FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release Wednesday, August 2, 2023

FARM CREDIT SYSTEM REPORTS 2023 SECOND QUARTER AND SIX-MONTH NET INCOME

For 11:00 a.m. (EDT) Release

NEW YORK - The Farm Credit System today reported that combined net income decreased 1.4% to $1.78 billion and 1.7% to $3.51 billion for the three and six months ended June 30, 2023, as compared with net income of $1.81 billion and $3.57 billion for the same periods of the prior year.

"Despite a challenging external environment, the System recognized solid financial results for the first half of 2023," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "A strong balance sheet and seasoned underwriting professionals continue to position the System to support the needs of our member-borrowers."

Results of Operations

Second Quarter and Six-Month 2023 Results Compared to Second Quarter and Six-Month 2022 Results

Net interest income increased $200 million or 7.6% to $2.8 billion for the second quarter of 2023 and $420 million or 8.1% to $5.6 billion for the six months ended June 30, 2023, 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 $26.5 billion or 6.0% to $468.4 billion for the three months ended June 30, 2023 and $29.6 billion or 6.8% to $464.6 billion for the six months ended June 30, 2023, as compared with the same periods of the prior year.

The net interest margin was 2.41% for both the three and six months ended June 30, 2023, as compared with 2.37% and 2.38% for the same periods of the prior year. The increase in the net interest margin for the three- and six-month periods primarily resulted from a 32 and 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 were decreases in the net interest spread of 28 basis points to 1.93% and 1.96%, as compared with 2.21% and 2.24% for the same periods of the prior year. The decline in the net interest spread for the three- and six-month periods of 2023 was primarily due to higher debt costs and competitive market pressures impacting the loan portfolio in the current rising interest rate environment and higher levels of investments in the liquidity portfolio, which have lower spreads commensurate with lower risk.

The System recognized provisions for credit losses of $171 million and $407 million for the three and six months ended June 30, 2023, as compared with provisions for credit losses of $6 million and $1 million for the three and six months ended June 30, 2022. The provision for credit losses for the first six months of 2023 primarily reflected higher specific reserves associated with a limited number of customers and forecasts of deteriorating macroeconomic conditions that may affect the agribusiness and rural infrastructure sectors. The increase also included the impact of Association mergers reflecting an accounting change for credit losses. The provision for credit losses recorded by certain System institutions for the first six months of 2022 primarily reflected 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. Substantially offsetting these provisions for credit losses in 2022 were credit loss reversals recorded by other System institutions primarily reflecting credit quality improvements and the reversal of specific reserves associated with a limited number of customers.

Noninterest income increased $47 million or 25.5% to $231 million and $124 million or 34.2% to $487 million for the three and six months ended June 30, 2023, as compared with the same periods of the prior year. The increases for the three- and six-month periods were primarily due to increases in loan-related fee income of $24 million and $49 million and income earned on Insurance Fund assets of $22 million and $42 million. Also positively impacting the six-month period was net gains on derivative and other transactions of $4 million, as compared to net losses of $22 million for the same period of the prior year.

Noninterest expense increased $111 million or 11.8% to $1.1 billion and $201 million or 10.7% to $2.1 billion for the three and six months ended June 30, 2023, as compared with the same periods of the prior year. The increases for the three- and six-month periods were primarily due to increases in salaries and employee benefits, occupancy and equipment expense and other operating expense. Salaries and employee benefits increased $63 million and $109 million for the three and six months ended June 30, 2023, as compared to the same periods of the prior year, primarily due to annual merit increases and higher staffing levels at certain System institutions. For the three- and six-month periods ended June 30, 2023, occupancy and equipment expense increased $11 million and $17 million primarily due to higher software costs. Other operating expense increased $43 million and $85 million for the three and six months ended June 30, 2023, as compared to the same periods of the prior year, due to increases in travel, training, meetings and member relations expenses due to the easing of restrictions associated with the COVID-19 pandemic, and to higher corporate insurance premiums and technology expenses.

