



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF \$6.8 BILLION FOR 2021

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

NEW YORK - The Farm Credit System today reported combined net income of \$6.8 billion for the year ended December 31, 2021, as compared with \$6.0 billion for the prior year. The System's combined net income was relatively unchanged at \$1.6 billion for the fourth quarter of 2021, as compared with the fourth quarter of 2020.

"The System experienced solid loan growth in 2021 and increased earnings reflecting our prudent underwriting standards, improved economic conditions and continued strong credit quality," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "System institutions are well-positioned to serve our member-borrowers during what may be a period of elevated inflation and rising interest rates."

2021 Results of Operations

Combined net income increased \$794 million or 13.2% for the year ended December 31, 2021, as compared with the prior year. The increase primarily resulted from an increase in net interest income and a loan loss reversal in 2021, as compared with a provision for loan losses for 2020, partially offset by an increase in noninterest expense.

Net interest income increased \$718 million or 7.9% to \$9.8 billion for 2021, as compared with \$9.0 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, largely driven by increased loan volume. Average earning assets grew \$28.8 billion or 7.8% to \$396.7 billion for 2021, as compared with the prior year.

The net interest margin was unchanged at 2.46% for both 2021 and 2020. Net interest spread increased seven basis points to 2.33% for 2021, as compared with 2.26% for 2020, primarily due to lower debt costs as a result of the significant volume of debt called during 2020 and 2021 that generated interest expense savings in excess of the decrease in yield on earning assets. Offsetting the increase in net interest spread was a seven 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 a loan loss reversal of \$152 million for the year ended December 31, 2021, as compared with a provision for loan losses of \$107 million for the year ended December 31, 2020. The loan loss reversal in 2021 primarily reflected credit quality improvements and the release of general reserves added in 2020 to address potential losses from the COVID-19

pandemic that did not occur. Partially offsetting the loan loss reversal in 2021 was a provision for loan losses in the agribusiness sector due to increased lending activity and a modest deterioration in credit quality in this sector as well as the adverse impact of a severe weather event in Texas during the first quarter affecting a limited number of rural power customers. The 2020 provision for loan losses primarily reflected a higher level of overall lending activity and increases in the general reserves due to the COVID-19 pandemic. Partially offsetting the provision for loan losses in 2020 were specific reserve reversals related to loan payoffs by a limited number of borrowers in the agribusiness and production and intermediate-term loan sectors.

Noninterest income was \$760 million for 2021, relatively unchanged as compared with 2020. Noninterest expense increased \$196 million or 5.6% to \$3.7 billion for 2021, as compared with \$3.5 billion for 2020, primarily due to increases in salaries and employee benefits, purchased services and other operating expense. Salaries and employee benefits increased \$110 million as a result of annual merit increases, performance-based compensation and higher staffing levels at certain System institutions. Purchased services increased \$27 million primarily due to higher contractor and other consulting services related to various technology and other business initiatives. Other operating expense increased \$55 million for 2021 primarily due to increases in travel, training and member relations expenses as restrictions caused by the COVID-19 pandemic eased, and to higher technology expenses.

The System recorded a provision for income taxes of \$161 million for 2021, as compared with \$172 million for 2020. The effective tax rate decreased to 2.3% for 2021 from 2.8% for 2020. The decrease in effective tax rate was primarily due to increased earnings attributable to non-taxable business activities and higher levels of patronage.

Fourth Quarter 2021 Results of Operations

Combined net income increased \$39 million or 2.5% to \$1.60 billion for the fourth quarter of 2021, as compared with \$1.56 billion for the fourth quarter of 2020. The increase in net income between these periods resulted from an increase in net interest income of \$140 million and a decrease in the provision for income taxes of \$10 million, partially offset by decreases in the loan loss reversal of \$48 million and noninterest income of \$21 million and an increase in noninterest expense of \$42 million.

