FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2023 COMBINED RESULTS

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

NEW YORK - The Farm Credit System today reported that combined net income decreased 2.0% to $1.7 billion for the first quarter of 2023, as compared with $1.8 billion for the same period of the prior year.

"The System continued to generate strong earnings during the first quarter of 2023," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "Credit quality remains robust despite ongoing challenges of higher interest rates, inflation and the moderation of commodity prices."

Results of Operations

First Quarter 2023 Compared to First Quarter 2022

Net interest income was $2.8 billion for the first quarter of 2023, as compared with $2.6 billion for the first quarter of 2022. The increase in net interest income primarily resulted from a higher level of average earning assets, driven by increased loan volume and, to a lesser extent, growth in investments held for liquidity. Average earning assets grew $32.6 billion or 7.6% to $460.8 billion for the first quarter of 2023, as compared with the first quarter of 2022.

The net interest margin increased two basis points to 2.41% for the quarter ended March 31, 2023, as compared with 2.39% for the same period of the prior year. The increase in the net interest margin resulted from a 31 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). Partially offsetting the increase in net interest margin was a decrease in the net interest spread of 29 basis points to 1.98%, as compared with the first quarter of 2022, which was primarily due to higher debt costs in the rising interest rate environment and higher levels of liquidity investments, which have lower spreads commensurate with lower risk.

The System recognized a provision for credit losses of $236 million for the first quarter of 2023, as compared with a credit loss reversal of $5 million during the first quarter of 2022. The provision for credit losses for the first quarter of 2023 primarily reflected specific reserves associated with a limited number of customers. The increase included the impact of Association mergers due to the accounting change for credit losses. The credit loss reversal for the first quarter of 2022 was primarily due to credit quality improvements and the reversal of specific reserves associated with a limited number of customers. Partially offsetting the credit loss reversal were provisions for credit losses primarily reflecting a higher level of overall agribusiness lending activity.

Noninterest income increased $77 million or 43.0% to $256 million for the first quarter of 2023, as compared with the first quarter of 2022. The increase was primarily due to net gains on derivative and other transactions of $16 million for the first quarter of 2023, as compared to net losses of $17 million for the first quarter of 2022, increases in loan-related fee income of $25 million and income earned on Insurance Fund assets of $20 million. The net gains on derivative and other transactions were due to the change in interest rates during the period.

Noninterest expense increased $90 million or 9.6% to $1.0 billion for the first quarter of 2023, as compared with the first quarter of 2022, primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased $46 million primarily as a result of annual merit increases and higher staffing levels at certain System institutions. Other operating expense increased $42 million due to increases in travel, training and member relations expenses with fewer restrictions associated with the COVID-19 pandemic, and higher technology expenses.

The provision for income taxes was $50 million and $48 million for the first quarter of 2023 and 2022. The effective tax rate increased slightly to 2.8% for the first quarter of 2023 from 2.7% for the first quarter of 2022 due to increased earnings attributable to taxable business activities.

First Quarter 2023 Compared to Fourth Quarter 2022

Net income decreased $97 million or 5.3% to $1.7 billion for the first quarter of 2023, as compared with the fourth quarter of 2022. The decrease in net income was primarily due to increases in the provision for credit losses of $187 million and provision for income taxes of $36 million and a decrease in noninterest income of $77 million. The increase in provision for credit losses was primarily due to specific reserves associated with a limited number of customers. The increase included the impact of Association mergers due to the accounting change for credit losses. Partially offsetting the decrease in net income for the first quarter of 2023 was a decrease in noninterest expense of $129 million driven by lower incentive compensation and purchased services, as well as an increase in net interest income of $74 million, which resulted from higher average earning assets.

