FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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# FARM CREDIT SYSTEM REPORTS 2022 THIRD QUARTER AND NINE-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported that combined net income increased 6.9% to $1.9 billion and 4.8% to $5.4 billion for the three and nine months ended September 30, 2022, as compared with net income of $1.8 billion and $5.2 billion for the same periods of the prior year.

"The results for the third quarter and the first nine months of 2022 reflect a strong performance by the Farm Credit System," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "A strong balance sheet and robust levels of capital, position the System well to serve its member borrowers in today's challenging environment of rising interest rates and elevated inflation."

## Results of Operations

### Third Quarter and Nine-Month 2022 Results Compared to Third Quarter and Nine-Month 2021 Results

Net interest income increased $218 million or 8.9% to $2.7 billion for the third quarter of 2022 and $576 million or 7.9% to $7.8 billion for the nine months ended September 30, 2022, as compared with the same periods of the prior year. The increases in net interest income primarily resulted from higher levels of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets increased $46.7 billion or 11.8% to $441.4 billion and $43.9 billion or 11.2% to $437.2 billion for the three and nine months ended September 30, 2022, as compared with the prior year periods.

The net interest margin was 2.41% and 2.39% for the three and nine months ended September 30, 2022, as compared with 2.47% and 2.46% for the same periods of the prior year. The decrease in the net interest margin for the three- and nine-month periods primarily resulted from decreases in the net interest spread of 19 and 12 basis points to 2.15% and 2.21%, as compared with 2.34% and 2.33% for the same periods of the prior year. The decline in the net interest spread for the three- and nine-month periods of 2022 was principally due to increasing debt costs in the rising interest rate environment and higher levels of liquidity investments, which have lower spreads commensurate with lower risk. The net interest margin was positively impacted during both of these periods by a 13 and five basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized loan loss reversals of $10 million and $9 million for the three and nine months ended September 30, 2022, as compared with loan loss reversals of $112 million and $142 million for the three and nine months ended September 30, 2021. The loan loss reversals recorded by certain System institutions for the first nine months of 2022 primarily reflected credit quality improvements and the reversal of specific reserves associated with a limited number of customers. Partially offsetting these loan loss reversals were provisions for loan losses recorded by other System institutions primarily reflecting a higher level of overall agribusiness lending activity and specific reserves associated with a limited number of customers in the agribusiness and rural power sectors. The loan loss reversal for the first nine months of 2021 was due to credit quality improvements and the release of general reserves added in 2020 to address potential losses relating to the COVID-19 pandemic. Partially offsetting the loan loss reversal were provisions for loan losses attributed to the adverse impact of a severe weather event in Texas during the first quarter of 2021, which affected a limited number of rural power customers, and increases in overall lending activity.

Noninterest income increased $94 million or 52.5% to $273 million and $65 million or 11.4% to $636 million for the three and nine months ended September 30, 2022, as compared with the same periods of the prior year. The increase for the three-month period primarily resulted from increases in other income of $77 million and financially-related services of $12 million as well as gains on extinguishment of debt of $4 million in the third quarter of 2022, as compared to losses on extinguishment of debt of $30 million during the same period of the prior year. Partially offsetting the increase in noninterest income for the three-month period was an $18 million net loss on derivative, investment and other transactions, as compared with a $12 million net gain for the same period of the prior year. The increase for the nine-month period was primarily due to increases in other income of $84 million and financially-related services of $18 million as well as gains on extinguishment of debt of $2 million in the first nine months of 2022, as compared to losses on extinguishment of debt of $66 million during the same period of the prior year. Partially offsetting the increase in noninterest income for the nine-month period was a $41 million net loss on derivative, investment and other transactions, as compared with a $41 million net gain for the same period of the prior year. Also offsetting the increase for the nine-month period was a decrease in loan-related fee income of $33 million.

Noninterest expense increased $75 million or 8.1% to $999 million and $248 million or 9.4% to $2.9 billion for the three and nine months ended September 30, 2022, 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, other expense and purchased services. Salaries and employee benefits increased $33 million and $131 million for the three and nine months ended September 30, 2022, as compared to the same periods of the prior year, due to annual merit and other pay increases to address inflation and tight labor markets as well as higher staffing levels at certain System institutions. Other expense increased $15 million and $78 million for the three and nine months ended September 30, 2022, as compared to the same periods of the prior year, primarily due to increases in travel, training and member relations expenses as the COVID-19 pandemic restrictions and precautions were eased and/or lifted, and higher technology expenses. For the three- and nine-month periods ended September 30, 2022, purchased services increased $14 million and $26 million primarily due to increases in consulting services related to information technology and various other business initiatives.

