FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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FARM CREDIT SYSTEM REPORTS 2020 SECOND QUARTER AND SIX-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported that combined net income increased 4.4% and 7.7% to $1.44 billion and $2.87 billion for the three and six months ended June 30, 2020, as compared with net income of $1.38 billion and $2.67 billion for the same periods of the prior year.

"The System generated strong earnings during the first six months of 2020 despite the global pandemic and economic challenges," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The positive results were mainly due to increased loan volume and reduced funding costs driven by the substantial decline in interest rates during the first half of the year. The System stands committed to provide reliable credit to rural America through these unprecedented times."

Results of Operations

Second Quarter and Six-Month 2020 Results Compared to Second Quarter and Six-Month 2019 Results

Net interest income increased $175 million or 8.6% to $2.2 billion for the second quarter of 2020 and $340 million or 8.4% to $4.4 billion for the six months ended June 30, 2020, as compared with the same periods of the prior year. The increases in net interest income primarily resulted from increases in net interest spread and higher levels of average earning assets, driven largely by increased loan volume. Average earning assets increased $27.7 billion or 8.1% and $22.0 billion or 6.5% to $367.4 billion and $360.8 billion for the three and six months ended June 30, 2020, as compared with the prior year periods.

The net interest margin was 2.41% and 2.44% for the three and six months ended June 30, 2020, as compared with 2.40% for both periods of the prior year. The increase in the net interest margin for the three- and six-month periods primarily resulted from increases in the net interest spread of 23 and 21 basis points to 2.23% and 2.21%, as compared with 2.00% for both the prior year periods. The increase in net interest spread was primarily due to lower debt costs as the Banks were able to take advantage of lower interest rates and called debt totaling $72 billion during the first six months of 2020, as compared with $13 billion for the same period of the prior year. The net interest margin during both these periods was negatively impacted by a 22 and 17 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $101 million and $158 million for the three and six months ended June 30, 2020, as compared with provisions for loan losses of $1 million and $66 million for the three and six months ended June 30, 2019. The provision for loan losses for the first six months of 2020 primarily reflected a higher level of overall lending activity and increases in the general reserves due to the potential losses inherent in our loan portfolio from the COVID-19 pandemic's impact on the global economy, agriculture and borrowers. The provision for loan losses for the first six months of 2020 also included specific reserves associated with a limited number of customers in the rural infrastructure and agribusiness sectors. The provision for loan losses for the first six months of 2019 primarily reflected a higher level of overall agribusiness lending activity and a modest deterioration in credit quality in the rural infrastructure sector and, to a lesser extent, the agribusiness sector. In addition, the provision for loan losses for the first half of 2019 included industry-specific reserves related to the dairy, grain and cattle industries.

Noninterest income increased $17 million or 9.9% to $189 million and $48 million or 15.0% to $368 million for the three and six months ended June 30, 2020, 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 loan-related fee income of $64 million and $78 million resulting from loan conversion and other transaction fees, as well as fees recognized in connection with the Small Business Administration's Paycheck Protection Program. The increase for the six-month period was also impacted by a $22 million increase in net gains on derivative transactions. Partially offsetting these increases in noninterest income was a $30 million and $51 million increase in losses on extinguishment of debt between the three- and six-month periods. Also offsetting the increase for the three-month and six-month periods was a decrease in income earned on Insurance Fund assets of $10 million.

Noninterest expense increased $32 million or 4.1% to $818 million and $84 million or 5.4% to $1.7 billion for the three and six months ended June 30, 2020, 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 $34 million and $57 million for the three and six months ended June 30, 2020, as compared to the same periods of the prior year, due to annual merit increases and higher staffing levels at certain System institutions. Purchased services increased $7 million and $13 million for the three and six months ended June 30, 2020, as compared to the same periods of the prior year, primarily due to increases in technology and other consulting services related to various business initiatives. Also impacting noninterest expense was a $15 million increase in other operating expense during the first six months of 2020 due to increases in technology and various other administrative expenses. However, other operating expense decreased $10 million during the second quarter of 2020 as travel, training and member relations expenses were lower due to restrictions caused by the COVID-19 pandemic.

The provisions for income taxes were $43 million and $90 million for the three and six months ended June 30, 2020, as compared with $44 million and $83 million for the three and six months ended June 30, 2019. The effective tax rate was 3.0% for both the six months ended June 30, 2020 and 2019.

