FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

101 Hudson Street, Suite 3505
Jersey City, New Jersey 07302
201.200.8000
farmcreditfunding.com

Press Release

Friday, November 2, 2018

FARM CREDIT SYSTEM REPORTS 2018 THIRD QUARTER AND NINE-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 $4.0 billion for the three and nine months ended September 30, 2018, as compared with $1.3 billion and $3.7 billion for the same periods of the prior year.

"Volatility in commodity prices, reduced net farm income and uncertainty around global trade policies continue to challenge American farmers and ranchers," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The System remains well positioned to support our borrowers as they face an uncertain landscape."

Results of Operations

Third Quarter and Nine-Month 2018 Results Compared to Third Quarter and Nine-Month 2017 Results

Net interest income increased $59 million or 3.0% to $2.0 billion for the third quarter of 2018 and $195 million or 3.4% to $5.9 billion for the nine months ended September 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 $13.1 billion or 4.2% to $323.3 billion and $12.9 billion or 4.2% to $323.1 billion for the three and nine months ended September 30, 2018, as compared with the prior year periods.

The net interest margin was 2.49% and 2.45% for the three and nine months ended September 30, 2018, as compared with 2.52% and 2.47% for the same periods of the prior year. The decline in the net interest margin for the three- and nine-month periods primarily resulted from decreases in the net interest spread of 12 and 11 basis points to 2.14% and 2.13%, as compared with 2.26% and 2.24% for the same 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 $59 million and $146 million for the three and nine months ended September 30, 2018, as compared with provisions for loan losses of

$71 million and $188 million for the three and nine months ended September 30, 2017. The provision for loan losses for the first nine 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 nine months of 2018 also included industry-specific reserves for the grain and dairy industries. The provision for loan losses for the first nine months of 2017 primarily reflected industry-specific reserves for the livestock and grain industries and specific reserves relating to certain processing and marketing cooperatives. General reserves increased in 2017 due to increased loan volume and modest deterioration in credit quality in certain sectors of the loan portfolio.

Noninterest income increased $54 million or 45.4% to $173 million and $97 million or 22.6% to $527 million for the three and nine months ended September 30, 2018, as compared with the same periods of the prior year. The increase for the three-month period primarily resulted from a decrease in losses on extinguishment of debt of $31 million and an increase in loan-related fee income of $31 million. Partially offsetting the increase in noninterest income for the three-month period was an $11 million net loss on derivative and other transactions, as compared with a $4 million net gain on derivative and other transactions for the same period of the prior year. The increase for the nine-month period was primarily due to increases in net gains on sales of investments and other assets of $39 million and mineral income of $16 million and a decrease in losses on extinguishment of debt of $34 million.

Noninterest expense increased $35 million or 4.9% to $748 million and $84 million or 3.9% to $2.2 billion for the three and nine months ended September 30, 2018, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to an increase in salaries and employee benefits of $27 million and $65 million, respectively, as a result of annual merit increases and higher staffing levels at certain System institutions. Also contributing to the increase in noninterest expense for the nine-month period ended September 30, 2018 was a $17 million increase in purchased services primarily due to increases in technology and other consulting services related to various business initiatives.

The provisions for income taxes were $18 million and $96 million for the three and nine months ended September 30, 2018, as compared with $41 million and $142 million for the three and nine months ended September 30, 2017. The effective tax rate decreased to 2.3% for the nine months ended September 30, 2018 from 3.7% for the nine months ended September 30, 2017 primarily due to the decrease in the federal corporate tax rate from 35% to 21% beginning in January 2018.

Third Quarter 2018 Compared to Second Quarter 2018

Net income remained relatively unchanged at $1.4 billion for the third quarter of 2018, as compared with the second quarter of 2018; however, the components of net income changed. Net income for the third quarter of 2018 was negatively impacted by increases in the provision for loan losses of $41 million to $59 million and noninterest expenses of $13 million to $748 million and a decrease in noninterest income of $24 million to $173 million. The increase in the provision for loan losses was due to additional industry-specific reserves for the grain and dairy industries. Positively impacting net income for the three months ended September 30, 2018 was an increase in net interest income of $42 million to $2.015 billion, as well as a decrease in the provision for income taxes of $16 million to $18 million. Net interest income for the third quarter of 2018 was positively impacted by a six basis point increase in the net interest margin to 2.49%.

Loan Portfolio Activity

Gross loans increased $4.8 billion or 1.9% to $263.6 billion at September 30, 2018, as compared with $258.8 billion at December 31, 2017. The increase primarily resulted from increases in real estate mortgage loans of 3.2% and processing and marketing loans of 11.2% offset, in part, by a decrease in loans to cooperatives of 14.0%. 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 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 $261.6 billion at September 30, 2018, as compared with $257.1 billion at December 31, 2017. Nonaccrual loans increased $351 million to $2.0 billion during the first nine months of 2018 primarily due to credit quality deterioration impacting a limited number of loans in the agribusiness and rural power sectors. At September 30, 2018, 60.0% of nonaccrual loans were current as to principal and interest, as compared with 60.7% at December 31, 2017.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased $417 million during the first nine months of 2018 to $2.4 billion at September 30, 2018. These nonperforming assets represented 0.92% of the System's loans and other property owned at September 30, 2018 and 0.78% 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 96.6% at September 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 0.27% at September 30, 2018, as compared with 0.22% at September 30, 2017.

