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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF $4.688 BILLION FOR 2015

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

NEW YORK - The Farm Credit System today reported combined net income of $4.688 billion for the year ended December 31, 2015, as compared with $4.724 billion for the prior year. The System also reported combined net income of $1.207 billion for the fourth quarter of 2015, as compared with $1.155 billion for the fourth quarter of 2014.

"Despite facing a challenging environment, with modest economic growth and relatively low commodity prices, the System's fourth quarter and year-to-date results were solid," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "While we anticipate this volatile environment to persist in 2016, the System is well capitalized and the credit quality of the loan portfolio remains strong."

2015 Results of Operations

Combined net income decreased $36 million or 0.8% for the year ended December 31, 2015, as compared with the prior year. The decrease resulted primarily from increases in noninterest expense of $174 million and the provision for loan losses of $66 million and a decrease in noninterest income of $31 million, partially offset by an increase in net interest income of $211 million and a decrease in the provision for income taxes of $24 million.

Net interest income increased 3.1% to $7.015 billion for 2015, as compared with $6.804 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, partially offset by a lower net interest spread. Average earning assets grew $17.476 billion or 6.8% to $274.862 billion for 2015, as compared with the prior year.

Net interest margin decreased nine basis points to 2.55% for 2015, as compared with 2.64% for 2014. The decline in the net interest margin was due to a decrease in the net interest spread of ten basis points to 2.40% for 2015, as compared with 2.50% for 2014. The decline in the net interest spread was largely driven by competitive pressures, a changing product mix into lower spread lines of business and an increase in debt costs. 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 recognized provisions for loan losses of $106 million and $40 million for the years ended December 31, 2015 and 2014. The provision for loan losses for 2015 consisted of $135 million of provisions for loan losses recorded by certain System institutions, partially offset by $29 million of loan loss reversals recorded by other System institutions. The 2015 provisions for loan losses were primarily due to industry-specific reserves as a result of continued low grain commodity prices and a slight deterioration in credit quality of certain loans to a limited number of customers.

Noninterest income decreased $31 million or 4.4% to $669 million for 2015, as compared with $700 million for 2014 primarily due to decreases in mineral income of $56 million and net gains on derivative and other transactions of $20 million and an increase in losses on other-than-temporary impairment of investments of $11 million. Partially offsetting these decreases in noninterest income were increases in loan-related fees of $31 million and fees for financially related services of $17 million and a decrease in losses on extinguishment of debt of $16 million.

Noninterest expense increased $174 million or 6.9% to $2.693 billion for 2015, as compared with $2.519 billion for 2014 primarily due to increases in salaries and employee benefits and all other operating expenses. Employee benefits increased $65 million primarily due to an increase in pension expense and, to a lesser degree, rising health insurance costs and increased staffing levels. Salaries increased $37 million for 2015 primarily due to annual merit and performance-based compensation increases and, to a lesser extent, higher staffing levels at certain System institutions. All other operating expenses increased $50 million for 2015, as compared with 2014 primarily due to increases in occupancy and equipment expense, purchased services and various administrative expenses. Also contributing to the increase in noninterest expense were net losses on other property owned of $3 million for 2015, as compared to net gains on other property owned of $19 million for 2014.

The System recorded a provision for income taxes of $197 million for 2015, as compared with $221 million for 2014. The effective tax rate decreased to 4.0% for 2015 from 4.5% for 2014. The decrease in the effective tax rate was primarily attributable to decreased earnings at certain taxable System institutions and from a greater amount of patronage declared during 2015.

Fourth Quarter 2015 Results of Operations

Combined net income increased $52 million to $1.207 billion for the fourth quarter of 2015, as compared with $1.155 billion for the fourth quarter of 2014. The increase in net income between these periods primarily resulted from an increase in net interest income of $50 million and decreases in the provision for income taxes of $17 million and the provision for loan losses of $14 million, partially offset by an increase in noninterest expense of $24 million and a decrease in noninterest income of $5 million.

Net interest income increased 2.9% to $1.798 billion for the fourth quarter of 2015, as compared with $1.748 billion for the fourth quarter of 2014. The increase in net interest income resulted primarily from a higher level of average earning assets, largely due to increased loan volume, partially offset by a lower net interest spread. Average earning assets grew $20.035 billion or 7.6% to $285.022 billion for the fourth quarter of 2015, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2015 declined to 2.52%, as compared with 2.64% for the same period in the prior year and resulted primarily from a decrease in the net interest spread of 12 basis points to 2.37%, as compared with the fourth quarter of 2014. 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 System reported a provision for loan losses of $19 million for the fourth quarter of 2015, as compared with a provision for loan losses of $33 million for the fourth quarter of 2014. The provision for loan losses recorded in the fourth quarter of 2015 was primarily due to industry-specific reserves as a result of continued low grain commodity prices and, similar to 2014, specific credit challenges for a limited number of customers.

