FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS 2023 THIRD QUARTER AND NINE-MONTH NET INCOME

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

NEW YORK - The Farm Credit System today reported that combined net income increased 6.3% to $2.0 billion and 1.1% to $5.5 billion for the three and nine months ended September 30, 2023, as compared with net income of $1.9 billion and $5.4 billion for the same periods of the prior year.

"The System delivered solid results for the third quarter and first nine months of 2023," remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. "A strong capital position, high credit quality and a consistent earnings stream continue to position the System to support our member-borrowers in a challenging environment that encompasses higher interest rates, reduced net farm income and volatile commodity prices."

Results of Operations

Third Quarter and Nine-Month 2023 Results Compared to Third Quarter and Nine-Month 2022 Results

Net interest income increased $225 million or 8.5% to $2.9 billion for the third quarter of 2023 and $645 million or 8.2% to $8.5 billion for the nine months ended September 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 $29.3 billion or 6.6% to $470.8 billion for the three months ended September 30, 2023 and $29.5 billion or 6.7% to $466.7 billion for the nine months ended September 30, 2023, as compared with the same periods of the prior year.

The net interest margin was 2.45% and 2.42% for the three and nine months ended September 30, 2023, as compared with 2.41% and 2.39% for the same periods of the prior year. The increase in the net interest margin for the three- and nine-month periods primarily resulted from a 26 and 29 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 22 and 26 basis points to 1.93% and 1.95%, as compared with 2.15% and 2.21% for the same periods of the prior year. The decline in the net interest spread for the three- and nine-month periods of 2023 was primarily due to higher debt costs and competitive market pressures impacting loan spreads in the current rising interest rate environment as well as higher levels of investments in the liquidity portfolio, which have lower spreads commensurate with lower risk.

The System recognized provisions for credit losses of $57 million and $464 million for the three and nine months ended September 30, 2023, as compared with credit loss reversals of $10 million and $9 million for the three and nine months ended September 30, 2022. The provision for credit losses for the first nine months of 2023 primarily reflected higher specific reserves resulting from credit quality deterioration for 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 credit loss reversals recorded by certain System institutions for the first nine months of 2022 primarily reflected credit quality improvements and the reversal of specific reserves associated with a limited number of customers. Partially offsetting these credit loss reversals in 2022 were provisions for credit losses recorded by other System institutions resulting from 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.

Noninterest income increased $21 million or 7.7% to $294 million and $145 million or 22.8% to $781 million for the three and nine months ended September 30, 2023, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in income earned on Insurance Fund assets of $25 million and $67 million and loan-related fee income of $16 million and $65 million. Partially offsetting the increases was a decline in other noninterest income of $21 million and $26 million between the three- and nine-month periods. A decrease in net losses on derivative and other transactions of $28 million also impacted the nine-month period.

Noninterest expense increased $68 million or 6.8% to $1.1 billion and $269 million or 9.3% to $3.1 billion for the three and nine months ended September 30, 2023, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased $29 million and $138 million for the three and nine months ended September 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. Other operating expense increased $46 million and $131 million for the three and nine months ended September 30, 2023, as compared to the same periods of the prior year, due to a post-COVID-19 pandemic return to normal business travel, advertising and member relations, and technology expenses. Partially offsetting the increases was a decrease in purchased services of $12 million and $15 million between the three- and nine-month periods. Noninterest expense for the nine-month period also was impacted by a $21 million increase in occupancy and equipment expense primarily due to higher software costs.

The provisions for income taxes were $51 million and $142 million for the three and nine months ended September 30, 2023, as compared with $59 million and $152 million for the three and nine months ended September 30, 2022. The effective tax rate decreased slightly to 2.5% for the first nine months of 2023 from 2.7% for the first nine months of 2022.

