FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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FARM CREDIT SYSTEM REPORTS 2021 THIRD QUARTER AND NINE-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported combined net income of $1.8 billion and $5.2 billion for the three and nine months ended September 30, 2021, as compared with $1.6 billion and $4.4 billion for the same periods of the prior year.

“The System generated robust earnings in the third quarter reflecting the strong economic recovery despite the delta variant and supply chain disruptions,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Loan growth and solid credit quality drove profitability along with loan loss reversals as the outlook for agriculture has improved since mid-2020.”

Results of Operations

Third Quarter and Nine-Month 2021 Results Compared to Third Quarter and Nine-Month 2020 Results

Net interest income increased $162 million or 7.1% to $2.4 billion for the third quarter of 2021 and $578 million or 8.7% to $7.3 billion for the nine months ended September 30, 2021, as compared with the same periods of the prior year. The increases in net interest income primarily resulted from higher average loan volume. Average earning assets increased $23.5 billion or 6.3% to $394.7 billion and $29.0 billion or 8.0% to $393.3 billion for the three and nine months ended September 30, 2021, as compared with the prior year periods.

The net interest margin was 2.47% and 2.46% for the three and nine months ended September 30, 2021, as compared with 2.45% for both the same periods of the prior year. The increase in the net interest margin for the three- and nine-month periods primarily resulted from increases in the net interest spread of 6 and 11 basis points to 2.34% and 2.33%, as compared with 2.28% and 2.22% for the same periods of the prior year. The increase in the net interest spread was primarily due to lower debt costs as a result of the significant volume of debt called during 2020 and in the first nine months of 2021 that generated interest expense savings in excess of the decrease in yield on earning assets. The net interest margin during both these periods was negatively impacted by a 4 and 10 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital) due to the lower interest rate environment.

The System recognized loan loss reversals of $112 million and $142 million for the three and nine months ended September 30, 2021, while it recorded provisions for loan losses of $7 million and $165 million for the three and nine months ended September 30, 2020. The loan loss reversal for the first nine months of 2021 primarily reflected credit quality improvements and the release of general reserves added in 2020 to address potential losses from the COVID-19 pandemic. Partially offsetting these loan loss reversals were provisions for loan losses primarily reflecting the adverse impact of a severe weather event in Texas during the first quarter affecting a limited number of rural power customers and increases in overall lending activity. The provision for loan losses for the first nine months of 2020 primarily reflected a higher level of overall lending activity and increases in the general reserves due to the COVID-19 pandemic. The provision for loan losses for the first nine months of 2020 also included deterioration in credit quality in the agribusiness sector.

Noninterest income was relatively unchanged for the three months ended September 30, 2021 and increased $23 million or 4.2% to $571 million for the nine months ended September 30, 2021, as compared with the same periods of the prior year. The increase for the nine-month period was primarily due to a $34 million decrease in losses on extinguishment of debt, increases in loan-related fee income of $18 million, financially-related services income of $17 million and mineral income of $13 million. Partially offsetting the increase were decreases in net gains on derivative transactions of $27 million, income earned on Insurance Fund assets of $15 million and other noninterest income of $15 million.

Noninterest expense increased $98 million or 11.9% to $924 million and $154 million or 6.2% to $2.6 billion for the three and nine months ended September 30, 2021, 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 $59 million and $95 million for the three and nine months ended September 30, 2021, as compared to the same periods of the prior year, due to annual merit increases, additional accrued incentive compensation reflecting strong business and financial performance and higher staffing levels at certain System institutions. Other operating expense increased $43 million and $41 million for the three and nine months ended September 30, 2021, as compared to the same periods of the prior year, primarily due to increases in travel, training and member relations expenses as restrictions caused by the COVID-19 pandemic eased as well as higher technology expenses. Noninterest expense for the nine-month period was also impacted by a $17 million increase in purchased services due to increases in consulting services related to information technology and various other business initiatives.

The provisions for income taxes were $46 million and $140 million for the three and nine months ended September 30, 2021, as compared with $51 million and $141 million for the three and nine months ended September 30, 2020. The effective tax rate decreased to 2.6% for the first nine months of 2021 from 3.1% for the first nine months of 2020 due to increased earnings attributable to non-taxable business activities and higher levels of patronage.