Noninterest income decreased $5 million to $206 million for the fourth quarter of 2015, as compared with $211 million for the fourth quarter of 2014. The decrease was primarily due to a decrease in mineral income of $21 million and net losses on derivative and other transactions of $6 million for the fourth quarter of 2015, as compared to net gains on derivative and other transactions of $13 million for the fourth quarter of 2014, partially offset by an increase in loan related fees of $37 million. Noninterest expense totaled $748 million for the fourth quarter of 2015, as compared with $724 million for the fourth quarter of 2014. The increase was primarily due to increases in salaries and employee benefits of $19 million and occupancy and equipment expense of $8 million, partially offset by a decrease in net losses on other property owned of $7 million.

The provisions for income taxes were $30 million and $47 million for the fourth quarter of 2015 and 2014. The effective tax rate decreased to 2.4% for the fourth quarter of 2015 from 3.9% for the fourth quarter of 2014 primarily due to lower earnings at certain taxable System institutions and from a greater amount of patronage declared during the fourth quarter of 2015.

Fourth Quarter 2015 Compared to Third Quarter 2015

Combined net income was $1.207 billion and $1.208 billion for the fourth quarter of 2015 and the third quarter of 2015. While net income remained relatively unchanged, the components changed. The System recognized an increase in noninterest expense of $94 million primarily due to increases in salaries, purchased services and other operating expense. Salaries increased primarily as a result of increases in performance-based compensation. Positively impacting net income were increases in net interest income of $31 million and noninterest income of $29 million and decreases in the provision for loan losses of $18 million and the provision for income taxes of $15 million.

Loan Portfolio Activity

Gross loans increased $18.836 billion or 8.7% to $235.890 billion at December 31, 2015, as compared with $217.054 billion at December 31, 2014. This increase was primarily attributable to increases in real estate mortgage, agribusiness, energy and production and intermediate-term loans. Real estate mortgage loans increased primarily due to continued demand for cropland. The increase in agribusiness loans was due to an increase in advances on existing processing and marketing loans. The increase in energy loans resulted from increased lending activity in the rural electric distribution and power supply sectors. Production and intermediate-term loans increased due to loan growth driven by borrower tax planning strategies and a greater utilization of operating lines as well as increases in equipment financing.

Credit Quality

The System's accruing loan volume was $234.566 billion at December 31, 2015, as compared with $215.679 billion at December 31, 2014. Nonaccrual loans were $1.324 billion at December 31, 2015, as compared with $1.375 billion at December 31, 2014. The decrease of $51 million in nonaccrual loans during 2015 was primarily due to loan repayments in excess of loans being transferred into nonaccrual status, reinstatements to accrual status, charge-offs and an improvement in the credit quality of certain loans. At December 31, 2015, 60.5% of nonaccrual loans were current as to principal and interest, as compared with 62.4% at December 31, 2014.

Nonperforming assets (which consist of nonperforming loans and other property owned) were $1.725 billion at December 31, 2015, as compared with $1.869 billion at December 31, 2014. Other property owned was $96 million at December 31, 2015 and $132 million at December 31, 2014. Nonperforming assets represented 0.73% of the System's loans and other property owned at December 31, 2015, a decrease from 0.86% at December 31, 2014. Nonperforming assets represented 3.5% of total capital at December 31, 2015, as compared with 4.1% at December 31, 2014.

The System's other credit quality indicators also remained at generally favorable levels at December 31, 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 98.1% at December 31, 2015, as compared with 98.2% at December 31, 2014. Loan delinquencies, which are defined as accruing loans 30 days or more past due as a percentage of accruing loans, was 0.20% at December 31, 2015, as compared with 0.23% at December 31, 2014.

The allowance for loan losses was $1.280 billion at December 31, 2015, as compared with $1.237 billion at December 31, 2014. Net loan charge-offs of $37 million were recorded during 2015, as compared with net loan charge-offs of $68 million for 2014. The allowance for loan losses as a percentage of total loans was 0.54% at December 31, 2015 and 0.57% at December 31, 2014. The allowance for loan losses was 79% of the System's total nonperforming loans and 97% of its nonaccrual loans at December 31, 2015, as compared with 71% and 90% at December 31, 2014. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $50.114 billion at December 31, 2015 and $46.943 billion at December 31, 2014, and represented 21.2% of System loans at December 31, 2015, as compared with 21.6% at December 31, 2014.

