



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

101 Hudson Street, Suite 3505
Jersey City, New Jersey 07302
201.200.8000
farmcreditfunding.com

Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF \$6.0 BILLION FOR 2020

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

NEW YORK - The Farm Credit System today reported combined net income of \$6.0 billion for the year ended December 31, 2020, as compared with \$5.4 billion for the prior year. The System also reported combined net income of \$1.6 billion for the fourth quarter of 2020, as compared with \$1.4 billion for the fourth quarter of 2019.

“In spite of the extraordinary challenges posed by the COVID-19 pandemic, the Farm Credit System has been able to deliver solid financial results while maintaining a strong capital position,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Our member-borrowers were positively impacted from this success given our structure as a network of financial cooperatives. The benefit of historically low interest rates was passed through to our members in the form of record patronage, allowing us to tangibly support rural America and agriculture through this uniquely challenging period.”

2020 Results of Operations

Combined net income increased \$556 million or 10.2% for the year ended December 31, 2020, as compared with the prior year. The increase primarily resulted from increases in net interest income of \$780 million and noninterest income of \$47 million and a decrease in the provision for loan losses of \$62 million, partially offset by increases in noninterest expense of \$264 million and the provision for income taxes of \$69 million.

Net interest income increased \$780 million or 9.4% to \$9.0 billion for 2020, as compared with \$8.3 billion for the prior year. The increase in net interest income resulted from an increase in the net interest spread and a higher level of average earning assets, driven largely by increased loan volume. Average earning assets grew \$26.6 billion or 7.8% to \$367.9 billion for 2020, as compared with the prior year.

The net interest margin increased four basis points to 2.46% for 2020, as compared with 2.42% for 2019 due to an increase in the net interest spread of 22 basis points to 2.26% for 2020, as compared with 2.04% for 2019, partially offset by an 18 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital). The increase in net interest spread was primarily due to lower debt costs that enabled the Banks to take advantage of the downward movement in interest rates across the yield curve and called debt totaling \$115 billion during 2020, as compared with \$54 billion for the prior year.

The System recognized provisions for loan losses of \$107 million and \$169 million for the years ended December 31, 2020 and 2019. The 2020 provision for loan losses primarily reflected a higher level of overall lending activity and increases in the general reserves due to the potential losses inherent in our loan portfolio from the COVID-19 pandemic's impact on the global economy, agriculture and borrowers. Partially offsetting the provision for loan losses in 2020 were specific reserve reversals related to loan payoffs of a limited number of borrowers in the agribusiness and production and intermediate-term loan sectors. The 2019 provision for loan losses primarily reflected deterioration in credit quality in the agribusiness sector and the dairy, grain and cattle industries, as well as additional reserves due to increased credit risk exposure resulting from loan growth.

Noninterest income increased \$47 million or 6.6% to \$758 million for 2020, as compared with \$711 million for 2019, primarily due to increases in loan-related fee income of \$115 million, net gains on derivative transactions of \$43 million and other noninterest income of \$34 million. The increase in loan-related fee income resulted from loan conversion and other transaction fees, as well as fees recognized in connection with the Small Business Administration's Paycheck Protection Program. Partially offsetting these increases in noninterest income was an increase in losses on extinguishment of debt of \$94 million and decreases in income earned on Insurance Fund assets of \$30 million and mineral income of \$24 million.

Noninterest expense increased \$264 million or 8.1% to \$3.5 billion for 2020, as compared with \$3.3 billion for 2019, primarily due to increases in salaries and employee benefits, purchased services and other operating expense. Salaries and employee benefits increased \$180 million as a result of annual merit increases, performance-based compensation and higher staffing levels at certain System institutions. Purchased services increased \$35 million primarily due to increases in digital, efficiency and process refinement projects and other business initiatives. Other operating expense increased \$48 million for 2020 primarily due to technology enhancements and various other expenses.

The System recorded a provision for income taxes of \$172 million for 2020, as compared with \$103 million for 2019. The effective tax rate increased to 2.8% for 2020 from 1.9% for 2019. The increase in effective tax rate was primarily attributable to increased earnings at certain taxable System institutions. The provision for income taxes for 2019 included a significant one-time income tax benefit recognized by a System institution resulting from amendments to prior period tax returns to realize the benefit of certain transactions.

