



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

Tuesday, November 4, 2014

FARM CREDIT SYSTEM REPORTS 2014 THIRD QUARTER AND NINE-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported combined net income of \$1.228 billion and \$3.569 billion for the three and nine months ended September 30, 2014, as compared with combined net income of \$1.253 billion and \$3.499 billion for the same periods last year.

"The System experienced growth in net interest income during the quarter despite the competitive environment," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation.

Results of Operations

Third Quarter and Nine-Month 2014 Results Compared to Third Quarter and Nine-Month 2013 Results

Combined net income decreased \$25 million or 2.0% for the three months ended September 30, 2014 but increased \$70 million or 2.0% for the nine months ended September 30, 2014, as compared with the same periods in 2013. The decrease for the three-month period resulted primarily from a provision for loan losses of \$42 million, as compared with a loan loss reversal of \$32 million for the third quarter of 2013, and an increase in noninterest expense of \$21 million, partially offset by increases in net interest income of \$39 million and noninterest income of \$24 million. The increase for the nine-month period was primarily due to increases in net interest income of \$75 million and noninterest income of \$45 million, partially offset by an increase in noninterest expense of \$46 million.

Net interest income increased to \$1.708 billion and \$5.056 billion for the three and nine months ended September 30, 2014, as compared with \$1.669 billion and \$4.981 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 \$17.689 billion and \$16.664 billion to \$257.660 billion and \$254.956 billion for the three and nine months ended September 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 nine months ended September 30, 2014, as compared with 2.78% and 2.79% for the same periods of the prior year. The decline in the net interest margin for both periods of 2014 resulted from a decrease in the net

interest spread of 13 and 15 basis points to 2.51% and 2.50%, as compared with 2.64% and 2.65% for the same periods of the prior year. The decline in the net interest spread resulted primarily from lower lending spreads due to competitive pressures, a greater average loan volume in lower spread lines of business and a lesser amount of debt being called. The Banks called debt totaling \$14.6 billion during the first nine months of 2014, as compared with \$21.1 billion during the first nine months of 2013.

The System recognized provisions for loan losses of \$42 million and \$7 million for the three and nine months ended September 30, 2014, as compared with a loan loss reversal of \$32 million and a provision for loan losses of \$9 million for the three and nine months ended September 30, 2013. Included in the third quarter of 2014 provision for loan losses was a \$42 million provision recorded by one Association, with assets totaling just under \$1 billion, related to its ongoing investigation of a sudden significant increase in delinquencies in a discrete portion of its loan portfolio during the quarter. The provision for loan losses for the nine months ended September 30, 2014 consisted of \$83 million of provisions for loan losses recorded by certain System institutions, partially offset by \$76 million of loan loss reversals recorded by other System institutions.

Noninterest income increased \$24 million to \$204 million and \$45 million to \$489 million for the three and nine months ended September 30, 2014, as compared with the same periods of the prior year. The increases for the three- and nine-month periods of 2014 were primarily due to increases in mineral income of \$7 million and \$19 million and net gains on the sales of investments and other assets of \$15 million and \$10 million. Partially offsetting these increases in noninterest income were decreases in loan-related fee income of \$3 million and \$6 million. Additionally, the increase for the nine-month period ended September 30, 2014 was due to decreases in losses on extinguishment of debt of \$7 million and losses on other-than-temporary impairment of investments of \$5 million.

Noninterest expense increased \$21 million and \$46 million to \$598 million and \$1.795 billion for the three and nine months ended September 30, 2014, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased \$11 million and \$48 million for the three and nine months ended September 30, 2014, as compared to the same periods of the prior year, as a result of annual merit increases and higher staffing levels at certain System institutions offset, in part, by a decrease in pension expense. Other operating expense increased \$8 million and \$19 million for the three and nine months ended September 30, 2014, as compared to the same periods of the prior year, due to increases in various administrative expenses. Partially offsetting these increases in noninterest expense were net gains on other property owned of \$18 million and \$31 million for the three and nine months ended September 30, 2014, as compared to net gains on other property owned of \$10 million and net losses on other property owned of \$11 million for the same periods of the prior year.

The provisions for income taxes were \$44 million and \$174 million for the three and nine months ended September 30, 2014, as compared with \$51 million and \$168 million for the three and nine months ended September 30, 2013. The effective tax rate was 4.6% for the nine months ended September 30, 2014 and 2013.