The provisions for income taxes were $41 million and $91 million for the three and six months ended June 30, 2023, as compared with $45 million and $93 million for the three and six months ended June 30, 2022. The effective tax rate was 2.5% for the first six months of both 2023 and 2022.

Second Quarter 2023 Compared to First Quarter 2023

Net income was $1.8 billion for the second quarter of 2023, as compared with $1.7 billion for the first quarter of 2023. Positively impacting net income for the three months ended June 30, 2023 was a decrease in provision for credit losses of $65 million and an increase in net interest income of $39 million. The decrease in the provision for credit losses was primarily due to specific reserves in the first quarter associated with a limited number of customers and the impact of Association mergers reflecting an accounting change for credit losses. Negatively impacting net income for the second quarter of 2023 was an increase in noninterest expense of $26 million and a decrease in noninterest income of $25 million.

Loan Portfolio Activity

Gross loans increased $4.7 billion or 1.3% to $378.0 billion at June 30, 2023, as compared with $373.3 billion at December 31, 2022. The increase primarily resulted from an increase in power loans and processing and marketing loans, offset in part by a decrease in loans to cooperatives and production and intermediate-term loans. The increase in power loans was primarily due to increases in the rural electric regulated, rural electric distribution and renewable energy sectors. Processing and marketing loans increased primarily due to increased draws on lines of credit by existing customers as a result of higher commodity and input prices. Loans to cooperatives decreased primarily due to lower seasonal loan volume at grain and farm supply cooperatives, which typically reaches a low in summer or early fall. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

Credit Quality

The System's accruing loan volume was $376.0 billion at June 30, 2023, as compared with $372.0 billion at December 31, 2022. Nonaccrual loans increased $688 million to $2.0 billion at June 30, 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 in the tree fruits, hogs, field crops and biofuels sectors. At June 30, 2023, 55.0% 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 $2.2 billion at June 30, 2023 and represented 0.57% 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 98.2% at June 30, 2023 and 98.4% at December 31, 2022. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans was 0.26% at both June 30, 2023 and 2022.

[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.

The allowance for credit losses[2] was $1.7 billion at June 30, 2023, as compared with $1.6 million at December 31, 2022. Net loan charge-offs of $60 million were recorded during the first six months of 2023, as compared with net loan charge-offs of $15 million for the same period of the prior year. The allowance for loan losses as a percentage of total loans was 0.45% at June 30, 2023 and 0.42% at December 31, 2022. The allowance for loan losses was 78% of the System's total nonperforming assets and 87% of its nonaccrual loans at June 30, 2023, as compared with 90% and 124% at December 31, 2022. The System also had $189 million and $222 million of allowance for credit losses on unfunded commitments at June 30, 2023 and December 31, 2022. Total capital and the allowance for credit losses on loans, which is a measure of risk-bearing capacity, totaled $72.9 billion at June 30, 2023 and $70.2 billion at December 31, 2022, and represented 19.3% of System loans at June 30, 2023, as compared with 18.8% at December 31, 2022.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) were $92.3 billion at June 30, 2023 and $89.9 billion at December 31, 2022. The System's liquidity portfolio provided 185 days coverage of maturing debt at June 30, 2023, as compared with 180 days coverage at December 31, 2022.

Total capital was $71.2 billion at June 30, 2023, as compared with $68.6 billion at December 31, 2022. The System's retained earnings decreased $393 million to $56.9 billion during the first six months of 2023 due to $2.8 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 $214 million during the first six months 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 to 14.7% at June 30, 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.

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[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.

