FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF $5.3 BILLION FOR 2018

For 8:30 a.m. (EST) Release

NEW YORK - The Farm Credit System today reported combined net income of $5.3 billion for the year ended December 31, 2018, as compared with $5.2 billion for the prior year. The System also reported combined net income of $1.3 billion for the fourth quarter of 2018, as compared with $1.5 billion for the fourth quarter of 2017.

"System earnings for the year continued to reflect strong financial performance by System institutions," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "Earnings were favorably impacted by continued growth in the System's loan portfolio, while credit quality remained relatively stable. Further, the System's capital levels remained strong, leaving us well-positioned to provide reliable, consistent credit to rural communities and agriculture."

2018 Results of Operations

Combined net income increased $143 million or 2.8% for the year ended December 31, 2018, as compared with the prior year. The increase resulted primarily from increases in net interest income of $264 million and noninterest income of $92 million, partially offset by increases in noninterest expense of $128 million and the provision for income taxes of $88 million.

Net interest income increased $264 million or 3.4% to $8.0 billion for 2018, as compared with $7.7 billion for the prior year. The increase in net interest income resulted from a higher level of average earning assets, driven largely by increased loan volume, partially offset by a lower net interest spread. Average earning assets grew $13.8 billion or 4.4% to $324.8 billion for 2018, as compared with the prior year.

The net interest margin decreased two basis points to 2.46% for 2018, as compared with 2.48% for 2017 due to a decrease in the net interest spread of 13 basis points to 2.12% for 2018, as compared with 2.25% for 2017, substantially offset by an 11 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). The decline in the net interest spread for 2018, as compared with 2017 was primarily attributable to an increase in debt costs and lower lending spreads due to competitive pressures.

The System recognized provisions for loan losses of $194 million and $197 million for the years ended December 31, 2018 and 2017. The provision for loan losses in 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 overall growth in loan volume. The provision for loan losses in 2018 also included industry-specific reserves related to the grain and dairy industries. The provision for loan losses in 2017 primarily reflected industry-specific reserves for the livestock and grain industries, specific reserves relating to certain processing and marketing cooperatives and additional reserves due to increased loan volume and modest deterioration in credit quality in certain sectors of the loan portfolio.

Noninterest income increased $92 million or 13.9% to $755 million for 2018, as compared with $663 million for 2017, primarily due to increases in net gains on sales of investments and other assets of $36 million and mineral income of $22 million and a decrease in losses on extinguishment of debt of $32 million.

Noninterest expense increased $128 million or 4.3% to $3.1 billion for 2018, as compared with $3.0 billion for 2017, primarily due to increases in salaries and employee benefits, purchased services and occupancy and equipment expense. Salaries and employee benefits increased $103 million as a result of annual merit increases and higher staffing levels at certain System institutions. Purchased services increased $21 million primarily due to increases in technology and other consulting services related to various business initiatives. Occupancy and equipment expense increased $18 million for 2018, as compared with 2017, primarily due to increases in facilities and maintenance expenses.

The System recorded a provision for income taxes of $126 million for 2018, as compared with $38 million for 2017. The effective tax rate increased to 2.3% for 2018 from 0.7% for 2017. The increase in the effective tax rate was primarily attributable to a significant one-time benefit of $162 million recognized in 2017 due to remeasurement of deferred tax assets and deferred tax liabilities resulting from the enactment of federal tax legislation.

Fourth Quarter 2018 Results of Operations

Combined net income decreased $153 million or 10.4% to $1.3 billion for the fourth quarter of 2018, as compared with $1.5 billion for the fourth quarter of 2017. The decrease in net income between these periods resulted from a provision for income taxes of $30 million in the fourth quarter of 2018, as compared with a benefit from income taxes of $104 million for the same period of the prior year, increases in noninterest expense of $44 million and the provision for loan losses of $39 million. The decrease in net income was partially offset by an increase in net interest income of $69 million.

Net interest income increased $69 million or 3.5% to $2.0 billion for the fourth quarter of 2018, as compared with the same period of the prior year. 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 $16.7 billion or 5.3% to $330.0 billion for the fourth quarter of 2018, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2018 declined to 2.46%, as compared with 2.50% for the same period in the prior year. This resulted primarily from a decrease in the net interest spread of 16 basis points to 2.08%, as compared with the fourth quarter of 2017, partially offset by a 12 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). 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 $48 million and $9 million for the fourth quarters of 2018 and 2017. The provision for loan losses recorded in the fourth quarter of 2018 primarily reflected specific reserves associated with a limited number of customers in the agribusiness and rural power sectors, credit challenges in the grain and dairy industries and increased loan volume.