Third Quarter 2014 Compared to Second Quarter 2014

Net income was \$1.228 billion for the third quarter of 2014, as compared with net income of \$1.196 billion for the second quarter of 2014. The increase in net income was due to increases in noninterest income of \$64 million and net interest income of \$20 million and a decrease in the provision for income taxes of \$21 million. Partially offsetting these increases in net income was a provision for loan losses of \$42 million in the third quarter of 2014 as discussed above, as compared with a loan loss reversal of \$23 million for the prior quarter. The increase in noninterest income was primarily due to a greater amount of fees for financially related services in the third quarter of 2014, as compared to the second quarter of 2014.

Loan Portfolio Activity

Gross loans increased \$6.991 billion or 3.5% to \$208.051 billion at September 30, 2014, as compared with \$201.060 billion at December 31, 2013, primarily due to increases in real estate mortgage loans and agribusiness loans. Real estate mortgage loans increased primarily due to continued demand for cropland. The increase in agribusiness loans was 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 \$206.634 billion at September 30, 2014, as compared with \$199.324 billion at December 31, 2013. Nonaccrual loans decreased \$319 million to \$1.417 billion at September 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 September 30, 2014, 62.0% 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 \$276 million to \$1.764 billion at September 30, 2014, as compared with \$2.040 billion at December 31, 2013. These nonperforming loans represented 0.85% of the System's loans at September 30, 2014 and 1.01% at December 31, 2013.

The System's other credit quality indicators also improved during the first nine months 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 increased to 98.1% at September 30, 2014 from 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 0.22% at September 30, 2014, as compared with 0.25% at September 30, 2013.

The allowance for loan losses was \$1.184 billion at September 30, 2014, as compared with \$1.238 billion at December 31, 2013. Net loan charge-offs of \$17 million were recorded during the first nine months of 2014, as compared with net loan charge-offs of \$99 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.57% at September 30, 2014 and 0.62% at December 31, 2013. The allowance for loan losses was 67% of the System's total nonperforming loans and 84% of its nonaccrual loans at September 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 \$47.000

billion at September 30, 2014 and \$43.839 billion at December 31, 2013, and represented 22.6% of System loans at September 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 \$54.877 billion at September 30, 2014 and \$51.893 billion at December 31, 2013. The System's liquidity position represented 174 days coverage of maturing debt obligations at September 30, 2014, as compared with 194 days at December 31, 2013.

Total capital increased \$3.215 billion during the first nine months of 2014 to \$45.816 billion. The System's surplus increased \$2.493 billion to \$37.553 billion during the first nine months of 2014 due to net income earned and retained. Capital as a percentage of total assets increased to 16.9% at September 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 77 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

	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Cash and investments	\$ 54,877	\$ 51,893
Loans	208,051	201,060
Less: allowance for loan losses	<u>(1,184)</u>	<u>(1,238)</u>
Net loans	<u>206,867</u>	<u>199,822</u>
Accrued interest receivable	2,223	1,719
Other assets	3,673	3,852
Restricted assets	<u>3,684</u>	<u>3,496</u>
Total assets	<u><u>\$271,324</u></u>	<u><u>\$260,782</u></u>
Systemwide Debt Securities:		
Due within one year	\$ 78,879	\$ 70,132
Due after one year	<u>135,473</u>	<u>137,357</u>
Total Systemwide Debt Securities	214,352	207,489
Subordinated debt	1,555	1,555
Other bonds	4,171	3,215
Other liabilities	<u>5,430</u>	<u>5,922</u>
Total liabilities	<u><u>225,508</u></u>	<u><u>218,181</u></u>
Preferred stock	2,559	2,469
Capital stock	1,667	1,645
Additional paid-in-capital	1,073	738
Restricted capital	3,684	3,496
Accumulated other comprehensive loss	(720)	(807)
Surplus	<u>37,553</u>	<u>35,060</u>
Total capital	<u><u>45,816</u></u>	<u><u>42,601</u></u>
Total liabilities and capital	<u><u>\$271,324</u></u>	<u><u>\$260,782</u></u>