<u>Third Quarter 2021 Compared to Second Quarter 2021</u>

Net income was $1.8 billion for the third quarter of 2021, as compared with $1.7 billion for the second quarter of 2021. Net income for the third quarter of 2021 was positively impacted by an increase in the loan loss reversal of $54 million and an increase in net interest income of $10 million. The loan loss reversal in the third quarter reflected seasonal paydowns of agribusiness loans, overall credit quality improvements and the release of general reserves by certain System institutions. Negatively impacting net income for the third quarter of 2021 was an increase in noninterest expense of $49 million primarily due to an increase in salaries and employee benefits.

Loan Portfolio Activity

Gross loans increased $10.3 billion or 3.3% to $325.8 billion at September 30, 2021, as compared with $315.5 billion at December 31, 2020. The increase primarily resulted from an increase in real estate mortgage and rural power loans, offset in part by a decrease in loans to cooperatives. The primary driver of the increase in real estate mortgage loans was financing for new and existing customers due to targeted marketing efforts by certain Associations and the low interest rate environment. Rural power loans increased primarily due to advances to existing borrowers resulting from a severe weather event in Texas during the first quarter and the associated higher power costs. The decrease in loans to cooperatives resulted from lower levels of seasonal financing requirements at grain and farm supply cooperatives, which typically reach a low in late summer or early fall.

Credit Quality

The System's accruing loan volume was $324.4 billion at September 30, 2021, as compared with $314.0 billion at December 31, 2020. Nonaccrual loans decreased $164 million during the first nine months of 2021 to $1.3 billion. The decrease in nonaccrual loans was primarily due to loan repayments and reinstatements to accrual status exceeding loans transferred into nonaccrual status. At September 30, 2021, 61.3% of nonaccrual loans were current as to principal and interest, as compared with 58.9% at December 31, 2020.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) decreased $113 million during the first nine months of 2021 to $1.8 billion at September 30, 2021. This decrease during the first nine months of 2021 was driven by the decrease in nonaccrual loans, offset in part by an increase in accruing loans 90 days or more past due of $56 million. These accruing loans 90 days or more past due are considered well secured and in the process of collection. Nonperforming assets represented 0.55% of the System's loans and other property owned at September 30, 2021 and 0.60% at December 31, 2020.

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 September 30, 2021 and 97.5% at December 31, 2020. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased to 0.22% at September 30, 2021, as compared with 0.28% at September 30, 2020.

The allowance for loan losses was $1.7 billion at September 30, 2021, as compared with $1.8 billion at December 31, 2020. Net loan recoveries of $4 million were recorded during the first nine months of 2021, as compared with net loan charge-offs of $81 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.51% at September 30, 2021 and 0.57% at December 31, 2020. The allowance for loan losses was 93% of the System's total nonperforming assets and 123% of its nonaccrual loans at September 30, 2021, as compared with 95% and 119% at December 31, 2020. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $71.2 billion at September 30, 2021 and $67.3 billion at December 31, 2020, and represented 21.8% of System loans at September 30, 2021, as compared with 21.3% at December 31, 2020.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were $73.4 billion at September 30, 2021 and $74.2 billion at December 31, 2020. The System's liquidity position provided for 174 days coverage of maturing debt at September 30, 2021, as compared with 171 days coverage at December 31, 2020.

During the second quarter of 2021, two Associations issued subordinated debt[1] totaling $400 million. The proceeds were used to increase the institutions' regulatory capital and for general corporate purposes.

Total capital increased $4.0 billion during the first nine months of 2021 to $69.5 billion. The System's retained earnings increased $3.6 billion to $55.4 billion during the first nine months of 2021 due to net income earned and retained. During the first nine months of 2021, three Associations issued preferred stock[1] totaling $600 million, while one Association redeemed approximately $226 million of Class H preferred stock. Accumulated other comprehensive loss increased $430 million to $1.1 billion during the first nine months of 2021 primarily as a result of an increase in interest rates, which decreased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets increased to 16.9% at September 30, 2021, as compared with 16.4% at December 31, 2020.

About the Farm Credit System

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow through the four Banks and 67 affiliated Associations. Farm Credit has been fulfilling this mission for over a century by providing farmers with the capital they need to make their businesses successful and by financing vital infrastructure and communication services that rural communities need to create jobs and drive economic growth. For more information about the Farm Credit System, please visit farmcredit.com.

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 farmcreditfunding.com.