<u>Second Quarter 2020 Compared to First Quarter 2020</u>

Combined net income remained relatively unchanged at $1.4 billion for the second quarter of 2020, as compared with the first quarter of 2020. Positively impacting net income for the three months ended June 30, 2020 were increases in net interest income of $23 million and noninterest income of $10 million and decreases in noninterest expense of $16 million and the provision for income taxes of $4 million. Negatively impacting net income for the second quarter of 2020 was an increase in the provision for loan losses of $44 million due to an increased amount of general reserves recorded due to the potential losses inherent in our loan portfolio from the COVID-19 pandemic as well as specific reserves associated with a limited number of customers in the rural infrastructure and agribusiness sectors.

Loan Portfolio Activity

Gross loans increased $10.2 billion or 3.6% to $297.2 billion at June 30, 2020, as compared with $287.0 billion at December 31, 2019. The increase primarily resulted from an increase in real estate mortgage, rural infrastructure and processing and marketing loans offset, in part, by a decrease in loans to cooperatives. The primary driver of the increase in real estate mortgage loans was financing for new and existing customers. Rural infrastructure loans increased due to advances to existing borrowers in the power and communication sectors. The increase in processing and marketing loans was primarily due to borrowers drawing on their revolving lines of credit to add liquidity to their balance sheets in response to the current economic environment. The decrease in loans to cooperatives resulted from lower seasonal loan volume at grain and farm supply cooperatives, which typically reaches a low in summer or early fall.

Credit Quality

The System's accruing loan volume was $295.2 billion at June 30, 2020, as compared with $285.1 billion at December 31, 2019. Nonaccrual loans remained unchanged at $1.9 billion at June 30, 2020, as compared to December 31, 2019. At June 30, 2020, 52.6% of nonaccrual loans were current as to principal and interest, as compared with 60.1% at December 31, 2019.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased $140 million during the first six months of 2020 to $2.5 billion at June 30, 2020. This increase during the first six months of 2020 was driven by an increase of $134 million in accruing loans 90 days or more past due, which are considered well secured and in the process of collection. These nonperforming assets represented 0.84% of the System's loans and other property owned at June 30, 2020, as compared with 0.82% at December 31, 2019.

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, 2020 and 96.5% at December 31, 2019. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans was 0.37% at June 30, 2020, as compared with 0.36% at June 30, 2019.

The allowance for loan losses was $1.9 billion at June 30, 2020, as compared with $1.8 billion at December 31, 2019. Net loan charge-offs of $32 million were recorded during the first six months of 2020, as compared with net loan charge-offs of $17 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 June 30, 2020 and December 31, 2019. The allowance for loan losses was 76% of the System's total nonperforming assets and 98% of its nonaccrual loans at June 30, 2020, as compared with 77% and 95% at December 31, 2019. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $66.7 billion at June 30, 2020 and

$63.5 billion at December 31, 2019, and represented 22.4% of System loans at June 30, 2020, as compared with 22.1% at December 31, 2019.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were $76.4 billion at June 30, 2020 and $68.3 billion at December 31, 2019. Although market conditions and the Banks' access to the debt capital markets improved during second quarter 2020 and have returned to near pre-COVID-19 pandemic conditions, the Banks maintained increased liquid holdings to be well-positioned to respond to the liquidity needs of our borrowers. The System's liquidity position provided 182 days coverage of maturing debt at June 30, 2020, as compared with 177 days coverage at December 31, 2019.

Total capital increased $3.0 billion during the first six months of 2020 to $64.8 billion. The System's retained earnings increased $2.1 billion to $51.1 billion during the first six months of 2020 due to net income earned and retained as well as a $63 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 $925 million to $415 million during the first six months of 2020, 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 decreased to 16.8% at June 30, 2020, as compared with 16.9% at December 31, 2019, reflecting the increases in liquidity and loan volume.

Impact of COVID-19

The full effects of the COVID-19 pandemic continue to evolve and are unpredictable. The prospects for a sustained economic recovery in the near-term are uncertain with the recent rise in the number of COVID-19 cases in the United States, which could in turn have an adverse impact on the results of operations or financial condition of the System. We continue to monitor and evaluate the impact of the COVID-19 pandemic on our employees, operations, investments, financial results and member-borrowers.