Net interest income increased \$140 million or 5.9% to \$2.5 billion for the fourth quarter of 2021, as compared with the same period of the prior year. The increase resulted from a higher level of average earning assets and lower debts costs. Average earning assets grew \$28.0 billion or 7.4% to \$406.5 billion for the fourth quarter of 2021, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2021 decreased to 2.46%, as compared with 2.50% for the same period of the prior year. This resulted primarily from a three basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital) and a decrease in the net interest spread of one basis point to 2.34%.

The System reported loan loss reversals of \$10 million and \$58 million for the fourth quarters of 2021 and 2020. The loan loss reversal recorded in the fourth quarter of 2021 primarily reflected credit quality improvements, partially offset by a provision for loan losses related to increased loan volume and a modest deterioration in credit quality in the agribusiness sector.

Noninterest income decreased 10.0% to \$189 million for the fourth quarter of 2021, as compared with \$210 million for the fourth quarter of 2020. The decrease was primarily due to net losses on sales of investments and other assets of \$34 million, as compared to net gains on sales of investments and other assets of \$5 million in the fourth quarter of the prior year, and to an increase in losses on extinguishment of debt of \$28 million. Partially offsetting this decrease in noninterest income were increases in financially-related services income of \$18 million, net gains on derivative transactions of \$12 million and mineral income of \$11 million. Noninterest expense increased 4.0% to \$1.1 billion for the fourth quarter of 2021, as compared with \$1.0 billion for the fourth quarter of 2020, primarily due to increases in salaries and employee benefits of \$15 million, purchased services of \$10 million and other operating expense of \$14 million.

The System recorded provisions for income taxes of \$21 million and \$31 million for the fourth quarters of 2021 and 2020. The effective tax rate decreased to 1.3% for the fourth quarter of 2021 from 2.0% for the fourth quarter of 2020 primarily attributable to an increase in non-taxable business activities during the fourth quarter of 2021.

Fourth Quarter 2021 Compared to Third Quarter 2021

Net income was \$1.6 billion for the fourth quarter of 2021, as compared with \$1.8 billion for the third quarter of 2021. Net income for the fourth quarter of 2021 was negatively impacted by an increase in noninterest expense of \$163 million and a decrease in the loan loss reversal of \$102 million. The increase in noninterest expense primarily resulted from increases in salaries due to increased performance-based compensation and other operating expenses. Loan loss reversals were greater in the third quarter due to seasonal paydowns of agribusiness loans and the release of general reserves by certain System institutions.

Loan Portfolio Activity

Gross loans increased \$28.4 billion or 9.0% since year-end 2020 to \$343.9 billion at December 31, 2021. The increase primarily resulted from increases in real estate mortgage, production and intermediate-term, rural power 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. Production and intermediate-term loans increased primarily due to increased seasonal utilization of operating lines of credit. Rural power loans increased primarily resulting from advances to existing borrowers to upgrade their power grids and systems following a severe weather event in Texas during the first quarter and the associated higher power costs, as well as loans to electric cooperatives for building out their electric distribution systems and upgrading existing plants. The increase in agribusiness loans was primarily due to new loan originations and increased seasonal financing requirements at many grain and farm supply cooperatives.

Credit Quality

The System's accruing loan volume was \$342.8 billion at December 31, 2021, as compared with \$314.0 billion at December 31, 2020. Nonaccrual loans decreased \$328 million to \$1.2 billion at December 31, 2021, as compared with the same period of the prior year. The decrease in nonaccrual loans was primarily due to loan repayments and reinstatements to accrual status exceeding loans transferred into nonaccrual status. At December 31, 2021, 63.7% 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, loans 90 days or more past due and other property owned) decreased \$319 million to \$1.6 billion at December 31, 2021. These nonperforming assets represented 0.46% of the System's loans and other property owned at December 31, 2021, as compared with 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 98.1% at December 31, 2021, as compared with 97.5% at December 31, 2020. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased slightly to 0.27% at December 31, 2021, as compared with 0.28% at December 31, 2020.

