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 1, 2019

FARM CREDIT SYSTEM REPORTS 2019 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 $4.1 billion for the three and nine months ended September 30, 2019, as compared with $1.4 billion and $4.0 billion for the same periods of the prior year.

"The Farm Credit System's results continue to be positive with modest loan growth and overall strong credit quality," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "Steady earnings and healthy capital levels contribute to continued favorable access to the capital markets, which in turn supports the System in providing funding to member-borrowers who face a challenging external environment."

Results of Operations

Third Quarter and Nine-Month 2019 Results Compared to Third Quarter and Nine-Month 2018 Results

Net interest income increased $70 million or 3.5% to $2.1 billion for the third quarter of 2019 and $203 million or 3.4% to $6.2 billion for the nine months ended September 30, 2019, 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 $18.1 billion or 5.6% to $341.5 billion and $16.7 billion or 5.2% to $339.7 billion for the three and nine months ended September 30, 2019, as compared with the prior year periods.

The net interest margin was 2.44% and 2.41% for the three and nine months ended September 30, 2019, as compared with 2.49% and 2.45% 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 nine and eleven basis points to 2.05% and 2.02%, as compared with 2.14% and 2.13% 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 continued competitive pressures. The net interest margin during both of these periods was positively impacted by a four and seven basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $29 million and $95 million for the three and nine months ended September 30, 2019, as compared with provisions for loan losses of $59 million and $146 million for the three and nine months ended September 30, 2018. The provision for loan losses for the first nine months of 2019 primarily reflected deterioration in credit quality in the agribusiness and rural power sectors, as well as increases in the general reserves due to changes in risk ratings, collateral revaluations and industry-specific reserves for the dairy, grain and cattle industries. 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.

Noninterest income increased $1 million or 0.6% to $174 million and decreased $33 million or 6.3% to $494 million for the three and nine months ended September 30, 2019, as compared with the same periods of the prior year. The decrease for the nine-month period was primarily due to a decrease in net gains on sales of investments and other assets of $35 million and an increase in losses on extinguishment of debt of $20 million, partially offset by an increase in income earned on Insurance Fund assets of $18 million. During the first nine months of 2019, the Banks have called debt totaling $37.6 billion, as compared to $29 million during the same period of 2018.

Noninterest expense increased $47 million or 6.3% to $795 million and $143 million or 6.4% to $2.4 billion for the three and nine months ended September 30, 2019, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in salaries and employee benefits, occupancy and equipment expense and purchased services. Salaries and employee benefits increased $24 million and $81 million for the three and nine months ended September 30, 2019, 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. Occupancy and equipment expense increased $7 million and $23 million for the three and nine months ended September 30, 2019, as compared to the same periods of the prior year, primarily due to increases in facilities and related maintenance expenses. For the three- and nine-month periods ended September 30, 2019, purchased services increased $5 million and $18 million primarily due to increases in digital, efficiency and process refinement projects and other consulting services related to various other business initiatives.

The provisions for income taxes were $48 million and $131 million for the three and nine months ended September 30, 2019, as compared with $18 million and $96 million for the three and nine months ended September 30, 2018. The effective tax rate increased from 2.3% for the nine months ended September 30, 2018 to 3.1% for the nine months ended September 30, 2019 due to increased earnings attributable to taxable business activities and a lower amount of patronage in 2019, as well as, a non-recurring income tax benefit related to tax reform recognized in 2018.

<u>Third Quarter 2019 Compared to Second Quarter 2019</u>

Net income remained relatively unchanged at $1.4 billion for the third quarter of 2019, as compared with the second quarter of 2019. Net income for the third quarter of 2019 was positively impacted by increases in net interest income of $46 million and noninterest income of $2 million. Net interest income for the third quarter of 2019 was positively impacted by a four basis point increase in the net interest margin to 2.44%. Negatively impacting net income for the third quarter of 2019 were increases in the provision for loan losses of $28 million, noninterest expense of $9 million and the provision for income taxes of $4 million. The increase in the provision for loan losses was due to additional industry-specific reserves for the dairy and grain industries and, to a lesser extent, deterioration in the credit quality in the agribusiness and rural power sectors.

Loan Portfolio Activity

Gross loans increased $2.7 billion or 1.0% to $276.1 billion at September 30, 2019, as compared with $273.4 billion at December 31, 2018. The increase primarily resulted from increases in real estate mortgage and processing and marketing loans offset, in part, by a decrease in loans to cooperatives. Real estate mortgages, as well as processing and marketing loans, increased due to financing for both new and existing customers. 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 $274.1 billion at September 30, 2019, as compared with $271.5 billion at December 31, 2018. Nonaccrual loans increased $165 million during the first nine months of 2019 to $2.0 billion. This increase in nonaccrual loans was due to credit quality deterioration impacting a limited number of borrowers primarily in the dairy and cattle industries. At September 30, 2019, 55.8% of nonaccrual loans were current as to principal and interest, as compared with 65.3% at December 31, 2018.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased $267 million during the first nine months of 2019 to $2.5 billion at September 30, 2019. In addition to the increase in nonaccrual loans discussed above, accruing loans 90 days or more past due increased $86 million to $129 million at September 30, 2019. These loans are considered well secured and in the process of collection. These nonperforming assets represented 0.92% of the System's loans and other property owned at September 30, 2019 and 0.83% at December 31, 2018.

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 96.2% at September 30, 2019 and 96.5% at December 31, 2018. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.30% at September 30, 2019, as compared with 0.29% at September 30, 2018.

