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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF $4.724 BILLION FOR 2014

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

NEW YORK - The Farm Credit System today reported combined net income of $4.724 billion for the year ended December 31, 2014, as compared with $4.640 billion for the prior year. The System also reported combined net income of $1.155 billion for the fourth quarter of 2014, as compared with $1.141 billion for the fourth quarter of 2013.

"Credit quality indicators remained strong reflecting the sustained period of favorable economic conditions in agriculture during the past several years," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The System continued to build capital to withstand adverse changes that may arise in the future as general and agricultural economic conditions change."

2014 Results of Operations

Combined net income increased $84 million or 1.8% for the year ended December 31, 2014, as compared with the prior year. The increase resulted primarily from increases in net interest income of $130 million and noninterest income of $79 million, partially offset by a provision for loan losses of $40 million, as compared with a loan loss reversal of $31 million for 2013, and an increase in noninterest expense of $54 million.

Net interest income increased $130 million or 1.9% to $6.804 billion for 2014, as compared with $6.674 billion for the prior year. The increase in net interest income resulted primarily from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the investment portfolio. Average earning assets grew $17.151 billion or 7.1% to $257.386 billion for 2014, as compared with the prior year.

Net interest margin decreased 14 basis points to 2.64% for 2014, as compared with 2.78% for 2013. The decline in the net interest margin was due to a decrease in the net interest spread of 14 basis points to 2.50% for 2014, as compared with 2.64% for 2013. The decline in the net interest spread resulted primarily from lower lending spreads due to competitive pressures, greater average loan volume in lower spread lines of business and a lesser amount of debt being called. The Banks called debt totaling $19.0 billion for 2014, as compared with $24.3 billion for 2013.

The System recognized a provision for loan losses of $40 million for 2014, as compared with a loan loss reversal of $31 million for the prior year. The provision for loan losses for 2014 consisted of $105 million of provisions for loan losses recorded by certain System institutions, partially offset by $65 million of loan loss reversals recorded by other System institutions. Included in the 2014 provision for loan losses was a $47 million provision recorded by one Association, with assets totaling just over $1 billion, related to its investigation of a sudden significant increase in delinquencies in a discrete portion of its loan portfolio. In addition, the provision for loan losses recognized in 2014 was also due to specific credit challenges for a limited number of customers. The loan loss reversals in 2014 and 2013 were reflective of the overall favorable credit quality of the loan portfolio.

Noninterest income increased $79 million or 12.7% to $700 million for 2014, as compared with $621 million for 2013. The increase was largely due to increases in mineral income of $26 million, fees for financially related services (primarily crop insurance) of $22 million and net gains on sales of investments and other assets of $16 million. The increase in mineral income resulted from strong demand for exploration rights and production activities as oil prices remained relatively high for most of the year. The recent decline in oil prices and the oversupply of crude oil may negatively impact mineral income in future periods. Partially offsetting these increases in noninterest income was a decrease in loan-related fee income of $13 million.

Noninterest expense increased $54 million or 2.2% to $2.519 billion for 2014, as compared with $2.465 billion for 2013 primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased $35 million to $1.637 billion for 2014 primarily due to annual merit and performance-based compensation increases and, to a lesser extent, higher staffing levels at certain System institutions offset, in part, by a decrease in pension expense. Other operating expense increased $35 million for 2014, as compared with 2013, primarily due to increases in various administrative expenses. Partially offsetting the increase in noninterest expense were net gains on other property owned of $19 million for 2014, as compared to net losses on other property owned of $28 million for 2013.

The System recorded a provision for income taxes of $221 million for both 2014 and 2013. The effective tax rate remained unchanged at 4.5% for 2014 as compared to 2013.

Fourth Quarter 2014 Results of Operations

Combined net income increased $14 million to $1.155 billion for the fourth quarter of 2014, as compared with $1.141 billion for the fourth quarter of 2013. The increase in net income between the fourth-quarter periods primarily resulted from increases in net interest income of $55 million and noninterest income of $34 million, partially offset by a provision for loan losses of $33 million in 2014, as compared with a loan loss reversal of $40 million in 2013.

