-rate investment securities.

Capital as a percentage of total assets increased to 17.2% at June 30, 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 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, 2018 (unaudited)	December 31, 2017 (audited)
Cash and investments	$ 64,074	$ 61,784
Loans	260,713	258,777
Less: allowance for loan losses	(1,666)	(1,596)
Net loans	259,047	257,181
Accrued interest receivable	2,424	2,354
Other assets	3,471	3,351
Restricted assets	4,811	4,848
Total assets	$333,827	$329,518
Systemwide Debt Securities:		
Due within one year	$102,274	$102,882
Due after one year	166,607	162,287
Total Systemwide Debt Securities	268,881	265,169
Other bonds	1,587	1,950
Other liabilities	6,027	7,017
Total liabilities	276,495	274,136
Preferred stock	3,194	3,052
Capital stock	1,894	1,879
Additional paid-in-capital	3,712	3,712
Restricted capital	4,811	4,848
Accumulated other comprehensive loss	(2,044)	(1,739)
Retained earnings	45,765	43,630
Total capital	57,332	55,382
Total liabilities and capital	$333,827	$329,518

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2018	**2017**	**2018**	**2017**
Interest income	$3,359	$2,862	$6,539	$5,612
Interest expense	(1,386)	(954)	(2,607)	(1,816)
Net interest income	1,973	1,908	3,932	3,796
Provision for loan losses	(18)	(80)	(87)	(117)
Noninterest income	197	151	354	311
Noninterest expense	(735)	(711)	(1,472)	(1,423)
Income before income taxes	1,417	1,268	2,727	2,567
Provision for income taxes	(34)	(46)	(78)	(101)
Net income	$1,383	$1,222	$2,649	$2,466

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2018 (unaudited)	March 31, 2018 (unaudited)	December 31, 2017 (audited)	September 30, 2017 (unaudited)	June 30, 2017 (unaudited)
Cash and investments	$ 64,074	$ 62,992	$ 61,784	$ 60,866	$ 61,443
Loans	260,713	261,378	258,777	251,162	250,464
Less: allowance for loan losses	(1,666)	(1,674)	(1,596)	(1,610)	(1,588)
Net loans	259,047	259,704	257,181	249,552	248,876
Accrued interest receivable	2,424	2,168	2,354	2,736	2,136
Other assets	3,471	3,423	3,351	3,689	3,274
Restricted assets	4,811	4,742	4,848	4,748	4,652
Total assets	$333,827	$333,029	$329,518	$321,591	$320,381
Systemwide Debt Securities	$268,881	$269,401	$265,169	$257,851	$258,391
Other bonds	1,587	1,557	1,950	2,348	1,868
Other liabilities	6,027	5,902	7,017	5,887	5,605
Total liabilities	276,495	276,860	274,136	266,086	265,864
Preferred stock	3,194	3,093	3,052	3,085	3,079
Capital stock	1,894	1,870	1,879	1,857	1,829
Additional paid-in-capital	3,712	3,712	3,712	3,642	1,557
Restricted capital	4,811	4,742	4,848	4,748	4,652
Accumulated other comprehensive loss	(2,044)	(1,969)	(1,739)	(1,390)	(1,416)
Retained earnings	45,765	44,721	43,630	43,563	44,816
Total capital	57,332	56,169	55,382	55,505	54,517
Total liabilities and capital	$333,827	$333,029	$329,518	$321,591	$320,381

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Interest income	$3,359	$3,180	$3,045	$2,989	$2,862
Interest expense	(1,386)	(1,221)	(1,085)	(1,033)	(954)
Net interest income	1,973	1,959	1,960	1,956	1,908
Provision for loan losses	(18)	(69)	(9)	(71)	(80)
Noninterest income	197	157	233	119	151
Noninterest expense	(735)	(737)	(815)	(713)	(711)
Income before income taxes	1,417	1,310	1,369	1,291	1,268
(Provision for) benefit from income taxes	(34)	(44)	104	(41)	(46)
Net income	$1,383	$1,266	$1,473	$1,250	$1,222