



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF \$7.3 BILLION FOR 2022

For 10:00 a.m. (EST) Release

NEW YORK - The Farm Credit System today reported combined net income of \$7.3 billion for the year ended December 31, 2022, as compared with \$6.8 billion for the prior year. The System also reported combined net income of \$1.8 billion for the fourth quarter of 2022, as compared with \$1.6 billion for the fourth quarter of 2021.

“Strong demand and higher commodity prices for U.S. agricultural products during 2022 enhanced the earnings of agricultural producers and contributed to solid loan growth and earnings recognized by the System,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Credit quality remained strong reflecting the System’s continued commitment to prudent underwriting standards.”

2022 Results of Operations

Combined net income increased \$472 million or 6.9% for the year ended December 31, 2022, as compared with the prior year. The increase primarily resulted from increases in net interest income and noninterest income, partially offset by an increase in noninterest expense and a provision for loan losses for 2022, as compared with a loan loss reversal in 2021.

Net interest income increased \$778 million or 8.0% to \$10.5 billion for 2022, as compared with \$9.8 billion for the prior year. The increase in net interest income resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in investments held for liquidity. Average earning assets grew \$44.3 billion or 11.2% to \$441.0 billion for 2022, as compared with the prior year.

The net interest margin decreased seven basis points to 2.39% for 2022, as compared to 2.46% for 2021 due to a decrease in net interest spread of 17 basis points to 2.16% for 2022, as compared with 2.33% for 2021, partially offset by a ten basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). The decrease in net interest spread was primarily due to higher debt costs in the rising interest rate environment as the opportunities to call and refinance debt declined and loan refinancings diminished. Also impacting the decline in the net interest spread was the higher levels of liquidity investments, which have lower spreads commensurate with lower risk. These factors along with competitive market pressures resulted in spread compression.

The System recognized a provision for loan losses of \$40 million for the year ended December 31, 2022, as compared with a loan loss reversal of \$152 million for the year ended December

31, 2021. Provisions for loan losses of \$174 million were recorded by certain System institutions in 2022 primarily due to 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. Partially offsetting these provisions for loan losses were loan loss reversals of \$134 million recorded by other System institutions primarily from credit quality improvements and the reversal of specific reserves associated with a limited number of customers. 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 of 2021 affecting a limited number of rural power customers.

Noninterest income increased \$209 million or 27.5% to \$969 million for 2022, as compared with \$760 million for 2021, primarily due to gains on extinguishment of debt of \$1 million in 2022, as compared to losses on extinguishment of debt of \$135 million during 2021 and increases in other noninterest income of \$50 million, mineral income of \$41 million, financially-related services income of \$39 million and income earned on Insurance Fund assets of \$23 million. Partially offsetting these increases in noninterest income was a \$30 million net loss on derivative, investment and other transactions in 2022, as compared with a \$26 million net gain for 2021 and a decrease in loan-related fee income of \$25 million.

Noninterest expense increased \$318 million or 8.6% to \$4.0 billion for 2022, as compared with \$3.7 billion for 2021, primarily due to increases in salaries and employee benefits, purchased services and other operating expense. Salaries and employee benefits increased \$166 million as a result of annual merit and other pay increases to address inflation and tight labor markets as well as higher staffing levels at certain System institutions. Purchased services increased \$43 million primarily due to increases in consulting services related to information technology and various other business initiatives. Other operating expense increased \$91 million for 2022 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.

The System recorded a provision for income taxes of \$166 million for 2022, as compared with \$161 million for 2021. The effective tax rate decreased slightly to 2.2% for 2022 from 2.3% for 2021.

Fourth Quarter 2022 Results of Operations

Combined net income increased \$224 million or 14.0% to \$1.8 billion for the fourth quarter of 2022, as compared with \$1.6 billion for the fourth quarter of 2021. The increase in net income between these periods resulted from increases in net interest income of \$202 million and noninterest income of \$144 million and a decrease in the provision for income taxes of \$7 million, partially offset by an increase in noninterest expense of \$70 million and a provision for loan losses of \$49 million in the fourth quarter of 2022, as compared with a loan loss reversal of \$10 million for the same period of the prior year.