The provisions for income taxes were $59 million and $152 million for the three and nine months ended September 30, 2022, as compared with $46 million and $140 million for the three and nine months ended September 30, 2021. The effective tax rate increased slightly to 2.7% for the first nine months of 2022 from 2.6% for the first nine months of 2021.

Third Quarter 2022 Compared to Second Quarter 2022

Net income was $1.9 billion for the third quarter of 2022, as compared with $1.8 billion for the second quarter of 2022. Positively impacting net income for the third quarter of 2022 were increases in noninterest income of $89 million and net interest income of $38 million as well as a loan loss reversal of $10 million, as compared to a provision for loan losses of $6 million in the second quarter of 2022. The increase in noninterest income in the third quarter resulted primarily from a greater amount of fees for financially-related services due to the seasonality of crop insurance premiums. Negatively impacting net income for the third quarter of 2022 were increases in noninterest expense of $56 million and provision for income taxes of $14 million. The increase in noninterest expense was primarily due to an increase in salaries and employee benefits.

## Loan Portfolio Activity

Gross loans increased $17.8 billion or 5.2% to $361.7 billion at September 30, 2022, as compared with $343.9 billion at December 31, 2021. The increase primarily resulted from an increase in real estate mortgage, processing and marketing, rural infrastructure and agricultural export finance 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 continued demand for fixed-rate financing in early 2022 before long-term rates began to increase. Processing and marketing loans increased primarily due to increased draws on lines of credit by existing customers as a result of higher commodity prices. Rural infrastructure loans increased primarily due to new loan originations in the power and communication sectors. Agricultural export finance loans increased due to a higher level of import/export loan demand. 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 $360.4 billion at September 30, 2022, as compared with $342.8 billion at December 31, 2021. Nonaccrual loans increased $115 million during the first nine months of 2022 to $1.3 billion. The increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of borrowers. At September 30, 2022, 68.5% of nonaccrual loans were current as to principal and interest, as compared with 63.7% at December 31, 2021.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased $252 million during the first nine months of 2022 to $1.8 billion at September 30, 2022. Increases in nonaccrual loans and accruing loans 90 days or more past due were the primary drivers of the increase. Accruing loans 90 days or more past due increased $143 million and are considered well secured and in the process of collection. Nonperforming assets represented 0.51% of the System’s loans and other property owned at September 30, 2022 and 0.46% at December 31, 2021.

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 98.4% at September 30, 2022 and 98.1% at December 31, 2021. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased slightly to 0.24% at September 30, 2022, as compared with 0.22% at September 30, 2021.

The allowance for loan losses was $1.5 billion at September 30, 2022, as compared with $1.6 billion at December 31, 2021. Net loan charge-offs of $16 million were recorded during the first nine months of 2022, as compared with net loan recoveries of $4 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.43% at September 30, 2022 and 0.47% at December 31, 2021. The allowance for loan losses was 84% of the System's total nonperforming assets and 119% of its nonaccrual loans at September 30, 2022, as compared with 103% and 139% at December 31, 2021. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $70.9 billion at September 30, 2022 and $71.1 billion at December 31, 2021, and represented 19.6% of System loans at September 30, 2022, as compared with 20.7% at December 31, 2021.

## Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) were $89.6 billion at September 30, 2022 and $80.8 billion at December 31, 2021. The System's liquidity position provided for 172 days coverage of maturing debt at September 30, 2022, as compared with 180 days coverage at December 31, 2021.

Total capital decreased $81 million during the first nine months of 2022 to $69.4 billion. The System's retained earnings increased $2.9 billion to $57.7 billion during the first nine months of 2022 due to net income earned and retained. During the first nine months of 2022, one Bank issued preferred stock totaling $400 million, while two Banks and two Associations redeemed a total of $569 million of preferred stock. Accumulated other comprehensive loss increased $4.1 billion to $5.3 billion during the first nine months of 2022 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 decreased to 14.9% at September 30, 2022, as compared with 15.9% at December 31, 2021.

## 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 63 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.

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

| | September 30, 2022 (unaudited) | December 31, 2021 (audited) |
|---|---|---|
| Cash and investments | $ 89,567 | $ 80,816 |
| Loans | 361,679 | 343,929 |
| Less: allowance for loan losses | (1,540) | (1,632) |
| Net loans | 360,139 | 342,297 |
| Accrued interest receivable | 3,566 | 2,560 |
| Other assets | 4,897 | 4,324 |
| Restricted assets | 6,483 | 5,960 |
| Total assets | $464,652 | $435,957 |
| | | |
| Systemwide Debt Securities: | | |
| Due within one year | $137,049 | $130,701 |
| Due after one year | 240,105 | 222,122 |
| Total Systemwide Debt Securities | 377,154 | 352,823 |
| Subordinated debt | 398 | 398 |
| Other bonds | 7,629 | 3,623 |
| Other liabilities | 10,075 | 9,636 |
| Total liabilities | 395,256 | 366,480 |
| | | |
| Preferred stock | 3,816 | 3,993 |
| Capital stock | 2,119 | 2,069 |
| Additional paid-in-capital | 4,533 | 3,782 |
| Restricted capital | 6,483 | 5,960 |
| Accumulated other comprehensive loss | (5,299) | (1,210) |
| Retained earnings | 57,744 | 54,883 |
| Total capital | 69,396 | 69,477 |
| Total liabilities and capital | $464,652 | $435,957 |