Loan Portfolio Activity

Gross loans increased $3.7 billion or 1.0% to $377.0 billion at March 31, 2023, as compared with $373.3 billion at December 31, 2022. The increase primarily resulted from an increase in loans to cooperatives, processing and marketing loans and power loans, offset in part by a decrease in real estate mortgage and production and intermediate-term loans. Loans to cooperatives increased primarily due to higher seasonal lending at grain and farm supply cooperatives. Processing and marketing loans increased primarily due to increased draws on lines of credit by existing customers as a result of higher commodity prices. The increase in power loans was primarily due to increases in the renewable energy, rural electric distribution and rural electric regulated utility sectors. The primary driver of the decrease in real estate mortgage loans was annual and seasonal repayments outpacing new originations. The decline in new financing activity was largely due to the rising interest rate environment, which has tightened competition. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

Credit Quality

The System's accruing loan volume was $375.2 billion at March 31, 2023, as compared with $372.0 billion at December 31, 2022. Nonaccrual loans increased $489 million to $1.8 billion at March 31, 2023, as compared to December 31, 2022. The increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of borrowers. At March 31, 2023, 69.6% of nonaccrual loans were current as to principal and interest, as compared with 63.6% at December 31, 2022.

Nonperforming assets (which consist of nonaccrual loans and accruing loans 90 days or more past due at amortized cost and other property owned) were $2.0 billion at March 31, 2023 and represented 0.53% of loans and other property owned, as compared with nonperforming assets[1] of $1.8 billion at December 31, 2022 or 0.47% of loans and other property owned.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans were 98.3% at March 31, 2023 and 98.4% at December 31, 2022. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.33% at March 31, 2023, as compared with 0.29% at March 31, 2022.

The allowance for credit losses[2] on loans was $1.6 billion at both March 31, 2023 and December 31, 2022. Net loan charge-offs of $39 million were recorded during the first quarter of 2023, as compared with net loan recoveries of $5 million for the first quarter of 2022. The allowance for credit losses on loans as a percentage of total loans was 0.42% at both March 31, 2023 and December 31, 2022. The allowance for credit losses on loans was 78% of the System's total nonperforming assets and 90% of nonaccrual loans at March 31, 2023, as compared with 90% and 124% at December 31, 2022. The System also had $168 million and $222 million of allowance for unfunded commitments at March 31, 2023 and December 31, 2022. Total capital and the allowance for credit losses on loans, which is a measure of risk-bearing capacity, totaled $71.9 billion at March 31, 2023 and $70.2 billion at December 31, 2022, and represented 19.1% of System loans at March 31, 2023, as compared with 18.8% at December 31, 2022.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) were $93.9 billion at March 31, 2023 and $89.9 billion at December 31, 2022. The System's liquidity position provided for 184 days coverage of maturing debt at March 31, 2023, as compared with 180 days coverage at December 31, 2022.

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[1] Prior to the adoption on January 1, 2023 of the accounting standard entitled, "Measurement of Credit Losses on Financial Instruments," known as CECL, nonperforming assets included accruing restructured loans and were presented with accrued interest.

[2] CECL requires the allowance for credit losses to be measured based on management's best estimate of the current expected credit losses over the life of the loan. The previous measurement was based on the estimate of probable incurred credit losses in the portfolio. The impact of adoption resulted in a cumulative effect adjustment to increase retained earnings on January 1, 2023 by $151 million, net of tax, while decreasing the allowance for credit losses on loans and unfunded commitments by $190 million. In addition, the System recognized an allowance for credit losses on available-for-sale investments of $6 million upon adoption of CECL.

Total capital was $70.3 billion at March 31, 2023, as compared with $68.6 billion at December 31, 2022. The System's retained earnings decreased $1.1 billion to $56.2 billion during the first quarter of 2023 due to $2.3 billion of unallocated surplus transferred to additional paid-in-capital associated with Association mergers, partially offset by net income earned and retained. Accumulated other comprehensive loss decreased $621 million during the first quarter of 2023 as a result of the impact of market interest rate changes, which increased the fair value of existing fixed-rate investment securities. Investment securities are primarily comprised of securities issued by the U.S. government or its agencies. Capital as a percentage of total assets increased slightly to 14.5% at March 31, 2023, as compared with 14.4% at December 31, 2022.