Net interest income increased \$202 million or 8.1% to \$2.7 billion for the fourth quarter of 2022, as compared with the same period of the prior year primarily from a higher level of average earning assets. Average earning assets grew \$45.7 billion or 11.2% to \$452.2 billion for the fourth quarter of 2022, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2022 decreased to 2.39%, as compared with 2.46% for the same period of the prior year. This resulted primarily from a decrease in the net interest spread of 31 basis points to 2.03%, partially offset by a 24 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). The decrease in the net interest spread was primarily due to increasing debt costs and higher levels of liquidity investments, which have lower spreads commensurate with lower risk.

The System reported a provision for loan losses of \$49 million for the fourth quarter of 2022, as compared with a loan loss reversal of \$10 million for the same period of the prior year. The provision for loan losses recorded in the fourth quarter of 2022 primarily reflected a higher level of overall agribusiness lending activity.

Noninterest income increased \$144 million or 76.2% to \$333 million for the fourth quarter of 2022, as compared with \$189 million for the fourth quarter of 2021. The increase was primarily due to a decrease in losses on extinguishment of debt of \$68 million, net gains on derivative, investment and other transactions of \$11 million, as compared to net losses on derivative, investment and other transactions of \$15 million in the fourth quarter of the prior year, and to an increase in financially-related services income of \$21 million.

Noninterest expense increased \$70 million or 6.4% to \$1.2 billion for the fourth quarter of 2022, as compared with \$1.1 billion for the fourth quarter of 2021, primarily due to increases in salaries and employee benefits of \$35 million, purchased services of \$17 million and other operating expense of \$17 million.

The System recorded provisions for income taxes of \$14 million and \$21 million for the fourth quarters of 2022 and 2021. The effective tax rate decreased to 0.8% for the fourth quarter of 2022 from 1.3% for the fourth quarter of 2021 primarily attributable to an increase in non-taxable business activities during the fourth quarter of 2022.

Fourth Quarter 2022 Compared to Third Quarter 2022

Net income was \$1.8 billion for the fourth quarter of 2022, as compared with \$1.9 billion for the third quarter of 2022. Net income for the fourth quarter of 2022 was negatively impacted by an increase in noninterest expense of \$158 million and a provision for loan losses of \$49 million in the fourth quarter of 2022, as compared with a loan loss reversal of \$10 million in the third quarter of 2022. The increase in noninterest expense primarily resulted from increases in salaries due to increased performance-based compensation and other operating expenses. Positively impacting net income for the fourth quarter of 2022 were increases in noninterest income of \$60 million and net interest income of \$49 million and a decrease in the provision for income taxes of \$45 million.

Loan Portfolio Activity

Gross loans increased \$29.3 billion or 8.5% since year-end 2021 to \$373.3 billion at December 31, 2022. The increase primarily resulted from increases in real estate mortgage, processing and marketing, rural infrastructure, production and intermediate-term and agricultural export finance loans, offset in part by a decrease in loans to cooperatives. Financing for new and existing customers was the primary driver of the increase in real estate mortgage loans 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 new and 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. Production and intermediate-term loans increased primarily due to increased seasonal utilization of operating lines of credit. Agricultural export finance loans increased due to a higher level of import/export loan demand. The decrease in loans to cooperatives resulted from paydown of seasonal loans at grain and farm supply cooperatives.

Credit Quality

The System's accruing loan volume was \$372.0 billion at December 31, 2022, as compared with \$342.8 billion at December 31, 2021. Nonaccrual loans increased \$90 million to \$1.3 billion at December 31, 2022, as compared with the same period of the prior year. The increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of borrowers. At December 31, 2022, 63.6% 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, loans 90 days or more past due and other property owned) increased \$177 million to \$1.8 billion at December 31, 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 \$85 million and are considered well secured and in the process of collection. These nonperforming assets represented 0.47% of the System's loans and other property owned at December 31, 2022, as compared with 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 December 31, 2022, as compared with 98.1% at December 31, 2021. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.29% at December 31, 2022, as compared with 0.27% at December 31, 2021.

