



FEDERAL FARM CREDIT BANKS

**FUNDING CORPORATION**

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## *Press Release*

Thursday, May 1, 2014

### **FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2014 COMBINED RESULTS**

For 4:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported that combined net income for the quarter ended March 31, 2014 was \$1.145 billion, relatively unchanged as compared with combined net income of \$1.142 billion for the same period of the prior year.

"The System's net income during the first quarter of 2014 reflected the increasingly competitive agricultural lending environment that has put pressure on the net interest spread," noted Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "Credit quality of the System's loan portfolio remained at favorable levels and capital increased. As we look ahead, the agricultural economic environment is expected to be more challenging as interest rates rise and commodity prices for crops moderate."

#### **Results of Operations**

##### **First Quarter 2014 Compared to First Quarter 2013**

Net interest income was \$1.660 billion for the first quarter of 2014, as compared with \$1.677 billion for the first quarter of the prior year. The decrease in net interest income primarily resulted from a decrease in the net interest spread offset, in part, by a higher level of average earning assets. Average earning assets grew \$15.121 billion or 6.4% to \$252.185 billion for the first quarter of 2014, as compared with the first quarter of 2013.

The net interest margin was 2.63% for the quarter ended March 31, 2014, as compared with 2.83% for the quarter ended March 31, 2013. The decline in the net interest margin resulted from a decrease in the net interest spread of 21 basis points to 2.49%, as compared with the first quarter of 2013. The decline in the net interest spread resulted primarily from competitive pressures and from greater average loan volume in lower spread lines of business. Although the net interest spread was positively impacted by the Banks' ability to refinance debt, the decrease in the net interest spread reflected the lesser amount of debt being called, as compared to the same period of the prior year. The Banks called debt totalling \$6.4 billion during the first quarter of 2014, as compared with \$9.9 billion for the first quarter of 2013.

The System recognized a loan loss reversal of \$12 million for the first quarter of 2014, as compared with a provision for loan losses of \$22 million during the first quarter of 2013. The loan loss reversal for the first quarter of 2014 consisted of \$17 million of loan loss reversals recorded by certain System institutions, partially offset by \$5 million of provisions for loan losses recorded by other System institutions. The loan loss reversal reflected the overall strong credit

quality of the loan portfolio. The provision for loan losses for the first quarter of 2013 primarily reflected specific credit challenges related to a small number of communication customers.

Noninterest income increased \$23 million or 18.9% to \$145 million for the first quarter of 2014, as compared with the first quarter of 2013. The increase was primarily due to a \$16 million decrease in losses on extinguishment of debt as the Banks called and repurchased less debt in the first quarter of 2014, as compared with the same period of the prior year.

Noninterest expense increased \$31 million or 5.4% to \$607 million for the first quarter of 2014, as compared with the first quarter of 2013, due, in part, to an increase in salaries and employee benefits. Salaries and employee benefits increased as result of annual merit increases and higher staffing levels at certain System institutions offset, in part, by a decrease in pension expense.

The provision for income taxes was \$65 million and \$59 million for the first quarters of 2014 and 2013. The effective tax rate increased from 4.9% for the first quarter of 2013 to 5.4% for the first quarter of 2014 due to increased earnings at certain taxable System institutions.

#### First Quarter 2014 Compared to Fourth Quarter 2013

Net income was relatively unchanged at \$1.145 billion for the first quarter of 2014, as compared with \$1.141 billion for the fourth quarter of 2013. Contributing to the slight increase in net income was a decrease in noninterest expense of \$109 million primarily due to decreases in salaries and employee benefits and losses on other property owned. Net income was also impacted by decreases in net interest income of \$33 million, noninterest income of \$32 million and a loan loss reversal of \$28 million and by a \$12 million increase in the provision for income taxes.

#### Loan Portfolio Activity

Gross loans increased \$3.503 billion or 1.7% to \$204.563 billion at March 31, 2014, as compared with \$201.060 billion at December 31, 2013. The increase primarily resulted from an increase in loans to cooperatives due to seasonal borrowings by agribusiness customers, primarily in the farm supply and grain marketing sectors. This increase was offset, in part, by a decrease in production and intermediate-term loans due to seasonal repayments on operating lines of credit as borrowers sold crops to pay down lines of credit.

