



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2015 COMBINED RESULTS

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

NEW YORK - The Farm Credit System today reported that combined net income for the quarter ended March 31, 2015 was \$1.132 billion, as compared with combined net income of \$1.145 billion for the same period of the prior year.

"The System continued to generate a favorable level of earnings despite an increasingly competitive marketplace that has placed pressure on our net interest spread," remarked Tracey E. McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "The credit quality of the loan portfolio remained healthy despite lower commodity prices for crops and the System's profitability has allowed us to further strengthen our capital levels."

Results of Operations

First Quarter 2015 Compared to First Quarter 2014

Net interest income was \$1.727 billion for the first quarter of 2015, as compared with \$1.660 billion for the first quarter of the prior year. The increase in net interest income primarily resulted 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 \$16.367 billion or 6.5% to \$268.552 billion for the first quarter of 2015, as compared with the first quarter of 2014.

The net interest margin was 2.57% for the quarter ended March 31, 2015, as compared with 2.63% for the quarter ended March 31, 2014. The decline in the net interest margin resulted from a decrease in the net interest spread of six basis points to 2.43%, as compared with the first quarter of 2014. The decline in the net interest spread resulted primarily from competitive pressures.

The System recognized a provision for loan losses of \$27 million for the first quarter of 2015, as compared with a loan loss reversal of \$12 million during the first quarter of 2014. The provision for loan losses for the first quarter of 2015 consisted of \$38 million of provisions for loan losses recorded by certain System institutions, partially offset by \$11 million of loan loss reversals recorded by other System institutions. The provision for loan losses for the first quarter of 2015 primarily reflected industry-specific reserves due to continued low grain commodity prices and modest deterioration of credit quality in certain sectors of the loan portfolio. The loan loss reversal for the first quarter of 2014 reflected the overall strong credit quality of the loan portfolio.

Noninterest income decreased \$4 million or 2.8% to \$141 million for the first quarter of 2015, as compared with the first quarter of 2014. Noninterest expense increased \$40 million or 6.6% to \$647 million for the first quarter of 2015, as compared with the first quarter of 2014, due primarily to increases in salaries and employee benefits and all other operating expenses. Employee benefits increased \$21 million primarily due to an increase in pension expense resulting from a decrease in the discount rate used to calculate the net periodic benefit cost and updated mortality tables reflecting increases in life expectancy. In addition, employee benefits increased due to rising health insurance costs and increased staffing levels. Salaries expense increased \$8 million as result of annual merit increases and higher staffing levels at certain System institutions. All other operating expenses increased \$15 million primarily due to increases in occupancy and equipment, purchased services and various administrative expenses.

The provision for income taxes was \$62 million and \$65 million for the first quarter of 2015 and 2014. The effective tax rate decreased from 5.4% for the first quarter of 2014 to 5.2% for the first quarter of 2015 due to decreased earnings at certain taxable System institutions.

First Quarter 2015 Compared to Fourth Quarter 2014

Net income decreased to \$1.132 billion for the first quarter of 2015, as compared with \$1.155 billion for the fourth quarter of 2014. Contributing to the modest decrease in net income were decreases in noninterest income of \$70 million and net interest income of \$21 million and an increase in the provision for income taxes of \$15 million. Noninterest income decreased primarily due to a decrease in fees for financially related services. Partially offsetting these decreases in net income were decreases in noninterest expense of \$77 million, largely due to decreases in salaries and employee benefits, purchased services and other operating expense, and provision for loan losses of \$6 million.

Loan Portfolio Activity

Gross loans decreased \$891 million or 0.4% to \$216.163 billion at March 31, 2015, as compared with \$217.054 billion at December 31, 2014. The decrease primarily resulted from a decrease in production and intermediate-term loans primarily driven by borrowers' tax planning strategies at the end of 2014 which resulted in significant repayments in early 2015 and to seasonal repayments on operating lines of credit as borrowers sold crops and paid down lines of credit. This decrease was offset, in part, by an increase in agribusiness loans due to increased lending to food and agribusiness companies, seasonal borrowings by agribusiness cooperatives, and advances on existing processing and marketing loans.