The allowance for loan losses was \$1.6 billion at both December 31, 2022 and 2021. Net loan charge-offs of \$38 million were recorded during 2022, as compared with \$19 million for 2021. The allowance for loan losses as a percentage of total loans was 0.42% at December 31, 2022 and 0.47% at December 31, 2021. The allowance for loan losses was 90% of the System's total nonperforming assets and 124% of its nonaccrual loans at December 31, 2022, as compared with 103% and 139% at December 31, 2021. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$70.2 billion at December 31, 2022 and \$71.1 billion at December 31, 2021, and represented 18.8% of System loans at December 31, 2022, as compared with 20.7% at December 31, 2021.

Agricultural Outlook

The February 2023 United States Department of Agriculture (USDA) forecast estimates 2022 net farm income (income after expenses from production in the current year) at \$162.7 billion, up \$21.8 billion from 2021. The USDA's outlook for the farm economy, as a whole, forecasts 2023 net farm income at \$136.9 billion, a \$25.8 billion decrease from 2022. The projected decrease in net farm income from 2022 to 2023 is primarily due to expected decreases in cash receipts for animals and animal products of \$14.7 billion, crop receipts of \$8.8 billion and direct government payments of \$5.4 billion as well as an increase in cash expenses of \$13.7 billion.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) increased \$9.1 billion to \$89.9 billion at December 31, 2022, as compared with \$80.8 billion at year-end 2021. The System's liquidity position was 180 days at both December 31, 2022 and 2021.

System capital decreased \$876 million since year-end 2021 to \$68.6 billion at December 31, 2022. Retained earnings increased \$2.4 billion to \$57.3 billion at December 31, 2022, as compared with \$54.9 billion at December 31, 2021, due to net income earned and retained. Patronage distributions of \$3.0 billion partially offset the increase in retained earnings. During 2022, one Bank issued preferred stock totaling \$400 million, while two Banks and two Associations redeemed a total of \$969 million of preferred stock. Accumulated other comprehensive loss increased \$4.3 billion to \$5.5 billion at December 31, 2022, primarily as a result of an increase in interest rates, which decreased the fair value of existing fixed-rate investment securities, which are primarily comprised of securities issued by the U.S. government or its agencies. Capital as a percentage of total assets was 14.4% at December 31, 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 61 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 2022 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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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

	December 31, <u>2022</u>	December 31, <u>2021</u>
Cash and investments	\$ 89,896	\$ 80,816
Loans	373,266	343,929
Less: allowance for loan losses	<u>(1,576)</u>	<u>(1,632)</u>
Net loans	<u>371,690</u>	<u>342,297</u>
Accrued interest receivable	3,572	2,560
Other assets	5,232	4,324
Restricted assets	<u>6,673</u>	<u>5,960</u>
Total assets	<u>\$477,063</u>	<u>\$435,957</u>
Systemwide Debt Securities:		
Due within one year	\$144,776	\$130,701
Due after one year	<u>245,201</u>	<u>222,122</u>
Total Systemwide Debt Securities	389,977	352,823
Subordinated debt	398	398
Other bonds	5,599	3,623
Other liabilities	<u>12,488</u>	<u>9,636</u>
Total liabilities	<u>408,462</u>	<u>366,480</u>
Preferred stock	3,416	3,993
Capital stock	2,134	2,069
Additional paid-in-capital	4,597	3,782
Restricted capital	6,673	5,960
Accumulated other comprehensive loss	(5,492)	(1,210)
Retained earnings	<u>57,273</u>	<u>54,883</u>
Total capital	<u>68,601</u>	<u>69,477</u>
Total liabilities and capital	<u>\$477,063</u>	<u>\$435,957</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended <u>December 31,</u>		For the Year Ended <u>December 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Interest income	\$5,293	\$3,195	\$16,716	\$12,541
Interest expense	<u>(2,587)</u>	<u>(691)</u>	<u>(6,174)</u>	<u>(2,777)</u>
Net interest income	2,706	2,504	10,542	9,764
(Provision for loan losses) loan loss reversal	(49)	10	(40)	152
Noninterest income	333	189	969	760
Noninterest expense	<u>(1,157)</u>	<u>(1,087)</u>	<u>(4,037)</u>	<u>(3,719)</u>
Income before income taxes	1,833	1,616	7,434	6,957
Provision for income taxes	<u>(14)</u>	<u>(21)</u>	<u>(166)</u>	<u>(161)</u>
Net income	<u>\$1,819</u>	<u>\$1,595</u>	<u>\$ 7,268</u>	<u>\$ 6,796</u>