Noninterest income decreased 2.1% to $228 million for the fourth quarter of 2018, as compared with $233 million for the fourth quarter of 2017. Noninterest expense increased 5.4% to $859 million for the fourth quarter of 2018, as compared with $815 million for the fourth quarter of 2017, primarily due to an increase in salaries and employee benefits of $38 million driven by annual merit increases and increased staffing levels at certain System institutions.

The provision for income taxes was $30 million for the fourth quarter of 2018, as compared with a benefit from income taxes of $104 million for the same period of the prior year. The benefit from income taxes for the fourth quarter of 2017 was primarily due to the significant one-time benefit resulting from the enactment of federal tax legislation, as discussed above.

Fourth Quarter 2018 Compared to Third Quarter 2018

Combined net income was $1.3 billion for the fourth quarter of 2018, as compared with $1.4 billion for the third quarter of 2018. The decrease in net income between these periods resulted primarily from an increase in noninterest expense of $111 million, offset in part by an increase in noninterest income of $55 million. The increase in noninterest expense was primarily as a result of increases in salaries and other operating expense. Salaries increased primarily due to increases in performance-based compensation. The increase in noninterest income was primarily due to an increase in financially related services income of $54 million due to the seasonality of crop insurance revenue.

Loan Portfolio Activity

Gross loans increased $13.2 billion or 5.1% to $271.9 billion at December 31, 2018 since year-end 2017. This increase was primarily attributable to increases in real estate mortgage, processing and marketing and production and intermediate-term loans. Real estate mortgage loans increased primarily due to continued demand by new and existing customers. The increase in processing and marketing loans resulted primarily from new loan growth and advances on existing loans within certain industries, including the dairy and cattle industries. Production and intermediate-term loans increased primarily due to new loan growth, as well as advances on existing loans.

Credit Quality

The System's accruing loan volume was $270.1 billion at December 31, 2018, as compared with $257.1 billion at December 31, 2017. Nonaccrual loans increased $223 million to $1.9 billion at December 31, 2018, as compared with the same period of the prior year. The 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 December 31, 2018, 65.3% 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, loans 90 days or more past due and other property owned) increased $260 million to $2.3 billion at

December 31, 2018, as compared with $2.0 billion at December 31, 2017. These nonperforming assets represented 0.84% of the System's loans and other property owned at December 31, 2018, as compared with 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 96.5% at December 31, 2018, as compared with 96.9% at December 31, 2017. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.31% at December 31, 2018, as compared with 0.25% at December 31, 2017.

The allowance for loan losses was $1.7 billion at December 31, 2018, as compared with $1.6 billion at December 31, 2017. Net loan charge-offs of $89 million were recorded during 2018, as compared with $80 million for 2017. The allowance for loan losses as a percentage of total loans was 0.63% at December 31, 2018 and 0.62% at December 31, 2017. The allowance for loan losses was 75% of the System's total nonperforming assets and 91% of its nonaccrual loans at December 31, 2018, as compared with 79% and 96% at December 31, 2017. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $60.2 billion at December 31, 2018 and $57.0 billion at December 31, 2017, and represented 22.1% of System loans at December 31, 2018, as compared with 22.0% at December 31, 2017.

Agricultural Outlook

The February 2019 United States Department of Agriculture (USDA) forecast estimates 2018 farmers' net cash income (a measure of the cash income after payment of business expenses) at $95.0 billion, down $9.0 billion from 2017. The USDA's February 2019 outlook for the farm economy, as a whole, forecasts 2019 farmers' net cash income to increase to $97.7 billion, a $2.7 billion increase from 2018. The projected increase in farmers' net cash income from 2018 to 2019 is primarily due to a decrease in cash expenses of $4.4 billion and an increase in cash receipts for crops of $2.2 billion, partially offset by a decrease in direct government payments of $2.8 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased $6.1 billion to $67.9 billion at December 31, 2018, as compared with $61.8 billion at year-end 2017. The System's liquidity position was 182 days and 175 days at December 31, 2018 and 2017. The Banks utilize investments for purposes of maintaining a diverse source of liquidity and for managing short-term surplus funds.