## STATEMENT OF INCOME DATA

| | For the Quarter Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | (unaudited) | | | |
| | 2022 | 2021 | 2022 | 2021 |
| Interest income | $4,410 | $3,141 | $11,423 | $9,346 |
| Interest expense | (1,753) | (702) | (3,587) | (2,086) |
| Net interest income | 2,657 | 2,439 | 7,836 | 7,260 |
| Loan loss reversal | 10 | 112 | 9 | 142 |
| Noninterest income | 273 | 179 | 636 | 571 |
| Noninterest expense | (999) | (924) | (2,880) | (2,632) |
| Income before income taxes | 1,941 | 1,806 | 5,601 | 5,341 |
| Provision for income taxes | (59) | (46) | (152) | (140) |
| Net income | $1,882 | $1,760 | $ 5,449 | $5,201 |

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

### Statement of Condition Data – Five Quarter Trend

| | September 30, 2022 (unaudited) | June 30, 2022 (unaudited) | March 31, 2022 (unaudited) | December 31, 2021 (audited) | September 30, 2021 (unaudited) |
|---|---|---|---|---|---|
| Cash and investments | $ 89,567 | $ 87,139 | $ 81,749 | $ 80,816 | $ 73,351 |
| Loans | 361,679 | 357,306 | 360,218 | 343,929 | 325,784 |
| Less: allowance for loan losses | (1,540) | (1,614) | (1,655) | (1,632) | (1,653) |
| Net loans | 360,139 | 355,692 | 358,563 | 342,297 | 324,131 |
| Accrued interest receivable | 3,566 | 2,716 | 2,361 | 2,560 | 2,971 |
| Other assets | 4,897 | 4,420 | 4,200 | 4,324 | 4,303 |
| Restricted assets | 6,483 | 6,304 | 6,096 | 5,960 | 5,833 |
| Total assets | $464,652 | $456,271 | $452,969 | $435,957 | $410,589 |
| | | | | | |
| Systemwide Debt Securities | $377,154 | $374,812 | $371,652 | $352,823 | $329,008 |
| Subordinated debt | 398 | 398 | 398 | 398 | 398 |
| Other bonds | 7,629 | 3,938 | 3,325 | 3,623 | 3,634 |
| Other liabilities | 10,075 | 8,195 | 8,776 | 9,636 | 8,051 |
| Total liabilities | 395,256 | 387,343 | 384,151 | 366,480 | 341,091 |
| | | | | | |
| Preferred stock | 3,816 | 3,446 | 3,772 | 3,993 | 3,531 |
| Capital stock | 2,119 | 2,098 | 2,073 | 2,069 | 2,049 |
| Additional paid-in-capital | 4,533 | 4,266 | 4,266 | 3,782 | 3,785 |
| Restricted capital | 6,483 | 6,304 | 6,096 | 5,960 | 5,833 |
| Accumulated other comprehensive loss | (5,299) | (3,995) | (2,991) | (1,210) | (1,051) |
| Retained earnings | 57,744 | 56,809 | 55,602 | 54,883 | 55,351 |
| Total capital | 69,396 | 68,928 | 68,818 | 69,477 | 69,498 |
| Total liabilities and capital | $464,652 | $456,271 | $452,969 | $435,957 | $410,589 |

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

| **For the three months ended:** | **September 30, 2022** | **June 30, 2022** | **March 31, 2022** | **December 31, 2021** | **September 30, 2021** |
|---|---|---|---|---|---|
| Interest income | $4,410 | $3,700 | $3,313 | $3,195 | $3,141 |
| Interest expense | (1,753) | (1,081) | (753) | (691) | (702) |
| Net interest income | 2,657 | 2,619 | 2,560 | 2,504 | 2,439 |
| Loan loss reversal (provision for loan losses) | 10 | (6) | 5 | 10 | 112 |
| Noninterest income | 273 | 184 | 179 | 189 | 179 |
| Noninterest expense | (999) | (943) | (938) | (1,087) | (924) |
| Income before income taxes | 1,941 | 1,854 | 1,806 | 1,616 | 1,806 |
| Provision for income taxes | (59) | (45) | (48) | (21) | (46) |
| Net income | $1,882 | $1,809 | $1,758 | $1,595 | $1,760 |