[1] Subordinated debt and preferred stock are the sole obligations of the issuing entity. Such obligations are not Systemwide debt securities and therefore are not subject to the joint and several obligations of the Banks and are not insured by the Insurance Corporation.

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, including the length and extent of the continued economic impact of the COVID-19 pandemic, are 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, 2021 (unaudited)	December 31, 2020 (audited)
Cash and investments	$ 73,351	$ 74,210
Loans	325,784	315,490
Less: allowance for loan losses	(1,653)	(1,796)
Net loans	324,131	313,694
Accrued interest receivable	2,971	2,585
Other assets	4,303	4,749
Restricted assets	5,833	5,455
Total assets	$410,589	$400,693
Systemwide Debt Securities:		
Due within one year	$120,335	$125,237
Due after one year	208,673	197,418
Total Systemwide Debt Securities	329,008	322,655
Subordinated debt	398	
Other bonds	3,634	2,559
Other liabilities	8,051	9,944
Total liabilities	341,091	335,158
Preferred stock	3,531	3,204
Capital stock	2,049	1,977
Additional paid-in-capital	3,785	3,738
Restricted capital	5,833	5,455
Accumulated other comprehensive loss	(1,051)	(621)
Retained earnings	55,351	51,782
Total capital	69,498	65,535
Total liabilities and capital	$410,589	$400,693

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	(unaudited)			
	2021	**2020**	**2021**	**2020**
Interest income	$3,141	$3,121	$9,346	$9,986
Interest expense	(702)	(844)	(2,086)	(3,304)
Net interest income	2,439	2,277	7,260	6,682
Loan loss reversal (provision for loan losses)	112	(7)	142	(165)
Noninterest income	179	180	571	548
Noninterest expense	(924)	(826)	(2,632)	(2,478)
Income before income taxes	1,806	1,624	5,341	4,587
Provision for income taxes	(46)	(51)	(140)	(141)
Net income	$1,760	$1,573	$5,201	$4,446

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	September 30, 2021 (unaudited)	June 30, 2021 (unaudited)	March 31, 2021 (unaudited)	December 31, 2020 (audited)	September 30, 2020 (unaudited)
Cash and investments	$ 73,351	$ 73,936	$ 72,126	$ 74,210	$ 71,652
Loans	325,784	323,181	321,808	315,490	301,561
Less: allowance for loan losses	(1,653)	(1,781)	(1,817)	(1,796)	(1,828)
Net loans	324,131	321,400	319,991	313,694	299,733
Accrued interest receivable	2,971	2,435	2,269	2,585	3,080
Other assets	4,303	4,352	4,389	4,749	5,097
Restricted assets	5,833	5,708	5,581	5,455	5,368
Total assets	$410,589	$407,831	$404,356	$400,693	$384,930
Systemwide Debt Securities	$329,008	$328,835	$327,721	$322,655	$309,066
Subordinated debt	398	400			
Other bonds	3,634	2,745	2,473	2,559	2,507
Other liabilities	8,051	7,498	7,662	9,944	7,343
Total liabilities	341,091	339,478	337,856	335,158	318,916
Preferred stock	3,531	3,563	3,180	3,204	3,222
Capital stock	2,049	2,017	1,989	1,977	1,951
Additional paid-in-capital	3,785	3,781	3,790	3,738	3,738
Restricted capital	5,833	5,708	5,581	5,455	5,368
Accumulated other comprehensive loss	(1,051)	(898)	(960)	(621)	(437)
Retained earnings	55,351	54,182	52,920	51,782	52,172
Total capital	69,498	68,353	66,500	65,535	66,014
Total liabilities and capital	$410,589	$407,831	$404,356	$400,693	$384,930

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**September 30, 2021**	**June 30, 2021**	**March 30, 2021**	**December 31, 2020**	**September 30, 2020**
Interest income	$3,141	$3,116	$3,089	$3,121	$3,121
Interest expense	(702)	(687)	(697)	(757)	(844)
Net interest income	2,439	2,429	2,392	2,364	2,277
Loan loss reversal (provision for loan losses)	112	58	(28)	58	(7)
Noninterest income	179	182	210	210	180
Noninterest expense	(924)	(875)	(833)	(1,045)	(826)
Income before income taxes	1,806	1,794	1,741	1,587	1,624
Provision for income taxes	(46)	(46)	(48)	(31)	(51)
Net income	$1,760	$1,748	$1,693	$1,556	$1,573