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Press Release

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FARM CREDIT SYSTEM REPORTS 2014 SECOND QUARTER AND SIX-MONTH NET INCOME

For 1:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported combined net income of $1.196 billion and $2.341 billion for the three and six months ended June 30, 2014, as compared with combined net income of $1.104 billion and $2.246 billion for the same periods last year.

"The System continued to generate solid 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 increase in net income resulted primarily from growth in average earning assets and to loan loss reversals reflecting the strong credit quality of the System's loan portfolio."

Results of Operations

Second Quarter and Six-Month 2014 Results Compared to Second Quarter and Six-Month 2013 Results

Combined net income increased $92 million or 8.3% and $95 million or 4.2% for the three and six months ended June 30, 2014, as compared with the same periods in 2013. The increase for the three-month period resulted primarily from an increase in net interest income of $53 million and a loan loss reversal of $23 million, as compared with a provision for loan losses of $19 million in the prior year period. The increase for the six-month period was primarily due to a loan loss reversal of $35 million, as compared with a provision for loan losses of $41 million in the prior year period and to increases in net interest income of $36 million and noninterest income of $21 million, partially offset by a $25 million increase in noninterest expense and a $13 million increase in the provision for income taxes.

Net interest income increased to $1.688 billion and $3.348 billion for the three and six months ended June 30, 2014, as compared with $1.635 billion and $3.312 billion for the same periods of the prior year. The increases in net interest income for both periods of 2014 resulted primarily from a higher level of average earning assets. Average earning assets increased $17.149 billion and $16.140 billion to $255.015 billion and $253.594 billion for the three and six months ended June 30, 2014, as compared with the prior year periods. The higher levels of average earning assets were primarily due to the continued growth in the System's loan portfolio and, to a lesser extent, growth in the investment portfolio.

The net interest margin was 2.65% and 2.64% for the three and six months ended June 30, 2014, as compared with 2.75% and 2.79% for the three and six months ended June 30, 2013. The decline in the net interest margin for the three- and six-month periods resulted from a decrease in the net interest spread of 11 and 15 basis points to 2.50% for both periods, as compared with 2.61% and 2.65% for the same periods of the prior year. The decline in the net interest spread resulted primarily from 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 $10.9 billion during the first six months of 2014, as compared with $19.9 billion during the first six months of 2013.

The System recognized loan loss reversals of $23 million and $35 million for the three and six months ended June 30, 2014, as compared with provisions for loan losses of $19 million and $41 million for the three and six months ended June 30, 2013. The loan loss reversal for the first six months of 2014 consisted of $67 million of loan loss reversals recorded by certain System institutions, partially offset by $32 million of provisions for loan losses recorded by other System institutions. The loan loss reversal for the six months ended June 30, 2014 reflected the overall strong credit quality of the loan portfolio, while the provision for loan losses recorded by certain System institutions primarily reflected specific credit challenges for a limited number of customers.

Noninterest income decreased $2 million to $140 million and increased $21 million to $285 million for the three and six months ended June 30, 2014, as compared with the same periods of the prior year. The decrease for the three-month period primarily resulted from a $12 million increase in losses on extinguishment of debt offset, in part, by a $9 million increase in mineral income. The increase for the six-month period was primarily due to increases in mineral income of $12 million, net gains on derivative and other transactions of $5 million and income earned on Insurance Fund assets of $4 million. Also contributing to the increase in noninterest income was a $4 million decrease in net other-than-temporary impairment losses on investments. Partially offsetting these improvements in noninterest income for the six-month period was a $5 million decrease in gains on sales of investments and other assets, net.

Noninterest expense decreased $6 million to $590 million and increased $25 million to $1.197 billion for the three and six months ended June 30, 2014, as compared with the same periods of the prior year. The decrease for the three-month period resulted from a $14 million net gain on other property owned, as compared with a $20 million net loss on other property owned for the same period in the prior year offset, in part, by increases in salaries and employee benefits of $18 million and other operating expense of $7 million. The increase for the six-month period was primarily due to increases in salaries and employee benefits of $37 million, other operating expense of $11 million and occupancy and equipment expense of $8 million offset, in part, by $13 million of net gains on other property owned, as compared with $21 million of net losses on other property owned for the prior year period. The increase in salaries was a result of annual merit increases and higher staffing levels at certain System institutions offset, in part, by a decrease in pension expense.

The provisions for income taxes were $65 million and $130 million for the three and six months ended June 30, 2014, as compared with $58 million and $117 million for the three and six months ended June 30, 2013. The effective tax rate increased from 5.0% for the six months ended June 30, 2013 to 5.3% for the six months ended June 30, 2014 due to increased earnings at certain taxable System institutions.

Second Quarter 2014 Compared to First Quarter 2014

Net income was $1.196 billion for the second quarter of 2014, as compared with net income of $1.145 billion for the first quarter of 2014. The increase in net income was due to increases in net interest income of $28 million and loan loss reversal of $11 million and to a decrease in noninterest expense of $17 million offset, in part, by a decrease in noninterest income of $5 million. The increase in net interest income was primarily due to increased loan volume in the second quarter. The decrease in noninterest expense was primarily due to net gains on the sale of other property owned in the second quarter.

Loan Portfolio Activity

Gross loans increased $3.994 billion or 2.0% to $205.054 billion at June 30, 2014, as compared with $201.060 billion at December 31, 2013. The increase primarily resulted from increases in loans to food and agribusiness companies and real estate mortgage loans. 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 and paid down lines of credit.