The allowance for loan losses was $1.7 billion at September 30, 2018, as compared with $1.6 billion at December 31, 2017. Net loan charge-offs of $53 million were recorded during the first nine months of 2018, as compared with net loan charge-offs of $21 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, 2018 and 0.62% at December 31, 2017. The allowance for loan losses was 69% of the System's total nonperforming assets and 84% of its nonaccrual loans at September 30, 2018, as compared with 79% and 96% at December 31, 2017. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $59.9 billion at September 30, 2018 and $57.0 billion at December 31, 2017, and represented 22.7% of System loans at September 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) was $61.7 billion at September 30, 2018 and $61.8 billion at December 31, 2017. The System's liquidity position provided for 171 days coverage of maturing debt at September 30, 2018, as compared with 175 days coverage at December 31, 2017.

Total capital increased $2.8 billion during the first nine months of 2018 to $58.2 billion. The System's retained earnings increased $3.0 billion to $46.7 billion during the first nine 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 first nine months of 2018, one System institution issued preferred stock totaling $100 million. Accumulated other comprehensive loss increased $393 million to $2.132 billion during the first nine months of 2018 as a result of an increase in interest rates, which lowered the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 17.4% at September 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:

Karen R. Brenner, Managing Director
Financial Management Division
Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302
(201) 200-8081
E-mail - kbrenner@farmcreditfunding.com

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, 2018 (unaudited)	**December 31, 2017** (audited)
Cash and investments	$ 61,652	$ 61,784
Loans	263,619	258,777
Less: allowance for loan losses	(1,682)	(1,596)
Net loans	261,937	257,181
Accrued interest receivable	3,073	2,354
Other assets	3,445	3,351
Restricted assets	4,881	4,848
Total assets	$334,988	$329,518
Systemwide Debt Securities:		
Due within one year	$102,879	$102,882
Due after one year	165,583	162,287
Total Systemwide Debt Securities	268,462	265,169
Other bonds	2,056	1,950
Other liabilities	6,253	7,017
Total liabilities	276,771	274,136
Preferred stock	3,177	3,052
Capital stock	1,919	1,879
Additional paid-in-capital	3,712	3,712
Restricted capital	4,881	4,848
Accumulated other comprehensive loss	(2,132)	(1,739)
Retained earnings	46,660	43,630
Total capital	58,217	55,382
Total liabilities and capital	$334,988	$329,518

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30,		**For the Nine Months Ended September 30,**	
	(unaudited)			
	2018	**2017**	**2018**	**2017**
Interest income	$3,490	$2,989	$10,029	$8,601
Interest expense	(1,475)	(1,033)	(4,082)	(2,849)
Net interest income	2,015	1,956	5,947	5,752
Provision for loan losses	(59)	(71)	(146)	(188)
Noninterest income	173	119	527	430
Noninterest expense	(748)	(713)	(2,220)	(2,136)
Income before income taxes	1,381	1,291	4,108	3,858
Provision for income taxes	(18)	(41)	(96)	(142)
Net income	$1,363	$1,250	$ 4,012	$3,716

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	September 30, 2018 (unaudited)	June 30, 2018 (unaudited)	March 31, 2018 (unaudited)	December 31, 2017 (audited)	September 30, 2017 (unaudited)
Cash and investments	$ 61,652	$ 64,074	$ 62,992	$ 61,784	$ 60,866
Loans	263,619	260,713	261,378	258,777	251,162
Less: allowance for loan losses	(1,682)	(1,666)	(1,674)	(1,596)	(1,610)
Net loans	261,937	259,047	259,704	257,181	249,552
Accrued interest receivable	3,073	2,424	2,168	2,354	2,736
Other assets	3,445	3,471	3,423	3,351	3,689
Restricted assets	4,881	4,811	4,742	4,848	4,748
Total assets	$334,988	$333,827	$333,029	$329,518	$321,591
Systemwide Debt Securities	$268,462	$268,881	$269,401	$265,169	$257,851
Other bonds	2,056	1,587	1,557	1,950	2,348
Other liabilities	6,253	6,027	5,902	7,017	5,887
Total liabilities	276,771	276,495	276,860	274,136	266,086
Preferred stock	3,177	3,194	3,093	3,052	3,085
Capital stock	1,919	1,894	1,870	1,879	1,857
Additional paid-in-capital	3,712	3,712	3,712	3,712	3,642
Restricted capital	4,881	4,811	4,742	4,848	4,748
Accumulated other comprehensive loss	(2,132)	(2,044)	(1,969)	(1,739)	(1,390)
Retained earnings	46,660	45,765	44,721	43,630	43,563
Total capital	58,217	57,332	56,169	55,382	55,505
Total liabilities and capital	$334,988	$333,827	$333,029	$329,518	$321,591

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	September 30, 2018	June 30, 2018	March 30, 2018	December 31, 2017	September 30, 2017
Interest income	$3,490	$3,359	$3,180	$3,045	$2,989
Interest expense	(1,475)	(1,386)	(1,221)	(1,085)	(1,033)
Net interest income	2,015	1,973	1,959	1,960	1,956
Provision for loan losses	(59)	(18)	(69)	(9)	(71)
Noninterest income	173	197	157	233	119
Noninterest expense	(748)	(735)	(737)	(815)	(713)
Income before income taxes	1,381	1,417	1,310	1,369	1,291
(Provision for) benefit from income taxes	(18)	(34)	(44)	104	(41)
Net income	$1,363	$1,383	$1,266	$1,473	$1,250