#### Credit Quality

The System's accruing loan volume was \$202.852 billion at March 31, 2014, as compared with \$199.324 billion at December 31, 2013. Nonaccrual loans decreased \$25 million to \$1.711 billion at March 31, 2014, as compared with \$1.736 billion at December 31, 2013. This decrease in nonaccrual loans 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 March 31, 2014, 60.3% 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) increased \$28 million to \$2.068 billion at March 31, 2014, as compared with \$2.040 billion at December 31, 2013. These nonperforming loans represented 1.01% of the System's loans at both March 31, 2014 and December 31, 2013.

The System's other credit quality indicators remained at generally favorable levels during the first quarter of 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 was 97.7% at both March 31, 2014 and December 31, 2013. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.30% at March 31, 2014, as compared with 0.31% at March 31, 2013.

The allowance for loan losses was \$1.221 billion at March 31, 2014, as compared with \$1.238 billion at December 31, 2013. Net loan charge-offs of \$3 million were recorded during the first quarter of 2014, as compared with net loan charge-offs of \$18 million for the first quarter of 2013. The allowance for loan losses as a percentage of total loans was 0.60% at March 31, 2014, as compared with 0.62% at December 31, 2013. The allowance for loan losses was 59% of the System's total nonperforming loans and 71% of its nonaccrual loans at March 31, 2014, as compared with 61% and 71% at December 31, 2013. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$44.889 billion at March 31, 2014 and \$43.839 billion at December 31, 2013, and represented 21.9% of System loans at March 31, 2014, as compared with 21.8% at December 31, 2013.

### **Liquidity and Capital Resources**

Cash and investments (principally all of which were held for liquidity purposes) were \$51.739 billion at March 31, 2014 and \$51.893 billion at December 31, 2013. The System's liquidity position was 183 days of coverage of maturing debt at March 31, 2014, as compared with 194 days at December 31, 2013.

Total capital increased \$1.067 billion during the first quarter of 2014 to \$43.668 billion. The System's surplus increased \$583 million to \$35.643 billion during the first quarter of 2014 due to net income earned and retained. Capital as a percentage of total assets increased to 16.6% at March 31, 2014, as compared with 16.3% at December 31, 2013.

### **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 78 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](http://www.farmcreditfunding.com). Additional information regarding the Farm Credit System is available on the System's website at [www.farmcredit.com](http://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**

	<b>March 31, 2014</b> (unaudited)	<b>December 31, 2013</b> (audited)
Cash and investments	\$ 51,739	\$ 51,893
Loans	204,563	201,060
Less: allowance for loan losses	<u>(1,221)</u>	<u>(1,238)</u>
Net loans	<u>203,342</u>	<u>199,822</u>
Accrued interest receivable	1,605	1,719
Other assets	3,600	3,852
Restricted assets	<u>3,556</u>	<u>3,496</u>
Total assets	<u><u>\$263,842</u></u>	<u><u>\$260,782</u></u>
Systemwide Debt Securities:		
Due within one year	\$ 76,722	\$ 70,132
Due after one year	<u>134,936</u>	<u>137,357</u>
Total Systemwide Debt Securities	211,658	207,489
Subordinated debt	1,555	1,555
Other bonds	1,840	3,215
Other liabilities	<u>5,121</u>	<u>5,922</u>
Total liabilities	<u><u>220,174</u></u>	<u><u>218,181</u></u>
Preferred stock	2,500	2,469
Capital stock	1,630	1,645
Additional paid-in-capital	1,091	738
Restricted capital	3,556	3,496
Accumulated other comprehensive loss	(752)	(807)
Surplus	<u>35,643</u>	<u>35,060</u>
Total capital	<u><u>43,668</u></u>	<u><u>42,601</u></u>
Total liabilities and capital	<u><u>\$263,842</u></u>	<u><u>\$260,782</u></u>

**STATEMENT OF INCOME DATA**

	<b>For the Quarter Ended March 31, (unaudited)</b> <b>2014</b>	<b>2013</b>
Interest income	\$2,181	\$2,155
Interest expense	<u>(521)</u>	<u>(478)</u>
Net interest income	1,660	1,677
Loan loss reversal (provision for loan losses)	12	(22)
Noninterest income	145	122
Noninterest expense	<u>(607)</u>	<u>(576)</u>
Income before income taxes	1,210	1,201
Provision for income taxes	<u>(65)</u>	<u>(59)</u>
Net income	<u><u>\$1,145</u></u>	<u><u>\$1,142</u></u>