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 businesses 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 future changes in circumstances that include, but are not limited to, COVID-19 related risks and uncertainties posed to our business, results of operations and financial condition including our various regulatory ratios such as capital and liquidity. The ultimate impact will depend on future developments including the scope, duration, extent and severity of the COVID-19 pandemic and the continued response by governments, businesses and individuals. 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, 2020 (unaudited)	December 31, 2019 (audited)
Cash and investments	$ 76,363	$ 68,266
Loans	297,172	286,964
Less: allowance for loan losses	(1,885)	(1,806)
Net loans	295,287	285,158
Accrued interest receivable	2,611	2,864
Other assets	5,134	3,869
Restricted assets	5,281	5,202
Total assets	$384,676	$365,359
Systemwide Debt Securities:		
Due within one year	$125,265	$114,127
Due after one year	184,948	179,411
Total Systemwide Debt Securities	310,213	293,538
Other bonds	2,132	1,961
Other liabilities	7,562	8,130
Total liabilities	319,907	303,629
Preferred stock	3,163	3,121
Capital stock	1,920	2,009
Additional paid-in-capital	3,738	3,738
Restricted capital	5,281	5,202
Accumulated other comprehensive loss	(415)	(1,340)
Retained earnings	51,082	49,000
Total capital	64,769	61,730
Total liabilities and capital	$384,676	$365,359

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2020	**2019**	**2020**	**2019**
Interest income	$3,227	$3,804	$6,865	$7,565
Interest expense	(1,013)	(1,765)	(2,460)	(3,500)
Net interest income	2,214	2,039	4,405	4,065
Provision for loan losses	(101)	(1)	(158)	(66)
Noninterest income	189	172	368	320
Noninterest expense	(818)	(786)	(1,652)	(1,568)
Income before income taxes	1,484	1,424	2,963	2,751
Provision for income taxes	(43)	(44)	(90)	(83)
Net income	$1,441	$1,380	$2,873	$2,668

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2020 (unaudited)	March 31, 2020 (unaudited)	December 31, 2019 (audited)	September 30, 2019 (unaudited)	June 30, 2019 (unaudited)
Cash and investments	$ 76,363	$ 83,961	$ 68,266	$ 67,070	$ 66,096
Loans	297,172	292,606	286,964	276,112	276,229
Less: allowance for loan losses	(1,885)	(1,847)	(1,806)	(1,750)	(1,755)
Net loans	295,287	290,759	285,158	274,362	274,474
Accrued interest receivable	2,611	2,545	2,864	3,339	2,840
Other assets	5,134	4,842	3,869	4,083	4,063
Restricted assets	5,281	5,212	5,202	5,122	5,047
Total assets	$384,676	$387,319	$365,359	$353,976	$352,520
Systemwide Debt Securities	$310,213	$314,862	$293,538	$282,861	$283,538
Other bonds	2,132	1,839	1,961	2,085	1,571
Other liabilities	7,562	7,268	8,130	6,672	6,186
Total liabilities	319,907	323,969	303,629	291,618	291,295
Preferred stock	3,163	3,170	3,121	3,168	3,181
Capital stock	1,920	1,889	2,009	1,985	1,959
Additional paid-in-capital	3,738	3,738	3,738	3,738	3,712
Restricted capital	5,281	5,212	5,202	5,122	5,047
Accumulated other comprehensive loss	(415)	(764)	(1,340)	(1,005)	(1,094)
Retained earnings	51,082	50,105	49,000	49,350	48,420
Total capital	64,769	63,350	61,730	62,358	61,225
Total liabilities and capital	$384,676	$387,319	$365,359	$353,976	$352,520

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Interest income	$3,227	$3,638	$3,666	$3,788	$3,804
Interest expense	(1,013)	(1,447)	(1,550)	(1,703)	(1,765)
Net interest income	2,214	2,191	2,116	2,085	2,039
Provision for loan losses	(101)	(57)	(74)	(29)	(1)
Noninterest income	189	179	217	174	172
Noninterest expense	(818)	(834)	(896)	(795)	(786)
Income before income taxes	1,484	1,479	1,363	1,435	1,424
(Provision for) benefit from income taxes	(43)	(47)	28	(48)	(44)
Net income	$1,441	$1,432	$1,391	$1,387	$1,380