Credit Quality

The System's accruing loan volume was \$214.755 billion at March 31, 2015, as compared with \$215.679 billion at December 31, 2014. Nonaccrual loans increased \$33 million to \$1.408 billion at March 31, 2015, as compared with \$1.375 billion at December 31, 2014. At March 31, 2015, 57.7% of nonaccrual loans were current as to principal and interest, as compared with 62.4% at December 31, 2014.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$34 million to \$1.771 billion at March 31, 2015, as compared with \$1.737 billion at December 31, 2014. These nonperforming loans represented 0.82% of the System's loans at March 31, 2015 and 0.80% at December 31, 2014.

The System's other credit quality indicators remained favorable during the first quarter of 2015. 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 98.0% at March 31, 2015 and 98.2% at December 31, 2014. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.28% at March 31, 2015, as compared with 0.30% at March 31, 2014.

The allowance for loan losses was \$1.251 billion at March 31, 2015, as compared with \$1.237 billion at December 31, 2014. Net loan recoveries of \$1 million were recorded during the first quarter of 2015, as compared with net loan charge-offs of \$3 million for the first quarter of 2014. The allowance for loan losses as a percentage of total loans was 0.58% at March 31, 2015, as compared with 0.57% at December 31, 2014. The allowance for loan losses was 71% of the System's total nonperforming loans and 89% of its nonaccrual loans at March 31, 2015, as compared with 71% and 90% at December 31, 2014. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$48.095 billion at March 31, 2015 and \$46.943 billion at December 31, 2014, and represented 22.2% of System loans at March 31, 2015, as compared with 21.6% at December 31, 2014.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were \$54.946 billion at March 31, 2015 and \$57.839 billion at December 31, 2014. The System's liquidity position was 183 days of coverage of maturing debt at March 31, 2015, as compared with 173 days at December 31, 2014.

Total capital increased \$1.138 billion during the first quarter of 2015 to \$46.844 billion. The System's surplus increased \$829 million to \$38.604 billion during the first quarter of 2015 due to net income earned and retained. Capital as a percentage of total assets increased to 16.8% at March 31, 2015, as compared with 16.2% at December 31, 2014.

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 Banks and 76 affiliated Associations. Unlike commercial banks, the Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities.

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 www.farmcreditfunding.com. Additional information regarding the Farm Credit System is available on the System's website at www.farmcredit.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

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Cash and investments	\$ 54,946	\$ 57,839
Loans	216,163	217,054
Less: allowance for loan losses	<u>(1,251)</u>	<u>(1,237)</u>
Net loans	<u>214,912</u>	<u>215,817</u>
Accrued interest receivable	1,686	1,824
Other assets	3,609	3,614
Restricted assets	<u>3,816</u>	<u>3,750</u>
Total assets	<u><u>\$278,969</u></u>	<u><u>\$282,844</u></u>
Systemwide Debt Securities:		
Due within one year	\$ 81,849	\$ 86,932
Due after one year	<u>140,323</u>	<u>138,505</u>
Total Systemwide Debt Securities	<u>222,172</u>	<u>225,437</u>
Subordinated debt	1,555	1,555
Other bonds	2,496	3,627
Other liabilities	<u>5,902</u>	<u>6,519</u>
Total liabilities	<u><u>232,125</u></u>	<u><u>237,138</u></u>
Preferred stock	2,732	2,698
Capital stock	1,670	1,676
Additional paid-in-capital	1,180	1,104
Restricted capital	3,816	3,750
Accumulated other comprehensive loss	(1,158)	(1,297)
Surplus	<u>38,604</u>	<u>37,775</u>
Total capital	<u>46,844</u>	<u>45,706</u>
Total liabilities and capital	<u><u>\$278,969</u></u>	<u><u>\$282,844</u></u>