System capital increased $3.1 billion to $58.4 billion at December 31, 2018 since year-end 2017. Retained earnings increased $2.8 billion to $46.4 billion at December 31, 2018, as compared with $43.6 billion at December 31, 2017, due to net income earned and retained, as well as a $176 million transfer of restricted capital to retained earnings due to excess insurance funds returned by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Partially offsetting the increase in retained earnings was patronage distributions of $2.2 billion. During 2018, one System institution issued preferred stock totaling $100 million. Capital as a percentage of total assets was 16.7% at December 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 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 2018 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, 2018	December 31, 2017
Cash and investments	$ 67,905	$ 61,784
Loans	271,944	258,777
Less: allowance for loan losses	(1,713)	(1,596)
Net loans	270,231	257,181
Accrued interest receivable	2,732	2,354
Other assets	3,170	3,351
Restricted assets	4,954	4,848
Total assets	$348,992	$329,518
Systemwide Debt Securities:		
Due within one year	$109,228	$102,882
Due after one year	172,231	162,287
Total Systemwide Debt Securities	281,459	265,169
Other bonds	1,817	1,950
Other liabilities	7,272	7,017
Total liabilities	290,548	274,136
Preferred stock	3,131	3,052
Capital stock	1,937	1,879
Additional paid-in-capital	3,712	3,712
Restricted capital	4,954	4,848
Accumulated other comprehensive loss	(1,735)	(1,739)
Retained earnings	46,445	43,630
Total capital	58,444	55,382
Total liabilities and capital	$348,992	$329,518

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2018	2017	2018	2017
Interest income	$3,651	$3,045	$13,680	$11,646
Interest expense	(1,622)	(1,085)	(5,704)	(3,934)
Net interest income	2,029	1,960	7,976	7,712
Provision for loan losses	(48)	(9)	(194)	(197)
Noninterest income	228	233	755	663
Noninterest expense	(859)	(815)	(3,079)	(2,951)
Income before income taxes	1,350	1,369	5,458	5,227
(Provision for) benefit from income taxes	(30)	104	(126)	(38)
Net income	$1,320	$1,473	$ 5,332	$ 5,189

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Cash and investments	$ 67,905	$ 61,652	$ 64,074	$ 62,992	$ 61,784
Loans	271,944	263,619	260,713	261,378	258,777
Less: allowance for loan losses	(1,713)	(1,682)	(1,666)	(1,674)	(1,596)
Net loans	270,231	261,937	259,047	259,704	257,181
Accrued interest receivable	2,732	3,073	2,424	2,168	2,354
Other assets	3,170	3,445	3,471	3,423	3,351
Restricted assets	4,954	4,881	4,811	4,742	4,848
Total assets	$348,992	$334,988	$333,827	$333,029	$329,518
Systemwide Debt Securities	$281,459	$268,462	$268,881	$269,401	$265,169
Other bonds	1,817	2,056	1,587	1,557	1,950
Other liabilities	7,272	6,253	6,027	5,902	7,017
Total liabilities	290,548	276,771	276,495	276,860	274,136
Preferred stock	3,131	3,177	3,194	3,093	3,052
Capital stock	1,937	1,919	1,894	1,870	1,879
Additional paid-in-capital	3,712	3,712	3,712	3,712	3,712
Restricted capital	4,954	4,881	4,811	4,742	4,848
Accumulated other comprehensive loss	(1,735)	(2,132)	(2,044)	(1,969)	(1,739)
Retained earnings	46,445	46,660	45,765	44,721	43,630
Total capital	58,444	58,217	57,332	56,169	55,382
Total liabilities and capital	$348,992	$334,988	$333,827	$333,029	$329,518

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Interest income	$3,651	$3,490	$3,359	$3,180	$3,045
Interest expense	(1,622)	(1,475)	(1,386)	(1,221)	(1,085)
Net interest income	2,029	2,015	1,973	1,959	1,960
Provision for loan losses	(48)	(59)	(18)	(69)	(9)
Noninterest income	228	173	197	157	233
Noninterest expense	(859)	(748)	(735)	(737)	(815)
Income before income taxes	1,350	1,381	1,417	1,310	1,369
(Provision for) benefit from income taxes	(30)	(18)	(34)	(44)	104
Net income	$1,320	$1,363	$1,383	$1,266	$1,473