Agricultural Outlook

The February 2016 United States Department of Agriculture (USDA) forecast estimates 2015 farmers' net cash income (a measure of the cash income after payment of business expenses) at $93.2 billion, down $34.9 billion from 2014 and $7.8 billion below its 10-year average of $101.0 billion. The USDA's February 2016 outlook for the farm economy, as a whole, forecasts 2016 farmers' net cash income to decrease to $90.9 billion, a $2.3 billion decrease from 2015 and $10.1 billion below the 10-year average. The projected decrease in farmers' net cash income from 2015 to 2016 is primarily due to an expected decrease in cash receipts of $9.5 billion, partially offset by a decrease in cash expenses of $3.5 billion and an increase in direct government payments of $3.3 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased $1.539 billion to $59.378 billion at December 31, 2015, as compared with $57.839 billion at year-end 2014. The System's liquidity position was 181 days and 173 days at December 31, 2015 and 2014. 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 $3.128 billion to $48.834 billion at December 31, 2015, as compared with $45.706 billion at December 31, 2014. The System's surplus increased $2.683 billion to $40.458 billion at December 31, 2015, as compared with $37.775 billion at December 31, 2014. The increase was due to net income earned and retained, partially offset by patronage distributions of $1.281 billion. Capital as a percentage of total assets was 16.1% at December 31, 2015, as compared with 16.2% at December 31, 2014.

Accumulated other comprehensive loss increased $150 million during 2015 to $1.447 billion at December 31, 2015. This increase principally resulted from a decrease in unrealized gains on investments available-for-sale of $125 million due to an increase in long-term interest rates lowering the value of existing fixed-rate investment securities.

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 74 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 2015 financial results discussed herein are preliminary and unaudited. 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, 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, 2015	December 31, 2014
Cash and investments	$ 59,378	$ 57,839
Loans	235,890	217,054
Less: allowance for loan losses	(1,280)	(1,237)
Net loans	234,610	215,817
Accrued interest receivable	1,973	1,824
Other assets	3,503	3,503
Restricted assets	4,039	3,750
Total assets	$303,503	$282,733
Systemwide Debt Securities:		
Due within one year	$ 91,622	$ 86,927
Due after one year	151,713	138,404
Total Systemwide Debt Securities	243,335	225,331
Subordinated debt	1,550	1,550
Other bonds	2,879	3,627
Other liabilities	6,905	6,519
Total liabilities	254,669	237,027
Preferred stock	2,742	2,698
Capital stock	1,726	1,676
Additional paid-in-capital	1,316	1,104
Restricted capital	4,039	3,750
Accumulated other comprehensive loss	(1,447)	(1,297)
Surplus	40,458	37,775
Total capital	48,834	45,706
Total liabilities and capital	$303,503	$282,733

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2015	2014	2015	2014
Interest income	$2,430	$2,283	$9,378	$8,902
Interest expense	(632)	(535)	(2,363)	(2,098)
Net interest income	1,798	1,748	7,015	6,804
Provision for loan losses	(19)	(33)	(106)	(40)
Noninterest income	206	211	669	700
Noninterest expense	(748)	(724)	(2,693)	(2,519)
Income before income taxes	1,237	1,202	4,885	4,945
Provision for income taxes	(30)	(47)	(197)	(221)
Net income	$1,207	$1,155	$4,688	$4,724

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Cash and investments	$ 59,378	$ 55,880	$ 54,400	$ 54,946	$ 57,839
Loans	235,890	226,844	220,535	216,163	217,054
Less: allowance for loan losses	(1,280)	(1,246)	(1,233)	(1,251)	(1,237)
Net loans	234,610	225,598	219,302	214,912	215,817
Accrued interest receivable	1,973	2,366	1,897	1,686	1,824
Other assets	3,503	3,533	3,587	3,496	3,503
Restricted assets	4,039	3,964	3,889	3,816	3,750
Total assets	$303,503	$291,341	$283,075	$278,856	$282,733
Systemwide Debt Securities	$243,335	$231,219	$225,160	$222,064	$225,331
Subordinated debt	1,550	1,550	1,550	1,550	1,550
Other bonds	2,879	3,410	2,690	2,496	3,627
Other liabilities	6,905	6,284	5,890	5,902	6,519
Total liabilities	254,669	242,463	235,290	232,012	237,027
Preferred stock	2,742	2,783	2,729	2,732	2,698
Capital stock	1,726	1,714	1,692	1,670	1,676
Additional paid-in-capital	1,316	1,183	1,180	1,180	1,104
Restricted capital	4,039	3,964	3,889	3,816	3,750
Accumulated other comprehensive loss	(1,447)	(1,108)	(1,181)	(1,158)	(1,297)
Surplus	40,458	40,342	39,476	38,604	37,775
Total capital	48,834	48,878	47,785	46,844	45,706
Total liabilities and capital	$303,503	$291,341	$283,075	$278,856	$282,733

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Interest income	$2,430	$2,369	$2,296	$2,283	$2,283
Interest expense	(632)	(602)	(573)	(556)	(535)
Net interest income	1,798	1,767	1,723	1,727	1,748
Provision for loan losses	(19)	(37)	(23)	(27)	(33)
Noninterest income	206	177	145	141	211
Noninterest expense	(748)	(654)	(644)	(647)	(724)
Income before income taxes	1,237	1,253	1,201	1,194	1,202
Provision for income taxes	(30)	(45)	(60)	(62)	(47)
Net income	$1,207	$1,208	$1,141	$1,132	$1,155