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2015	2014
Interest income	\$2,283	\$2,181
Interest expense	<u>(556)</u>	<u>(521)</u>
Net interest income	1,727	1,660
(Provision for loan losses) loan loss reversal	(27)	12
Noninterest income	141	145
Noninterest expense	<u>(647)</u>	<u>(607)</u>
Income before income taxes	1,194	1,210
Provision for income taxes	<u>(62)</u>	<u>(65)</u>
Net income	<u><u>\$1,132</u></u>	<u><u>\$1,145</u></u>

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 54,946	\$ 57,839	\$ 54,877	\$ 53,361	\$ 51,739
Loans	216,163	217,054	208,051	205,054	204,563
Less: allowance for loan losses	<u>(1,251)</u>	<u>(1,237)</u>	<u>(1,184)</u>	<u>(1,183)</u>	<u>(1,221)</u>
Net loans	<u>214,912</u>	<u>215,817</u>	<u>206,867</u>	<u>203,871</u>	<u>203,342</u>
Accrued interest receivable	1,686	1,824	2,223	1,788	1,605
Other assets	3,609	3,614	3,673	3,572	3,600
Restricted assets	<u>3,816</u>	<u>3,750</u>	<u>3,684</u>	<u>3,621</u>	<u>3,556</u>
Total assets	<u>\$278,969</u>	<u>\$282,844</u>	<u>\$271,324</u>	<u>\$266,213</u>	<u>\$263,842</u>
Systemwide Debt Securities:					
Due within one year	\$ 81,849	\$ 86,932	\$ 78,879	\$ 78,075	\$ 76,722
Due after one year	<u>140,323</u>	<u>138,505</u>	<u>135,473</u>	<u>134,296</u>	<u>134,936</u>
Total Systemwide Debt					
Securities	222,172	225,437	214,352	212,371	211,658
Subordinated debt	1,555	1,555	1,555	1,555	1,555
Other bonds	2,496	3,627	4,171	2,278	1,840
Other liabilities	<u>5,902</u>	<u>6,519</u>	<u>5,430</u>	<u>5,273</u>	<u>5,121</u>
Total liabilities	<u>232,125</u>	<u>237,138</u>	<u>225,508</u>	<u>221,477</u>	<u>220,174</u>
Preferred stock	2,732	2,698	2,559	2,471	2,500
Capital stock	1,670	1,676	1,667	1,647	1,630
Additional paid-in-capital	1,180	1,104	1,073	1,073	1,091
Restricted capital	3,816	3,750	3,684	3,621	3,556
Accumulated other comprehensive loss	(1,158)	(1,297)	(720)	(676)	(752)
Surplus	<u>38,604</u>	<u>37,775</u>	<u>37,553</u>	<u>36,600</u>	<u>35,643</u>
Total capital	<u>46,844</u>	<u>45,706</u>	<u>45,816</u>	<u>44,736</u>	<u>43,668</u>
Total liabilities and capital	<u>\$278,969</u>	<u>\$282,844</u>	<u>\$271,324</u>	<u>\$266,213</u>	<u>\$263,842</u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Interest income	\$2,283	\$2,283	\$2,232	\$2,206	\$2,181
Interest expense	<u>(556)</u>	<u>(535)</u>	<u>(524)</u>	<u>(518)</u>	<u>(521)</u>
Net interest income	1,727	1,748	1,708	1,688	1,660
(Provision for loan losses) loan loss reversal	(27)	(33)	(42)	23	12
Noninterest income	141	211	204	140	145
Noninterest expense	<u>(647)</u>	<u>(724)</u>	<u>(598)</u>	<u>(590)</u>	<u>(607)</u>
Income before income taxes	1,194	1,202	1,272	1,261	1,210
Provision for income taxes	<u>(62)</u>	<u>(47)</u>	<u>(44)</u>	<u>(65)</u>	<u>(65)</u>
Net income	<u>\$1,132</u>	<u>\$1,155</u>	<u>\$1,228</u>	<u>\$1,196</u>	<u>\$1,145</u>