Fourth Quarter 2020 Results of Operations

Combined net income increased \$165 million or 11.9% to \$1.6 billion for the fourth quarter of 2020, as compared with \$1.4 billion for the fourth quarter of 2019. The increase in net income between these periods resulted from an increase in net interest income of \$248 million and a loan loss reversal of \$58 million in the fourth quarter of 2020, as compared with a provision for loan losses of \$74 million for the same period of the prior year. The increase in net income was partially offset by an increase in noninterest expense of \$149 million and a provision for income taxes of \$31 million in the fourth quarter of 2020, as compared with a benefit from income taxes of \$28 million for the same period of the prior year.

Net interest income increased \$248 million or 11.7% to \$2.4 billion for the fourth quarter of 2020, as compared with the same period of the prior year primarily from an increase in the net interest spread and a higher level of average earning assets. Average earning assets grew

\$32.5 billion or 9.4% to \$378.5 billion for the fourth quarter of 2020, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2020 increased to 2.50%, as compared with 2.45% for the same period of the prior year. This resulted primarily from an increase in the net interest spread of 25 basis points to 2.35%, partially offset by a 20 basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital). The increase in the net interest spread was primarily due to lower debt costs.

The System reported a loan loss reversal of \$58 million for the fourth quarter of 2020, as compared with a provision for loan losses of \$74 million for the same period of the prior year. The loan loss reversal primarily reflected credit quality improvements, specific reserve reversals related to loan payoffs of a limited number of borrowers in the agribusiness and production and intermediate-term loan sectors and certain System institutions decreasing general reserves initially put in place due to the COVID-19 pandemic.

Noninterest income decreased 3.2% to \$210 million for the fourth quarter of 2020, as compared with \$217 million for the fourth quarter of 2019. The decrease was primarily due to an increase in losses on extinguishment of debt of \$23 million, partially offset by an increase in loan-related fee income of \$19 million. Noninterest expense increased 16.6% to \$1.0 billion for the fourth quarter of 2020, as compared with \$896 million for the fourth quarter of 2019, primarily due to increases in salaries and employee benefits of \$88 million and other operating expense of \$48 million.

The provision for income taxes was \$31 million for the fourth quarter of 2020, as compared with a benefit from income taxes of \$28 million for the same period of the prior year primarily due to the one-time benefit discussed above.

Fourth Quarter 2020 Compared to Third Quarter 2020

Net income remained relatively unchanged at \$1.6 billion for the fourth quarter of 2020, as compared with the third quarter of 2020. Net income for the fourth quarter of 2020 was positively impacted by increases in net interest income of \$87 million and noninterest income of \$30 million and a loan loss reversal of \$58 million in the fourth quarter of 2020, as compared with a provision for loan losses of \$7 million in the third quarter of 2020. Also contributing to the fourth quarter increase in net income was a decrease in the provision for income taxes of \$20 million. Net interest income for the fourth quarter of 2020 was positively impacted by a five basis point increase in net interest margin to 2.50%. Negatively impacting net income for the fourth quarter of 2020 was an increase in noninterest expense of \$219 million primarily resulting from increases in salaries due to increased performance-based compensation and other operating expense.

Loan Portfolio Activity

Gross loans increased \$28.5 billion or 9.9% since year-end 2019 to \$315.5 billion at December 31, 2020. The increase primarily resulted from an increase in real estate mortgage, rural infrastructure and agribusiness loans. 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 infrastructure loans increased due to advances to new and existing borrowers in the power and communication sectors. The increase in agribusiness loans was primarily due to borrowers drawing on their

revolving lines of credit to add liquidity to their balance sheets in response to the uncertain economic environment and higher levels of seasonal financing at many grain and farm supply cooperatives.

Credit Quality

The System's accruing loan volume was \$314.0 billion at December 31, 2020, as compared with \$285.1 billion at December 31, 2019. Nonaccrual loans decreased \$406 million to \$1.5 billion at December 31, 2020, as compared with the same period of the prior year. The decrease in nonaccrual loans was due to loan repayments, charge-offs and loans returned to accrual status exceeding loans transferred into nonaccrual status and advances. At December 31, 2020, 58.9% of nonaccrual loans were current as to principal and interest, as compared with 60.1% at December 31, 2019.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, loans 90 days or more past due and other property owned) decreased \$450 million to \$1.9 billion at December 31, 2020. These nonperforming assets represented 0.60% of the System's loans and other property owned at December 31, 2020, as compared with 0.82% at December 31, 2019.

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 97.5% at December 31, 2020, as compared with 96.5% at December 31, 2019. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased to 0.28% at December 31, 2020, as compared with 0.32% at December 31, 2019.