Third Quarter 2023 Compared to Second Quarter 2023

Net income was $2.0 billion for the third quarter of 2023, as compared with $1.8 billion for the second quarter of 2023. Positively impacting net income for the third quarter of 2023 was a decrease of $114 million in provision for credit losses and increases of $63 million in both net interest income and noninterest income. The decrease in the provision for credit losses was primarily due to specific reserves recorded in the second quarter associated with a limited number of customers and forecasts of deteriorating macroeconomic conditions. Negatively impacting net income for the third quarter of 2023 were increases in noninterest expense of $13 million and provision for income taxes of $10 million.

Loan Portfolio Activity

Gross loans increased 3.2% to $385.1 billion at September 30, 2023, as compared with $373.3 billion at December 31, 2022. The increase primarily resulted from an increase in rural infrastructure, processing and marketing, production and intermediate-term and real estate mortgage loans, offset in part by decreases in loans to cooperatives and agricultural export finance loans. Rural infrastructure loans increased primarily due to new loan originations in the power, water/waste facilities and communication 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. Production and intermediate-term loans increased primarily due to increased seasonal utilization of operating lines of credit. The primary driver of the increase in real estate mortgage loans was growth in new originations outpacing annual and seasonal repayments despite the higher interest rate environment. The decrease in loans to cooperatives resulted from lower levels of seasonal financing requirements at grain and farm supply cooperatives, which typically reach a low point in late summer or early fall. Agricultural export finance loans decreased primarily due to lower levels of import/export loan demand.

Credit Quality

The System's accruing loan volume was $383.3 billion at September 30, 2023, as compared with $372.0 billion at December 31, 2022. Nonaccrual loans increased $543 million during the first nine months of 2023 to $1.8 billion. 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 September 30, 2023, 56.8% 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, accruing loans 90 days or more past due and other property owned) were $2.0 billion at September 30, 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 and accrued interest receivable were 98.1% at September 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 increased to 0.36% at September 30, 2023, as compared with 0.24% at September 30, 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] on loans was $1.7 billion at September 30, 2023, as compared with $1.6 billion at December 31, 2022. Net loan charge-offs of $130 million were recorded during the first nine months of 2023, as compared with net loan charge-offs of $16 million for the same period of the prior year. The allowance for credit losses on loans as a percentage of total loans was 0.43% at September 30, 2023 and 0.42% at December 31, 2022. The allowance for credit losses on loans was 82% of the System's total nonperforming assets and 92% of its nonaccrual loans at September 30, 2023, as compared with 90% and 124% at December 31, 2022. The System also had $203 million and $222 million of allowance for credit losses on unfunded commitments at September 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 $73.9 billion at September 30, 2023 and $70.2 billion at December 31, 2022, and represented 19.2% of System loans at September 30, 2023, as compared with 18.8% at December 31, 2022.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) were $91.6 billion at September 30, 2023 and $89.9 billion at December 31, 2022. The System's liquidity portfolio provided 176 days coverage of maturing debt at September 30, 2023, as compared with 180 days coverage at December 31, 2022.

Total capital was $72.3 billion at September 30, 2023, as compared with $68.6 billion at December 31, 2022. The System's retained earnings increased $927 million to $58.2 billion during the first nine months of 2023 due to net income earned and retained, partially offset by $2.8 billion of unallocated surplus transferred to additional paid-in-capital associated with Association mergers. Accumulated other comprehensive loss increased $223 million to $5.7 billion during the first nine months of 2023 primarily as a result of an increase in interest rates, which decreased the fair value of existing fixed-rate investment securities. Investment are primarily comprised of U.S Treasury and U.S. agency debt securities. Capital as a percentage of total assets increased to 14.7% at September 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 58 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.

[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 adoption of CECL 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.