**FARM CREDIT SYSTEM**  
**COMBINED FINANCIAL STATEMENT DATA**  
(in millions)

**Statement of Condition Data - Five Quarter Trend**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>June 30, 2013</b>	<b>March 31, 2013</b>
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 51,739	\$ 51,893	\$ 50,459	\$ 47,755	\$ 48,138
Loans	204,563	201,060	194,211	192,784	191,797
Less: allowance for loan losses	<u>(1,221)</u>	<u>(1,238)</u>	<u>(1,237)</u>	<u>(1,323)</u>	<u>(1,341)</u>
Net loans	<u>203,342</u>	<u>199,822</u>	<u>192,974</u>	<u>191,461</u>	<u>190,456</u>
Accrued interest receivable	1,605	1,719	2,137	1,765	1,611
Other assets	3,600	3,852	3,863	4,098	3,956
Restricted assets	<u>3,556</u>	<u>3,496</u>	<u>3,447</u>	<u>3,396</u>	<u>3,344</u>
Total assets	<u>\$263,842</u>	<u>\$260,782</u>	<u>\$252,880</u>	<u>\$248,475</u>	<u>\$247,505</u>
Systemwide Debt Securities:					
Due within one year	\$ 76,722	\$ 70,132	\$ 66,089	\$ 65,171	\$ 65,388
Due after one year	<u>134,936</u>	<u>137,357</u>	<u>134,799</u>	<u>133,872</u>	<u>133,617</u>
Total Systemwide Debt					
Securities	211,658	207,489	200,888	199,043	199,005
Subordinated debt	1,555	1,555	1,555	1,555	1,555
Other bonds	1,840	3,215	3,175	2,066	1,662
Other liabilities	<u>5,121</u>	<u>5,922</u>	<u>5,513</u>	<u>5,230</u>	<u>5,639</u>
Total liabilities	<u>220,174</u>	<u>218,181</u>	<u>211,131</u>	<u>207,894</u>	<u>207,861</u>
Preferred stock	2,500	2,469	2,378	2,204	2,053
Capital stock	1,630	1,645	1,637	1,618	1,607
Additional paid-in-capital	1,091	738	738	738	738
Restricted capital	3,556	3,496	3,447	3,396	3,344
Accumulated other comprehensive loss	(752)	(807)	(1,171)	(1,122)	(979)
Surplus	<u>35,643</u>	<u>35,060</u>	<u>34,720</u>	<u>33,747</u>	<u>32,881</u>
Total capital	<u>43,668</u>	<u>42,601</u>	<u>41,749</u>	<u>40,581</u>	<u>39,644</u>
Total liabilities and capital	<u>\$263,842</u>	<u>\$260,782</u>	<u>\$252,880</u>	<u>\$248,475</u>	<u>\$247,505</u>

**Statement of Income Data – Five Quarter Trend** (unaudited)

<b>For the three months ended:</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>June 30, 2013</b>	<b>March 31, 2013</b>
Interest income	\$2,181	\$2,203	\$2,163	\$2,110	\$2,155
Interest expense	<u>(521)</u>	<u>(510)</u>	<u>(494)</u>	<u>(475)</u>	<u>(478)</u>
Net interest income	1,660	1,693	1,669	1,635	1,677
Loan loss reversal (provision for loan losses)	12	40	32	(19)	(22)
Noninterest income	145	177	180	142	122
Noninterest expense	<u>(607)</u>	<u>(716)</u>	<u>(577)</u>	<u>(596)</u>	<u>(576)</u>
Income before income taxes	1,210	1,194	1,304	1,162	1,201
Provision for income taxes	<u>(65)</u>	<u>(53)</u>	<u>(51)</u>	<u>(58)</u>	<u>(59)</u>
Net income	<u>\$1,145</u>	<u>\$1,141</u>	<u>\$1,253</u>	<u>\$1,104</u>	<u>\$1,142</u>