The allowance for loan losses was \$1.6 billion at December 31, 2021, as compared with \$1.8 billion at December 31, 2020. Net loan charge-offs of \$19 million were recorded during 2021, as compared with \$90 million for 2020. The allowance for loan losses as a percentage of total loans was 0.47% at December 31, 2021 and 0.57% at December 31, 2020. The allowance for loan losses was 103% of the System's total nonperforming assets and 139% of its nonaccrual loans at December 31, 2021, as compared with 95% and 119% at December 31, 2020. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$71.1 billion at December 31, 2021 and \$67.3 billion at December 31, 2020, and represented 20.7% of System loans at December 31, 2021, as compared with 21.3% at December 31, 2020.

Agricultural Outlook

The February 2022 United States Department of Agriculture (USDA) forecast estimates 2021 net farm income (income after expenses from production in the current year) at \$119.1 billion, up \$23.9 billion from 2020. The USDA's outlook for the farm economy, as a whole, forecasts 2022 net farm income at \$113.7 billion, a \$5.4 billion decrease from 2021. The projected decrease in net farm income from 2021 to 2022 is primarily due to an expected increase in cash expenses of \$18.1 billion and a decrease in direct government payments of \$15.5 billion, partially offset by increases in cash receipts for animals and animal products of \$17.4 billion and crop receipts of \$12.0 billion.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased \$6.6 billion to \$80.8 billion at December 31, 2021, as compared with \$74.2 billion at year-end 2020. The System's liquidity position was 180 days and 171 days at December 31, 2021 and 2020.

During the second quarter of 2021, two Associations issued subordinated debt¹ totaling \$400 million. The proceeds were used to increase the institutions' regulatory capital and for general corporate purposes.

System capital increased \$3.9 billion since year-end 2020 to \$69.5 billion at December 31, 2021. Retained earnings increased \$3.1 billion to \$54.9 billion at December 31, 2021, as compared with \$51.8 billion at December 31, 2020, due to net income earned and retained. Patronage distributions of \$2.8 billion partially offset the increase in retained earnings. During 2021, one Bank and four Associations issued preferred stock¹ totaling \$1.105 billion, while one Association redeemed approximately \$226 million of Class H preferred stock. Accumulated other comprehensive loss increased \$589 million to \$1.210 billion at December 31, 2021, 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 was 15.9% at December 31, 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 65 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 2021 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:

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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 Farm Credit System Insurance Corporation.

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>2021</u>	December 31, <u>2020</u>
Cash and investments	\$ 80,816	\$ 74,210
Loans	343,929	315,490
Less: allowance for loan losses	<u>(1,632)</u>	<u>(1,796)</u>
Net loans	<u>342,297</u>	<u>313,694</u>
Accrued interest receivable	2,560	2,585
Other assets	4,324	4,749
Restricted assets	<u>5,960</u>	<u>5,455</u>
Total assets	<u>\$435,957</u>	<u>\$400,693</u>
Systemwide Debt Securities:		
Due within one year	\$130,701	\$125,237
Due after one year	<u>222,122</u>	<u>197,418</u>
Total Systemwide Debt Securities	352,823	322,655
Subordinated debt	398	
Other bonds	3,623	2,559
Other liabilities	<u>9,636</u>	<u>9,944</u>
Total liabilities	<u>366,480</u>	<u>335,158</u>
Preferred stock	3,993	3,204
Capital stock	2,069	1,977
Additional paid-in-capital	3,782	3,738
Restricted capital	5,960	5,455
Accumulated other comprehensive loss	(1,210)	(621)
Retained earnings	<u>54,883</u>	<u>51,782</u>
Total capital	<u>69,477</u>	<u>65,535</u>
Total liabilities and capital	<u>\$435,957</u>	<u>\$400,693</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended <u>December 31,</u>		For the Year Ended <u>December 31,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Interest income	\$3,195	\$3,121	\$12,541	\$13,107
Interest expense	<u>(691)</u>	<u>(757)</u>	<u>(2,777)</u>	<u>(4,061)</u>
Net interest income	2,504	2,364	9,764	9,046
Loan loss reversal (provision for loan losses)	10	58	152	(107)
Noninterest income	189	210	760	758
Noninterest expense	<u>(1,087)</u>	<u>(1,045)</u>	<u>(3,719)</u>	<u>(3,523)</u>
Income before income taxes	1,616	1,587	6,957	6,174
Provision for income taxes	<u>(21)</u>	<u>(31)</u>	<u>(161)</u>	<u>(172)</u>
Net income	<u>\$1,595</u>	<u>\$1,556</u>	<u>\$ 6,796</u>	<u>\$ 6,002</u>