The allowance for loan losses was $1.8 billion at September 30, 2019, as compared with $1.7 billion at December 31, 2018. Net loan charge-offs of $31 million were recorded during the first nine months of 2019, as compared with net loan charge-offs of $53 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.63% at both September 30, 2019 and December 31, 2018. The allowance for loan losses was 69% of the System's total nonperforming assets and 85% of its nonaccrual loans at September 30, 2019, as compared with 75% and 91% at December 31, 2018. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $64.1 billion at September 30, 2019 and $60.2 billion at December 31, 2018, and represented 23.2% of System loans at September 30, 2019, as compared with 22.0% at December 31, 2018.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) was $67.1 billion at September 30, 2019 and $66.5 billion at December 31, 2018. The System's liquidity position provided for 177 days coverage of maturing debt at September 30, 2019, as compared with 182 days coverage at December 31, 2018.

Total capital increased $3.9 billion during the first nine months of 2019 to $62.4 billion. The System's retained earnings increased $2.9 billion to $49.4 billion during the first nine months of 2019 due to net income earned and retained as well as a $66 million transfer of restricted capital to retained earnings. The transfer was a result of excess insurance funds returned to the System by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Accumulated other comprehensive loss decreased $730 million to $1.0 billion during the first nine months of 2019 primarily as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 17.6% at September 30, 2019, as compared with 16.7% at December 31, 2018.

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 68 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, 2019 (unaudited)	December 31, 2018 (audited)
Cash and investments	$ 67,070	$ 66,471
Loans	276,112	273,378
Less: allowance for loan losses	(1,750)	(1,713)
Net loans	274,362	271,665
Accrued interest receivable	3,339	2,732
Other assets	4,083	3,170
Restricted assets	5,122	4,954
Total assets	$353,976	$348,992
Systemwide Debt Securities:		
Due within one year	$110,745	$109,228
Due after one year	172,116	172,231
Total Systemwide Debt Securities	282,861	281,459
Other bonds	2,085	1,817
Other liabilities	6,672	7,272
Total liabilities	291,618	290,548
Preferred stock	3,168	3,131
Capital stock	1,985	1,937
Additional paid-in-capital	3,738	3,712
Restricted capital	5,122	4,954
Accumulated other comprehensive loss	(1,005)	(1,735)
Retained earnings	49,350	46,445
Total capital	62,358	58,444
Total liabilities and capital	$353,976	$348,992

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	(unaudited)			
	2019	2018	2019	2018
Interest income	$3,788	$3,490	$11,353	$10,029
Interest expense	(1,703)	(1,475)	(5,203)	(4,082)
Net interest income	2,085	2,015	6,150	5,947
Provision for loan losses	(29)	(59)	(95)	(146)
Noninterest income	174	173	494	527
Noninterest expense	(795)	(748)	(2,363)	(2,220)
Income before income taxes	1,435	1,381	4,186	4,108
Provision for income taxes	(48)	(18)	(131)	(96)
Net income	$1,387	$1,363	$ 4,055	$ 4,012

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	September 30, 2019 (unaudited)	June 30, 2019 (unaudited)	March 31, 2019 (unaudited)	December 31, 2018 (audited)	September 30, 2018 (unaudited)
Cash and investments	$ 67,070	$ 66,096	$ 64,902	$ 66,471	$ 60,264
Loans	276,112	276,229	274,151	273,378	265,007
Less: allowance for loan losses	(1,750)	(1,755)	(1,768)	(1,713)	(1,682)
Net loans	274,362	274,474	272,383	271,665	263,325
Accrued interest receivable	3,339	2,840	2,627	2,732	3,073
Other assets	4,083	4,063	3,812	3,170	3,445
Restricted assets	5,122	5,047	4,966	4,954	4,881
Total assets	$353,976	$352,520	$348,690	$348,992	$334,988
Systemwide Debt Securities	$282,861	$283,538	$281,080	$281,459	$268,462
Other bonds	2,085	1,571	1,529	1,817	2,056
Other liabilities	6,672	6,186	6,359	7,272	6,253
Total liabilities	291,618	291,295	288,968	290,548	276,771
Preferred stock	3,168	3,181	3,187	3,131	3,177
Capital stock	1,985	1,959	1,928	1,937	1,919
Additional paid-in-capital	3,738	3,712	3,712	3,712	3,712
Restricted capital	5,122	5,047	4,966	4,954	4,881
Accumulated other comprehensive loss	(1,005)	(1,094)	(1,484)	(1,735)	(2,132)
Retained earnings	49,350	48,420	47,413	46,445	46,660
Total capital	62,358	61,225	59,722	58,444	58,217
Total liabilities and capital	$353,976	$352,520	$348,690	$348,992	$334,988

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**September 30, 2019**	**June 30, 2019**	**March 30, 2019**	**December 31, 2018**	**September 30, 2018**
Interest income	$3,788	$3,804	$3,761	$3,651	$3,490
Interest expense	(1,703)	(1,765)	(1,735)	(1,622)	(1,475)
Net interest income	2,085	2,039	2,026	2,029	2,015
Provision for loan losses	(29)	(1)	(65)	(48)	(59)
Noninterest income	174	172	148	228	173
Noninterest expense	(795)	(786)	(782)	(859)	(748)
Income before income taxes	1,435	1,424	1,327	1,350	1,381
Provision for income taxes	(48)	(44)	(39)	(30)	(18)
Net income	$1,387	$1,380	$1,288	$1,320	$1,363