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 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

	June 30, 2023 (unaudited)	December 31, 2022 (audited)
Cash and investments	$ 92,286	$ 89,896
Loans	378,003	373,266
Less: allowance for credit losses on loans	(1,691)	(1,576)
Net loans	376,312	371,690
Accrued interest receivable	3,904	3,572
Other assets	5,082	5,232
Restricted assets	7,050	6,673
Total assets	$484,634	$477,063
Systemwide Debt Securities:		
Due within one year	$149,030	$144,776
Due after one year	247,289	245,201
Total Systemwide Debt Securities	396,319	389,977
Subordinated debt	398	398
Other bonds	6,573	5,599
Other liabilities	10,181	12,488
Total liabilities	413,471	408,462
Preferred stock	3,424	3,416
Capital stock	2,093	2,134
Additional paid-in-capital	6,994	4,597
Restricted capital	7,050	6,673
Accumulated other comprehensive loss	(5,278)	(5,492)
Retained earnings	56,880	57,273
Total capital	71,163	68,601
Total liabilities and capital	$484,634	$477,063

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	(unaudited)			
	2023	2022	2023	2022
Interest income	$6,429	$3,700	$12,376	$7,013
Interest expense	(3,610)	(1,081)	(6,777)	(1,834)
Net interest income	2,819	2,619	5,599	5,179
Provision for credit losses	(171)	(6)	(407)	(1)
Noninterest income	231	184	487	363
Noninterest expense	(1,054)	(943)	(2,082)	(1,881)
Income before income taxes	1,825	1,854	3,597	3,660
Provision for income taxes	(41)	(45)	(91)	(93)
Net income	$1,784	$1,809	$ 3,506	$3,567

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data – Five Quarter Trend

	June 30, 2023 (unaudited)	**March 31, 2023** (unaudited)	**December 31, 2022** (audited)	**September 30, 2022** (unaudited)	**June 30, 2022** (unaudited)
Cash and investments	$ 92,286	$ 93,874	$ 89,896	$ 89,567	$ 87,139
Loans	378,003	376,968	373,266	361,679	357,306
Less: allowance for credit losses on loans	(1,691)	(1,571)	(1,576)	(1,540)	(1,614)
Net loans	376,312	375,397	371,690	360,139	355,692
Accrued interest receivable	3,904	3,395	3,572	3,566	2,716
Other assets	5,082	5,005	5,232	4,897	4,420
Restricted assets	7,050	6,858	6,673	6,483	6,304
Total assets	$484,634	$484,529	$477,063	$464,652	$456,271
Systemwide Debt Securities	$396,319	$397,717	$389,977	$377,154	$374,812
Subordinated debt	398	398	398	398	398
Other bonds	6,573	6,004	5,599	7,629	3,938
Other liabilities	10,181	10,092	12,488	10,075	8,195
Total liabilities	413,471	414,211	408,462	395,256	387,343
Preferred stock	3,424	3,418	3,416	3,816	3,446
Capital stock	2,093	2,069	2,134	2,119	2,098
Additional paid-in-capital	6,994	6,679	4,597	4,533	4,266
Restricted capital	7,050	6,858	6,673	6,483	6,304
Accumulated other comprehensive loss	(5,278)	(4,871)	(5,492)	(5,299)	(3,995)
Retained earnings	56,880	56,165	57,273	57,744	56,809
Total capital	71,163	70,318	68,601	69,396	68,928
Total liabilities and capital	$484,634	$484,529	$477,063	$464,652	$456,271

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**June 30, 2023**	**March 31, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**
Interest income	$6,429	$5,947	$5,293	$4,410	$3,700
Interest expense	(3,610)	(3,167)	(2,587)	(1,753)	(1,081)
Net interest income	2,819	2,780	2,706	2,657	2,619
(Provision for credit losses) credit loss reversal	(171)	(236)	(49)	10	(6)
Noninterest income	231	256	333	273	184
Noninterest expense	(1,054)	(1,028)	(1,157)	(999)	(943)
Income before income taxes	1,825	1,772	1,833	1,941	1,854
Provision for income taxes	(41)	(50)	(14)	(59)	(45)
Net income	$1,784	$1,722	$1,819	$1,882	$1,809