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

Statement of Condition Data – Five Quarter Trend

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Cash and investments	\$ 80,816	\$ 73,351	\$ 73,936	\$ 72,126	\$ 74,210
Loans	343,929	325,784	323,181	321,808	315,490
Less: allowance for loan losses	<u>(1,632)</u>	<u>(1,653)</u>	<u>(1,781)</u>	<u>(1,817)</u>	<u>(1,796)</u>
Net loans	<u>342,297</u>	<u>324,131</u>	<u>321,400</u>	<u>319,991</u>	<u>313,694</u>
Accrued interest receivable	2,560	2,971	2,435	2,269	2,585
Other assets	4,324	4,303	4,352	4,389	4,749
Restricted assets	<u>5,960</u>	<u>5,833</u>	<u>5,708</u>	<u>5,581</u>	<u>5,455</u>
Total assets	<u>\$435,957</u>	<u>\$410,589</u>	<u>\$407,831</u>	<u>\$404,356</u>	<u>\$400,693</u>
Systemwide Debt Securities	\$352,823	\$329,008	\$328,835	\$327,721	\$322,655
Subordinated debt	398	398	400		
Other bonds	3,623	3,634	2,745	2,473	2,559
Other liabilities	<u>9,636</u>	<u>8,051</u>	<u>7,498</u>	<u>7,662</u>	<u>9,944</u>
Total liabilities	<u>366,480</u>	<u>341,091</u>	<u>339,478</u>	<u>337,856</u>	<u>335,158</u>
Preferred stock	3,993	3,531	3,563	3,180	3,204
Capital stock	2,069	2,049	2,017	1,989	1,977
Additional paid-in-capital	3,782	3,785	3,781	3,790	3,738
Restricted capital	5,960	5,833	5,708	5,581	5,455
Accumulated other comprehensive loss	(1,210)	(1,051)	(898)	(960)	(621)
Retained earnings	<u>54,883</u>	<u>55,351</u>	<u>54,182</u>	<u>52,920</u>	<u>51,782</u>
Total capital	<u>69,477</u>	<u>69,498</u>	<u>68,353</u>	<u>66,500</u>	<u>65,535</u>
Total liabilities and capital	<u>\$435,957</u>	<u>\$410,589</u>	<u>\$407,831</u>	<u>\$404,356</u>	<u>\$400,693</u>

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Interest income	\$3,195	\$3,141	\$3,116	\$3,089	\$3,121
Interest expense	<u>(691)</u>	<u>(702)</u>	<u>(687)</u>	<u>(697)</u>	<u>(757)</u>
Net interest income	2,504	2,439	2,429	2,392	2,364
Loan loss reversal (provision for loan losses)	10	112	58	(28)	58
Noninterest income	189	179	182	210	210
Noninterest expense	<u>(1,087)</u>	<u>(924)</u>	<u>(875)</u>	<u>(833)</u>	<u>(1,045)</u>
Income before income taxes	1,616	1,806	1,794	1,741	1,587
Provision for income taxes	<u>(21)</u>	<u>(46)</u>	<u>(46)</u>	<u>(48)</u>	<u>(31)</u>
Net income	<u>\$1,595</u>	<u>\$1,760</u>	<u>\$1,748</u>	<u>\$1,693</u>	<u>\$1,556</u>