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 59 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

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Cash and investments	$ 93,874	$ 89,896
Loans	376,968	373,266
Less: allowance for credit losses on loans	(1,571)	(1,576)
Net loans	375,397	371,690
Accrued interest receivable	3,395	3,572
Other assets	5,005	5,232
Restricted assets	6,858	6,673
Total assets	$484,529	$477,063
Systemwide Debt Securities:		
Due within one year	$154,983	$144,776
Due after one year	242,734	245,201
Total Systemwide Debt Securities	397,717	389,977
Subordinated debt	398	398
Other bonds	6,004	5,599
Other liabilities	10,092	12,488
Total liabilities	414,211	408,462
Preferred stock	3,418	3,416
Capital stock	2,069	2,134
Additional paid-in-capital	6,679	4,597
Restricted capital	6,858	6,673
Accumulated other comprehensive loss	(4,871)	(5,492)
Retained earnings	56,165	57,273
Total capital	70,318	68,601
Total liabilities and capital	$484,529	$477,063

STATEMENT OF INCOME DATA

	For the Quarter Ended March 31, (unaudited)	
	2023	**2022**
Interest income	$5,947	$3,313
Interest expense	(3,167)	(753)
Net interest income	2,780	2,560
(Provision for credit losses) credit loss reversal	(236)	5
Noninterest income	256	179
Noninterest expense	(1,028)	(938)
Income before income taxes	1,772	1,806
Provision for income taxes	(50)	(48)
Net income	$1,722	$1,758

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data – Five Quarter Trend

	March 31, 2023 (unaudited)	December 31, 2022 (audited)	September 30, 2022 (unaudited)	June 30, 2022 (unaudited)	March 31, 2022 (unaudited)
Cash and investments	$ 93,874	$ 89,896	$ 89,567	$ 87,139	$ 81,749
Loans	376,968	373,266	361,679	357,306	360,218
Less: allowance for credit losses on loans	(1,571)	(1,576)	(1,540)	(1,614)	(1,655)
Net loans	375,397	371,690	360,139	355,692	358,563
Accrued interest receivable	3,395	3,572	3,566	2,716	2,361
Other assets	5,005	5,232	4,897	4,420	4,200
Restricted assets	6,858	6,673	6,483	6,304	6,096
Total assets	$484,529	$477,063	$464,652	$456,271	$452,969
Systemwide Debt Securities	$397,717	$389,977	$377,154	$374,812	$371,652
Subordinated debt	398	398	398	398	398
Other bonds	6,004	5,599	7,629	3,938	3,325
Other liabilities	10,092	12,488	10,075	8,195	8,776
Total liabilities	414,211	408,462	395,256	387,343	384,151
Preferred stock	3,418	3,416	3,816	3,446	3,772
Capital stock	2,069	2,134	2,119	2,098	2,073
Additional paid-in-capital	6,679	4,597	4,533	4,266	4,266
Restricted capital	6,858	6,673	6,483	6,304	6,096
Accumulated other comprehensive loss	(4,871)	(5,492)	(5,299)	(3,995)	(2,991)
Retained earnings	56,165	57,273	57,744	56,809	55,602
Total capital	70,318	68,601	69,396	68,928	68,818
Total liabilities and capital	$484,529	$477,063	$464,652	$456,271	$452,969

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**March 31, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**
Interest income	$5,947	$5,293	$4,410	$3,700	$3,313
Interest expense	(3,167)	(2,587)	(1,753)	(1,081)	(753)
Net interest income	2,780	2,706	2,657	2,619	2,560
(Provision for credit losses) credit loss reversal	(236)	(49)	10	(6)	5
Noninterest income	256	333	273	184	179
Noninterest expense	(1,028)	(1,157)	(999)	(943)	(938)
Income before income taxes	1,772	1,833	1,941	1,854	1,806
Provision for income taxes	(50)	(14)	(59)	(45)	(48)
Net income	$1,722	$1,819	$1,882	$1,809	$1,758