Net interest income was $1.748 billion for the fourth quarter of 2014, as compared with $1.693 billion for the fourth quarter of 2013. The increase in net interest income resulted primarily from a higher level of average earning assets, largely due to increased loan volume. Average earning assets grew $18.965 billion or 7.7% to $264.987 billion for the fourth quarter of 2014, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2014 declined to 2.64%, as compared with 2.75% for the same period in the prior year and resulted primarily from a decrease in the net interest spread of 12 basis points to 2.49%, as compared with the fourth quarter of 2013. The decline in the net interest spread was primarily from lower lending spreads due to competitive pressures and greater average loan volume in lower spread lines of business. The net interest margin was positively impacted by a one basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System reported a provision for loan losses of $33 million for the fourth quarter of 2014, as compared with a loan loss reversal of $40 million for the fourth quarter of 2013. The provision for loan losses recorded in the fourth quarter of 2014 was primarily due to specific credit challenges for a limited number of customers and to additional losses recognized by the Association previously discussed above. The loan loss reversal for the fourth quarter of 2013 was primarily due to improved overall credit quality in the System's loan portfolio.

Noninterest income increased $34 million to $211 million for the fourth quarter of 2014, as compared with $177 million for the fourth quarter of 2013. The increase was primarily due to increases in fees for financially related services of $19 million, net gains on derivative and other transactions of $8 million and mineral income of $7 million. Noninterest expense totaled $724 million for the fourth quarter of 2014, as compared with $716 million for the fourth quarter of 2013. The increase was primarily a result of increases in occupancy and equipment expense, purchased services and various administrative expenses.

The provision for income taxes was $47 million and $53 million for the fourth quarter of 2014 and 2013. The effective tax rate decreased to 3.9% for the fourth quarter of 2014 from 4.4% for the fourth quarter of 2013 primarily due to lower net earnings at taxable System institutions largely resulting from provisions for loan losses during the fourth quarter of 2014, as compared with loan loss reversals during the same period of 2013.

Fourth Quarter 2014 Compared to Third Quarter 2014

Combined net income decreased $73 million to $1.155 billion for the fourth quarter of 2014, as compared with net income of $1.228 billion for the third quarter of 2014. The decrease was primarily due to an increase in noninterest expense of $126 million, offset in part, by an increase in net interest income of $40 million. The increase in noninterest expense was primarily due to an increase in salaries and employee benefits and net losses on other property owned recorded during the fourth quarter of 2014. Salaries and employee benefits increased primarily as a result of increases in performance-based compensation.

Loan Portfolio Activity

Gross loans increased $15.994 billion or 8.0% to $217.054 billion at December 31, 2014, as compared with $201.060 billion at December 31, 2013. This increase was primarily attributable to increases in real estate mortgage, production and intermediate-term, and agribusiness loans. Real estate mortgage loans increased primarily due to continued demand for cropland. Production and intermediate-term loans increased due to loan growth driven by borrower tax planning strategies and a greater utilization of operating lines. The increase in agribusiness loans was primarily due to increased lending to food and agribusiness companies and an increase in advances on existing loans to processing and marketing agribusiness companies.

Credit Quality

The System's accruing loan volume was $215.679 billion at December 31, 2014, as compared with $199.324 billion at December 31, 2013. Nonaccrual loans were $1.375 billion at December

31, 2014, as compared with $1.736 billion at December 31, 2013. The decrease of $361 million in nonaccrual loans during 2014 was primarily due to loan repayments in excess of loans being transferred into nonaccrual status, charge-offs and an improvement in the credit quality of certain loans. At December 31, 2014, 62.4% of nonaccrual loans were current as to principal and interest, as compared with 58.5% at December 31, 2013. Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due) were $1.737 billion at December 31, 2014, down from $2.040 billion at December 31, 2013.

Nonperforming assets (which consist of nonperforming loans and other property owned) were $1.869 billion at December 31, 2014, as compared with $2.238 billion at December 31, 2013. Other property owned was $132 million at December 31, 2014 and $198 million at December 31, 2013. Nonperforming assets represented 0.86% of the System's loans and other property owned at December 31, 2014, a decrease from 1.11% at December 31, 2013. Nonperforming assets represented 4.1% of total capital at December 31, 2014, as compared with 5.3% at December 31, 2013.