The allowance for loan losses was \$1.8 billion at both December 31, 2020 and 2019. Net loan charge-offs of \$90 million were recorded during 2020, as compared with \$59 million for 2019. The allowance for loan losses as a percentage of total loans was 0.57% at December 31, 2020 and 0.63% at December 31, 2019. The allowance for loan losses was 95% of the System's total nonperforming assets and 119% of its nonaccrual loans at December 31, 2020, as compared with 77% and 95% at December 31, 2019. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$67.3 billion at December 31, 2020 and \$63.5 billion at December 31, 2019, and represented 21.3% of System loans at December 31, 2020, as compared with 22.1% at December 31, 2019.

Agricultural Outlook

The February 2021 United States Department of Agriculture (USDA) forecast estimates 2020 net farm income (income after expenses from production in the current year) at \$121.1 billion, up \$38.0 billion from 2019. The USDA's outlook for the farm economy, as a whole, forecasts 2021 net farm income to decrease to \$111.4 billion, a \$9.7 billion decrease from 2020. The projected decrease in net farm income from 2020 to 2021 is primarily due to an expected decrease in direct government payments of \$21.0 billion and an increase in cash expenses of \$8.0 billion, partially offset by increases in crop receipts of \$11.8 billion and cash receipts for animals and animal products of \$8.5 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased \$5.9 billion to \$74.2 billion at December 31, 2020, as compared with \$68.3 billion at year-end 2019. The System's liquidity position was 171 days and 177 days at December 31, 2020 and 2019.

System capital increased \$3.8 billion since year-end 2019 to \$65.5 billion at December 31, 2020. Retained earnings increased \$2.8 billion to \$51.8 billion at December 31, 2020, as compared with \$49.0 billion at December 31, 2019, due to net income earned and retained, as well as a \$63 million transfer of restricted capital to retained earnings due to excess insurance funds returned to the System by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Patronage distributions of \$2.7 billion partially offset the increase in retained earnings. During 2020, one System institution issued preferred stock totaling \$350 million, while the same institution redeemed \$300 million of higher-rate preferred stock. Accumulated other comprehensive loss decreased \$719 million to \$621 million at December 31, 2020, as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets was 16.4% at December 31, 2020, as compared with 16.9% at December 31, 2019.

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

The 2020 financial results discussed herein are preliminary and unaudited. 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:

Karen R. Brenner, Managing Director
Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302
(201) 200-8081
E-mail – kbrenner@farmcreditfunding.com

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 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

| | December 31, <u>2020</u> | December 31, <u>2019</u> |
|--------------------------------------|-------------------------------------|-------------------------------------|
| Cash and investments | \$ 74,210 | \$ 68,266 |
| Loans | 315,490 | 286,964 |
| Less: allowance for loan losses | <u>(1,796)</u> | <u>(1,806)</u> |
| Net loans | <u>313,694</u> | <u>285,158</u> |
| Accrued interest receivable | 2,585 | 2,864 |
| Other assets | 4,749 | 3,869 |
| Restricted assets | <u>5,455</u> | <u>5,202</u> |
| Total assets | <u>\$400,693</u> | <u>\$365,359</u> |
| Systemwide Debt Securities: | | |
| Due within one year | \$125,237 | \$114,127 |
| Due after one year | <u>197,418</u> | <u>179,411</u> |
| Total Systemwide Debt Securities | 322,655 | 293,538 |
| Other bonds | 2,559 | 1,961 |
| Other liabilities | <u>9,944</u> | <u>8,130</u> |
| Total liabilities | <u>335,158</u> | <u>303,629</u> |
| Preferred stock | 3,204 | 3,121 |
| Capital stock | 1,977 | 2,009 |
| Additional paid-in-capital | 3,738 | 3,738 |
| Restricted capital | 5,455 | 5,202 |
| Accumulated other comprehensive loss | (621) | (1,340) |
| Retained earnings | <u>51,782</u> | <u>49,000</u> |
| Total capital | <u>65,535</u> | <u>61,730</u> |
| Total liabilities and capital | <u>\$400,693</u> | <u>\$365,359</u> |