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30, (unaudited)		For the Nine Months Ended September 30, (unaudited)	
	2014	2013	2014	2013
Interest income	\$2,232	\$2,163	\$6,619	\$6,428
Interest expense	<u>(524)</u>	<u>(494)</u>	<u>(1,563)</u>	<u>(1,447)</u>
Net interest income	1,708	1,669	5,056	4,981
(Provision for loan losses) loan loss reversal	(42)	32	(7)	(9)
Noninterest income	204	180	489	444
Noninterest expense	<u>(598)</u>	<u>(577)</u>	<u>(1,795)</u>	<u>(1,749)</u>
Income before income taxes	1,272	1,304	3,743	3,667
Provision for income taxes	<u>(44)</u>	<u>(51)</u>	<u>(174)</u>	<u>(168)</u>
Net income	<u><u>\$1,228</u></u>	<u><u>\$1,253</u></u>	<u><u>\$3,569</u></u>	<u><u>\$3,499</u></u>

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	September 30, 2014 (unaudited)	June 30, 2014 (unaudited)	March 31, 2014 (unaudited)	December 31, 2013 (audited)	September 30, 2013 (unaudited)
Cash and investments	\$ 54,877	\$ 53,361	\$ 51,739	\$ 51,893	\$ 50,459
Loans	208,051	205,054	204,563	201,060	194,211
Less: allowance for loan losses	<u>(1,184)</u>	<u>(1,183)</u>	<u>(1,221)</u>	<u>(1,238)</u>	<u>(1,237)</u>
Net loans	<u>206,867</u>	<u>203,871</u>	<u>203,342</u>	<u>199,822</u>	<u>192,974</u>
Accrued interest receivable	2,223	1,788	1,605	1,719	2,137
Other assets	3,673	3,572	3,600	3,852	3,863
Restricted assets	<u>3,684</u>	<u>3,621</u>	<u>3,556</u>	<u>3,496</u>	<u>3,447</u>
Total assets	<u>\$271,324</u>	<u>\$266,213</u>	<u>\$263,842</u>	<u>\$260,782</u>	<u>\$252,880</u>
Systemwide Debt Securities:					
Due within one year	\$ 78,879	\$ 78,075	\$ 76,722	\$ 70,132	\$ 66,089
Due after one year	<u>135,473</u>	<u>134,296</u>	<u>134,936</u>	<u>137,357</u>	<u>134,799</u>
Total Systemwide Debt Securities	214,352	212,371	211,658	207,489	200,888
Subordinated debt	1,555	1,555	1,555	1,555	1,555
Other bonds	4,171	2,278	1,840	3,215	3,175
Other liabilities	<u>5,430</u>	<u>5,273</u>	<u>5,121</u>	<u>5,922</u>	<u>5,513</u>
Total liabilities	<u>225,508</u>	<u>221,477</u>	<u>220,174</u>	<u>218,181</u>	<u>211,131</u>
Preferred stock	2,559	2,471	2,500	2,469	2,378
Capital stock	1,667	1,647	1,630	1,645	1,637
Additional paid-in-capital	1,073	1,073	1,091	738	738
Restricted capital	3,684	3,621	3,556	3,496	3,447
Accumulated other comprehensive loss	(720)	(676)	(752)	(807)	(1,171)
Surplus	<u>37,553</u>	<u>36,600</u>	<u>35,643</u>	<u>35,060</u>	<u>34,720</u>
Total capital	<u>45,816</u>	<u>44,736</u>	<u>43,668</u>	<u>42,601</u>	<u>41,749</u>
Total liabilities and capital	<u>\$271,324</u>	<u>\$266,213</u>	<u>\$263,842</u>	<u>\$260,782</u>	<u>\$252,880</u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	September 30, 2014	June 30, 2014	March 30, 2014	December 31, 2013	September 30, 2013
Interest income	\$2,232	\$2,206	\$2,181	\$2,203	\$2,163
Interest expense	<u>(524)</u>	<u>(518)</u>	<u>(521)</u>	<u>(510)</u>	<u>(494)</u>
Net interest income	1,708	1,688	1,660	1,693	1,669
(Provision for loan losses) loan loss reversal	(42)	23	12	40	32
Noninterest income	204	140	145	177	180
Noninterest expense	<u>(598)</u>	<u>(590)</u>	<u>(607)</u>	<u>(716)</u>	<u>(577)</u>
Income before income taxes	1,272	1,261	1,210	1,194	1,304
Provision for income taxes	<u>(44)</u>	<u>(65)</u>	<u>(65)</u>	<u>(53)</u>	<u>(51)</u>
Net income	<u>\$1,228</u>	<u>\$1,196</u>	<u>\$1,145</u>	<u>\$1,141</u>	<u>\$1,253</u>