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

Statement of Condition Data – Five Quarter Trend

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Cash and investments	\$ 89,896	\$ 89,567	\$ 87,139	\$ 81,749	\$ 80,816
Loans	373,266	361,679	357,306	360,218	343,929
Less: allowance for loan losses	<u>(1,576)</u>	<u>(1,540)</u>	<u>(1,614)</u>	<u>(1,655)</u>	<u>(1,632)</u>
Net loans	<u>371,690</u>	<u>360,139</u>	<u>355,692</u>	<u>358,563</u>	<u>342,297</u>
Accrued interest receivable	3,572	3,566	2,716	2,361	2,560
Other assets	5,232	4,897	4,420	4,200	4,324
Restricted assets	<u>6,673</u>	<u>6,483</u>	<u>6,304</u>	<u>6,096</u>	<u>5,960</u>
Total assets	<u>\$477,063</u>	<u>\$464,652</u>	<u>\$456,271</u>	<u>\$452,969</u>	<u>\$435,957</u>
Systemwide Debt Securities	\$389,977	\$377,154	\$374,812	\$371,652	\$352,823
Subordinated debt	398	398	398	398	398
Other bonds	5,599	7,629	3,938	3,325	3,623
Other liabilities	<u>12,488</u>	<u>10,075</u>	<u>8,195</u>	<u>8,776</u>	<u>9,636</u>
Total liabilities	<u>408,462</u>	<u>395,256</u>	<u>387,343</u>	<u>384,151</u>	<u>366,480</u>
Preferred stock	3,416	3,816	3,446	3,772	3,993
Capital stock	2,134	2,119	2,098	2,073	2,069
Additional paid-in-capital	4,597	4,533	4,266	4,266	3,782
Restricted capital	6,673	6,483	6,304	6,096	5,960
Accumulated other comprehensive loss	(5,492)	(5,299)	(3,995)	(2,991)	(1,210)
Retained earnings	<u>57,273</u>	<u>57,744</u>	<u>56,809</u>	<u>55,602</u>	<u>54,883</u>
Total capital	<u>68,601</u>	<u>69,396</u>	<u>68,928</u>	<u>68,818</u>	<u>69,477</u>
Total liabilities and capital	<u>\$477,063</u>	<u>\$464,652</u>	<u>\$456,271</u>	<u>\$452,969</u>	<u>\$435,957</u>

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Interest income	\$5,293	\$4,410	\$3,700	\$3,313	\$3,195
Interest expense	<u>(2,587)</u>	<u>(1,753)</u>	<u>(1,081)</u>	<u>(753)</u>	<u>(691)</u>
Net interest income	2,706	2,657	2,619	2,560	2,504
(Provision for loan losses) loan loss reversal	(49)	10	(6)	5	10
Noninterest income	333	273	184	179	189
Noninterest expense	<u>(1,157)</u>	<u>(999)</u>	<u>(943)</u>	<u>(938)</u>	<u>(1,087)</u>
Income before income taxes	1,833	1,941	1,854	1,806	1,616
Provision for income taxes	<u>(14)</u>	<u>(59)</u>	<u>(45)</u>	<u>(48)</u>	<u>(21)</u>
Net income	<u>\$1,819</u>	<u>\$1,882</u>	<u>\$1,809</u>	<u>\$1,758</u>	<u>\$1,595</u>