Credit Quality

The System's accruing loan volume was $203.480 billion at June 30, 2014, as compared with $199.324 billion at December 31, 2013. Nonaccrual loans decreased $162 million to $1.574 billion at June 30, 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. At June 30, 2014, 60.5% 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) decreased $157 million to $1.883 billion at June 30, 2014, as compared with $2.040 billion at December 31, 2013. These nonperforming loans represented 0.92% of the System's loans at June 30, 2014 and 1.01% at December 31, 2013.

The System's other credit quality indicators also improved during the second 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 were 97.9% at June 30, 2014 and 97.7% at 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 0.25% at June 30, 2014, as compared with 0.29% at June 30, 2013.

The allowance for loan losses was $1.183 billion at June 30, 2014, as compared with $1.238 billion at December 31, 2013. Net loan charge-offs of $16 million were recorded during the first six months of 2014, as compared with net loan charge-offs of $61 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.58% at June 30, 2014 and 0.62% at December 31, 2013. The allowance for loan losses was 63% of the System's total nonperforming loans and 75% of its nonaccrual loans at June 30, 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 $45.919 billion at June 30, 2014 and $43.839 billion at December 31, 2013, and represented 22.4% of System loans at June 30, 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) was $53.361 billion at June 30, 2014 and $51.893 billion at December 31, 2013. The System's liquidity position represented 175 days coverage of maturing debt obligations at June 30, 2014, as compared with 194 days at December 31, 2013.

Total capital increased $2.135 billion during the first six months of 2014 to $44.736 billion. The System's surplus increased $1.540 billion to $36.600 billion during the first six months of 2014 due to net income earned and retained. Capital as a percentage of total assets increased to 16.8% at June 30, 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. 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

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Cash and investments	$ 53,361	$ 51,893
Loans	205,054	201,060
Less: allowance for loan losses	(1,183)	(1,238)
Net loans	203,871	199,822
Accrued interest receivable	1,788	1,719
Other assets	3,572	3,852
Restricted assets	3,621	3,496
Total assets	$266,213	$260,782
Systemwide Debt Securities:		
Due within one year	$ 78,075	$ 70,132
Due after one year	134,296	137,357
Total Systemwide Debt Securities	212,371	207,489
Subordinated debt	1,555	1,555
Other bonds	2,278	3,215
Other liabilities	5,273	5,922
Total liabilities	221,477	218,181
Preferred stock	2,471	2,469
Capital stock	1,647	1,645
Additional paid-in-capital	1,073	738
Restricted capital	3,621	3,496
Accumulated other comprehensive loss	(676)	(807)
Surplus	36,600	35,060
Total capital	44,736	42,601
Total liabilities and capital	$266,213	$260,782

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2014	**2013**	**2014**	**2013**
Interest income	$2,206	$2,110	$4,387	$4,265
Interest expense	(518)	(475)	(1,039)	(953)
Net interest income	1,688	1,635	3,348	3,312
Loan loss reversal (provision for loan losses)	23	(19)	35	(41)
Noninterest income	140	142	285	264
Noninterest expense	(590)	(596)	(1,197)	(1,172)
Income before income taxes	1,261	1,162	2,471	2,363
Provision for income taxes	(65)	(58)	(130)	(117)
Net income	$1,196	$1,104	$2,341	$2,246

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	June 30, 2014 (unaudited)	March 31, 2014 (unaudited)	December 31, 2013 (audited)	September 30, 2013 (unaudited)	June 30, 2013 (unaudited)
Cash and investments	$ 53,361	$ 51,739	$ 51,893	$ 50,459	$ 47,755
Loans	205,054	204,563	201,060	194,211	192,784
Less: allowance for loan losses	(1,183)	(1,221)	(1,238)	(1,237)	(1,323)
Net loans	203,871	203,342	199,822	192,974	191,461
Accrued interest receivable	1,788	1,605	1,719	2,137	1,765
Other assets	3,572	3,600	3,852	3,863	4,098
Restricted assets	3,621	3,556	3,496	3,447	3,396
Total assets	$266,213	$263,842	$260,782	$252,880	$248,475
Systemwide Debt Securities:					
Due within one year	$ 78,075	$ 76,722	$ 70,132	$ 66,089	$ 65,171
Due after one year	134,296	134,936	137,357	134,799	133,872
Total Systemwide Debt Securities	212,371	211,658	207,489	200,888	199,043
Subordinated debt	1,555	1,555	1,555	1,555	1,555
Other bonds	2,278	1,840	3,215	3,175	2,066
Other liabilities	5,273	5,121	5,922	5,513	5,230
Total liabilities	221,477	220,174	218,181	211,131	207,894
Preferred stock	2,471	2,500	2,469	2,378	2,204
Capital stock	1,647	1,630	1,645	1,637	1,618
Additional paid-in-capital	1,073	1,091	738	738	738
Restricted capital	3,621	3,556	3,496	3,447	3,396
Accumulated other comprehensive loss	(676)	(752)	(807)	(1,171)	(1,122)
Surplus	36,600	35,643	35,060	34,720	33,747
Total capital	44,736	43,668	42,601	41,749	40,581
Total liabilities and capital	$266,213	$263,842	$260,782	$252,880	$248,475

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**June 30, 2014**	**March 31, 2014**	**December 31, 2013**	**September 30, 2013**	**June 30, 2013**
Interest income	$2,206	$2,181	$2,203	$2,163	$2,110
Interest expense	(518)	(521)	(510)	(494)	(475)
Net interest income	1,688	1,660	1,693	1,669	1,635
Loan loss reversal (provision for loan losses)	23	12	40	32	(19)
Noninterest income	140	145	177	180	142
Noninterest expense	(590)	(607)	(716)	(577)	(596)
Income before income taxes	1,261	1,210	1,194	1,304	1,162
Provision for income taxes	(65)	(65)	(53)	(51)	(58)
Net income	$1,196	$1,145	$1,141	$1,253	$1,104