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

	September 30, 2023 (unaudited)	December 31, 2022 (audited)
Cash and investments	$ 91,632	$ 89,896
Loans	385,145	373,266
Less: allowance for credit losses on loans	(1,668)	(1,576)
Net loans	383,477	371,690
Accrued interest receivable	4,913	3,572
Other assets	5,479	5,232
Restricted assets	7,249	6,673
Total assets	$492,750	$477,063
Systemwide Debt Securities:		
Due within one year	$143,523	$144,776
Due after one year	258,331	245,201
Total Systemwide Debt Securities	401,854	389,977
Subordinated debt	398	398
Other bonds	7,546	5,599
Other liabilities	10,682	12,488
Total liabilities	420,480	408,462
Preferred stock	3,426	3,416
Capital stock	2,115	2,134
Additional paid-in-capital	6,995	4,597
Restricted capital	7,249	6,673
Accumulated other comprehensive loss	(5,715)	(5,492)
Retained earnings	58,200	57,273
Total capital	72,270	68,601
Total liabilities and capital	$492,750	$477,063

STATEMENT OF INCOME DATA

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	(unaudited)			
	2023	2022	2023	2022
Interest income	$6,771	$4,410	$19,147	$11,423
Interest expense	(3,889)	(1,753)	(10,666)	(3,587)
Net interest income	2,882	2,657	8,481	7,836
(Provision for credit losses) credit loss reversal	(57)	10	(464)	9
Noninterest income	294	273	781	636
Noninterest expense	(1,067)	(999)	(3,149)	(2,880)
Income before income taxes	2,052	1,941	5,649	5,601
Provision for income taxes	(51)	(59)	(142)	(152)
Net income	$2,001	$1,882	$ 5,507	$ 5,449

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data – Five Quarter Trend

	September 30, 2023 (unaudited)	June 30, 2023 (unaudited)	March 31, 2023 (unaudited)	December 31, 2022 (audited)	September 30, 2022 (unaudited)
Cash and investments	$ 91,632	$ 92,286	$ 93,874	$ 89,896	$ 89,567
Loans	385,145	378,003	376,968	373,266	361,679
Less: allowance for credit losses on loans	(1,668)	(1,691)	(1,571)	(1,576)	(1,540)
Net loans	383,477	376,312	375,397	371,690	360,139
Accrued interest receivable	4,913	3,904	3,395	3,572	3,566
Other assets	5,479	5,082	5,005	5,232	4,897
Restricted assets	7,249	7,050	6,858	6,673	6,483
Total assets	$492,750	$484,634	$484,529	$477,063	$464,652
Systemwide Debt Securities	$401,854	$396,319	$397,717	$389,977	$377,154
Subordinated debt	398	398	398	398	398
Other bonds	7,546	6,573	6,004	5,599	7,629
Other liabilities	10,682	10,181	10,092	12,488	10,075
Total liabilities	420,480	413,471	414,211	408,462	395,256
Preferred stock	3,426	3,424	3,418	3,416	3,816
Capital stock	2,115	2,093	2,069	2,134	2,119
Additional paid-in-capital	6,995	6,994	6,679	4,597	4,533
Restricted capital	7,249	7,050	6,858	6,673	6,483
Accumulated other comprehensive loss	(5,715)	(5,278)	(4,871)	(5,492)	(5,299)
Retained earnings	58,200	56,880	56,165	57,273	57,744
Total capital	72,270	71,163	70,318	68,601	69,396
Total liabilities and capital	$492,750	$484,634	$484,529	$477,063	$464,652

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	**September 30, 2023**	**June 30, 2023**	**March 31, 2023**	**December 31, 2022**	**September 30, 2022**
Interest income	$6,771	$6,429	$5,947	$5,293	$4,410
Interest expense	(3,889)	(3,610)	(3,167)	(2,587)	(1,753)
Net interest income	2,882	2,819	2,780	2,706	2,657
(Provision for credit losses) credit loss reversal	(57)	(171)	(236)	(49)	10
Noninterest income	294	231	256	333	273
Noninterest expense	(1,067)	(1,054)	(1,028)	(1,157)	(999)
Income before income taxes	2,052	1,825	1,772	1,833	1,941
Provision for income taxes	(51)	(41)	(50)	(14)	(59)
Net income	$2,001	$1,784	$1,722	$1,819	$1,882