The System's other credit quality indicators also reflected improvement or remained at generally favorable levels at December 31, 2014. 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 98.2% at December 31, 2014, as compared with 97.7% at December 31, 2013. Loan delinquencies, which are defined as accruing loans 30 days or more past due as a percentage of accruing loans, were 0.23% at both December 31, 2014 and 2013.

The allowance for loan losses was $1.237 billion at December 31, 2014, as compared with $1.238 billion at December 31, 2013. Net loan charge-offs of $68 million were recorded during 2014, as compared with net loan charge-offs of $62 million for 2013. The allowance for loan losses increased an additional $36 million due to transfers from the reserve for unfunded commitments during the year ended December 31, 2014. The allowance for loan losses as a percentage of total loans was 0.57% at December 31, 2014 and 0.62% at December 31, 2013. The allowance for loan losses was 71% of the System's total nonperforming loans and 90% of its nonaccrual loans at December 31, 2014, as compared with 61% and 71% at December 31, 2013. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $46.943 billion at December 31, 2014 and $43.839 billion at December 31, 2013, and represented 21.6% of System loans at December 31, 2014, as compared with 21.8% at December 31, 2013.

Agricultural Outlook

Overall, agricultural borrowers' financial conditions remained very favorable due to the high levels of farmers' net cash income over the past several years. The February 2015 United States Department of Agriculture (USDA) forecast estimates 2014 farmers' net cash income (a measure of the cash income after payment of business expenses) at $115.1 billion, down $16.0 billion from 2013 but up $17.6 billion from its 10-year average of $97.5 billion. The USDA's February 2015 outlook for the farm economy, as a whole, forecasts 2015 farmers' net cash income to decrease to $89.4 billion, a $25.7 billion decrease from 2014 and $8.1 billion below the 10-year average. The projected decrease in farmers' net cash income from 2014 to 2015 is primarily due to an expected decrease in cash receipts of $25.8 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased $5.946 billion to $57.839 billion at December 31, 2014, as compared with $51.893 billion at year-end 2013. The System's liquidity position was 173 days and 194 days at December 31, 2014 and 2013. The Banks' liquidity management objectives are designed to meet maturing debt obligations, to provide a reliable source of funding to borrowers and to fund operations on a cost-effective basis.

Total capital increased $3.105 billion to $45.706 billion at December 31, 2014, as compared with $42.601 billion at December 31, 2013. The System's surplus increased $2.715 billion to $37.775 billion at December 31, 2014, as compared with $35.060 billion at December 31, 2013. The increase was due to net income earned and retained. The increase was offset, in part, by patronage distributions of $1.195 billion. During 2014, one System institution issued preferred stock totaling $300 million, while the same System institution redeemed $137 million of preferred stock. The proceeds from the issuance were used to increase regulatory capital and for general corporate purposes. Capital as a percentage of total assets was 16.2% at December 31, 2014, as compared with 16.3% at December 31, 2013.

Accumulated other comprehensive loss increased $490 million during 2014 to $1.297 billion at December 31, 2014. This increase principally resulted from increases in accumulated other comprehensive loss on pension and other benefit plans of $521 million and unrealized losses on cash flow hedges of $96 million. These were offset, in part, by unrealized gains on other-than-temporarily impaired investments of $47 million at year end December 31, 2014, as compared to unrealized losses on other-than-temporarily impaired investments of $23 million at year end December 31, 2013 and an increase in unrealized gains on investments available-for-sale of $57 million. The increase in unrealized losses on pension and other benefits was primarily due to a decrease in the discount rate used to calculate pension obligations, updated mortality tables reflecting increases in life expectancy and a decrease in the expected return on plan assets.

About the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions and related service organizations. The System specializes in providing financing and related services to borrowers in the agricultural and rural sectors through the four System Banks and 76 affiliated Associations. Unlike commercial banks, the Banks and Associations are not authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities.