STATEMENT OF INCOME DATA

| | For the Quarter Ended <u>December 31,</u> | | For the Year Ended <u>December 31,</u> | |
|---|--|--------------------|---|--------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Interest income | \$3,121 | \$3,666 | \$13,107 | \$15,019 |
| Interest expense | <u>(757)</u> | <u>(1,550)</u> | <u>(4,061)</u> | <u>(6,753)</u> |
| Net interest income | 2,364 | 2,116 | 9,046 | 8,266 |
| Loan loss reversal (provision for loan losses) | 58 | (74) | (107) | (169) |
| Noninterest income | 210 | 217 | 758 | 711 |
| Noninterest expense | <u>(1,045)</u> | <u>(896)</u> | <u>(3,523)</u> | <u>(3,259)</u> |
| Income before income taxes | 1,587 | 1,363 | 6,174 | 5,549 |
| (Provision for) benefit from income taxes | <u>(31)</u> | <u>28</u> | <u>(172)</u> | <u>(103)</u> |
| Net income | <u>\$1,556</u> | <u>\$1,391</u> | <u>\$ 6,002</u> | <u>\$ 5,446</u> |

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

Statement of Condition Data - Five Quarter Trend

| | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 | December 31, 2019 |
|--------------------------------------|------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Cash and investments | \$ 74,210 | \$ 71,652 | \$ 76,363 | \$ 83,961 | \$ 68,266 |
| Loans | 315,490 | 301,561 | 297,172 | 292,606 | 286,964 |
| Less: allowance for loan losses | <u>(1,796)</u> | <u>(1,828)</u> | <u>(1,885)</u> | <u>(1,847)</u> | <u>(1,806)</u> |
| Net loans | <u>313,694</u> | <u>299,733</u> | <u>295,287</u> | <u>290,759</u> | <u>285,158</u> |
| Accrued interest receivable | 2,585 | 3,080 | 2,611 | 2,545 | 2,864 |
| Other assets | 4,749 | 5,097 | 5,134 | 4,842 | 3,869 |
| Restricted assets | <u>5,455</u> | <u>5,368</u> | <u>5,281</u> | <u>5,212</u> | <u>5,202</u> |
| Total assets | <u>\$400,693</u> | <u>\$384,930</u> | <u>\$384,676</u> | <u>\$387,319</u> | <u>\$365,359</u> |
| Systemwide Debt Securities | \$322,655 | \$309,066 | \$310,213 | \$314,862 | \$293,538 |
| Other bonds | 2,559 | 2,507 | 2,132 | 1,839 | 1,961 |
| Other liabilities | <u>9,944</u> | <u>7,343</u> | <u>7,562</u> | <u>7,268</u> | <u>8,130</u> |
| Total liabilities | <u>335,158</u> | <u>318,916</u> | <u>319,907</u> | <u>323,969</u> | <u>303,629</u> |
| Preferred stock | 3,204 | 3,222 | 3,163 | 3,170 | 3,121 |
| Capital stock | 1,977 | 1,951 | 1,920 | 1,889 | 2,009 |
| Additional paid-in-capital | 3,738 | 3,738 | 3,738 | 3,738 | 3,738 |
| Restricted capital | 5,455 | 5,368 | 5,281 | 5,212 | 5,202 |
| Accumulated other comprehensive loss | (621) | (437) | (415) | (764) | (1,340) |
| Retained earnings | <u>51,782</u> | <u>52,172</u> | <u>51,082</u> | <u>50,105</u> | <u>49,000</u> |
| Total capital | <u>65,535</u> | <u>66,014</u> | <u>64,769</u> | <u>63,350</u> | <u>61,730</u> |
| Total liabilities and capital | <u>\$400,693</u> | <u>\$384,930</u> | <u>\$384,676</u> | <u>\$387,319</u> | <u>\$365,359</u> |

Statement of Income Data – Five Quarter Trend

| For the three months ended: | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 | December 31, 2019 |
|--|------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Interest income | \$3,121 | \$3,121 | \$3,227 | \$3,638 | \$3,666 |
| Interest expense | <u>(757)</u> | <u>(844)</u> | <u>(1,013)</u> | <u>(1,447)</u> | <u>(1,550)</u> |
| Net interest income | 2,364 | 2,277 | 2,214 | 2,191 | 2,116 |
| Loan loss reversal (provision for loan losses) | 58 | (7) | (101) | (57) | (74) |
| Noninterest income | 210 | 180 | 189 | 179 | 217 |
| Noninterest expense | <u>(1,045)</u> | <u>(826)</u> | <u>(818)</u> | <u>(834)</u> | <u>(896)</u> |
| Income before income taxes | 1,587 | 1,624 | 1,484 | 1,479 | 1,363 |
| (Provision for) benefit from income taxes | <u>(31)</u> | <u>(51)</u> | <u>(43)</u> | <u>(47)</u> | <u>28</u> |
| Net income | <u>\$1,556</u> | <u>\$1,573</u> | <u>\$1,441</u> | <u>\$1,432</u> | <u>\$1,391</u> |