Additional Information

The results discussed herein are preliminary and unaudited. The System's financial statements for the year ended December 31, 2014 are expected to be available on or about March 10, 2015. Copies of this press release, as well as other information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at www.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

	December 31, 2014	December 31, 2013
Cash and investments	$ 57,839	$ 51,893
Loans	217,054	201,060
Less: allowance for loan losses	(1,237)	(1,238)
Net loans	215,817	199,822
Accrued interest receivable	1,824	1,719
Other assets	3,614	3,852
Restricted assets	3,750	3,496
Total assets	$282,844	$260,782
Systemwide Debt Securities:		
Due within one year	$ 86,932	$ 70,132
Due after one year	138,505	137,357
Total Systemwide Debt Securities	225,437	207,489
Subordinated debt	1,555	1,555
Other bonds	3,627	3,215
Other liabilities	6,519	5,922
Total liabilities	237,138	218,181
Preferred stock	2,698	2,469
Capital stock	1,676	1,645
Additional paid-in-capital	1,104	738
Restricted capital	3,750	3,496
Accumulated other comprehensive loss	(1,297)	(807)
Surplus	37,775	35,060
Total capital	45,706	42,601
Total liabilities and capital	$282,844	$260,782

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
Interest income	$2,283	$2,203	$8,902	$8,631
Interest expense	(535)	(510)	(2,098)	(1,957)
Net interest income	1,748	1,693	6,804	6,674
(Provision for loan losses) loan loss reversal	(33)	40	(40)	31
Noninterest income	211	177	700	621
Noninterest expense	(724)	(716)	(2,519)	(2,465)
Income before income taxes	1,202	1,194	4,945	4,861
Provision for income taxes	(47)	(53)	(221)	(221)
Net income	$1,155	$1,141	$4,724	$4,640

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Cash and investments	$ 57,839	$ 54,877	$ 53,361	$ 51,739	$ 51,893
Loans	217,054	208,051	205,054	204,563	201,060
Less: allowance for loan losses	(1,237)	(1,184)	(1,183)	(1,221)	(1,238)
Net loans	215,817	206,867	203,871	203,342	199,822
Accrued interest receivable	1,824	2,223	1,788	1,605	1,719
Other assets	3,614	3,673	3,572	3,600	3,852
Restricted assets	3,750	3,684	3,621	3,556	3,496
Total assets	$282,844	$271,324	$266,213	$263,842	$260,782
Systemwide Debt Securities:					
Due within one year	$ 86,932	$ 78,879	$ 78,075	$ 76,722	$ 70,132
Due after one year	138,505	135,473	134,296	134,936	137,357
Total Systemwide Debt Securities	225,437	214,352	212,371	211,658	207,489
Subordinated debt	1,555	1,555	1,555	1,555	1,555
Other bonds	3,627	4,171	2,278	1,840	3,215
Other liabilities	6,519	5,430	5,273	5,121	5,922
Total liabilities	237,138	225,508	221,477	220,174	218,181
Preferred stock	2,698	2,559	2,471	2,500	2,469
Capital stock	1,676	1,667	1,647	1,630	1,645
Additional paid-in-capital	1,104	1,073	1,073	1,091	738
Restricted capital	3,750	3,684	3,621	3,556	3,496
Accumulated other comprehensive loss	(1,297)	(720)	(676)	(752)	(807)
Surplus	37,775	37,553	36,600	35,643	35,060
Total capital	45,706	45,816	44,736	43,668	42,601
Total liabilities and capital	$282,844	$271,324	$266,213	$263,842	$260,782

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Interest income	$2,283	$2,232	$2,206	$2,181	$2,203
Interest expense	(535)	(524)	(518)	(521)	(510)
Net interest income	1,748	1,708	1,688	1,660	1,693
(Provision for loan losses) loan loss reversal	(33)	(42)	23	12	40
Noninterest income	211	204	140	145	177
Noninterest expense	(724)	(598)	(590)	(607)	(716)
Income before income taxes	1,202	1,272	1,261	1,210	1,194
Provision for income taxes	(47)	(44)	(65)	(65)	(53)
Net income	$1,155	$1,228	$1,196	$1,145	$1,141