



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

101 Hudson Street, Suite 3505
Jersey City, New Jersey 07302
201.200.8000
farmcreditfunding.com

Press Release

Friday, August 2, 2024

FARM CREDIT SYSTEM REPORTS 2024 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 increased 8.1% to \$1.9 billion and 11.9% to \$3.9 billion for the three and six months ended June 30, 2024, as compared with net income of \$1.8 billion and \$3.5 billion for the same periods of the prior year.

“The System continued to support the financing needs of new and existing borrowers in rural America and agriculture,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Overall credit quality remains favorable despite some deterioration resulting from lower commodity prices and continued elevated crop production costs.”

Results of Operations

Second Quarter and Six-Month 2024 Results Compared to Second Quarter and Six-Month 2023 Results

Net interest income increased \$130 million or 4.6% to \$2.9 billion for the second quarter of 2024 and \$296 million or 5.3% to \$5.9 billion for the six months ended June 30, 2024, 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 by increased loan volume. Average earning assets increased \$23.6 billion or 5.0% to \$492.0 billion for the three months ended June 30, 2024 and \$24.5 billion or 5.3% to \$489.1 billion for the six months ended June 30, 2024, as compared with the same periods of the prior year.

The net interest margin was 2.40% for the three months ended June 30, 2024, as compared with 2.41% for the same period of the prior year. The net interest margin for the six months ended June 30, 2024 and 2023 was unchanged at 2.41%. Net interest spread decreased 10 and 11 basis points to 1.83% and 1.85% for the three and six months ended June 30, 2024, as compared with 1.93% and 1.96% for the same periods of the prior year primarily due to higher debt costs and competitive market pressures impacting loan spreads in the sustained higher interest rate environment. The net interest margin during these periods was positively impacted by a 9 and 11 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for credit losses of \$119 million and \$159 million for the three and six months ended June 30, 2024, as compared with \$171 million and \$407 million for the three and six months ended June 30, 2023. The provision for credit losses for the six months ended June 30, 2024 primarily reflected specific reserves associated with a limited number of customers, a modest deterioration in credit quality and higher loan volume. Partially offsetting the provision for credit losses were credit loss reversals at certain System institutions primarily related to improvements in macroeconomic forecasts resulting in lower modeled credit losses in certain sectors of the portfolio. The provision for credit losses for the six months ended June 30, 2023 primarily reflected higher specific reserves associated with a limited number of customers and forecasts of deteriorating macroeconomic conditions. The 2023 provision also included the impact of Association mergers reflecting an accounting change for credit losses.

Noninterest income increased \$38 million or 16.5% to \$269 million and \$26 million or 5.3% to \$513 million for the three and six months ended June 30, 2024, 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 income earned on Insurance Fund assets of \$24 million and \$49 million and loan-related fee income of \$29 million and \$32 million due to higher transaction-related lending fees. Partially offsetting the increases was a decline in other noninterest income of \$25 million and \$38 million for the three- and six-month periods primarily due to losses on investments in rural business investment companies. Also offsetting noninterest income for the six-month period were net losses on derivative and other transactions of \$17 million, as compared to net gains of \$4 million for the same period of the prior year. The net losses on derivatives and other transactions were due to the increase in interest rates during the first six months of 2024.

Noninterest expense increased \$68 million or 6.5% to \$1.1 billion and \$129 million or 6.2% to \$2.2 billion for the three and six months ended June 30, 2024, 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 and other operating expense. Salaries and employee benefits increased \$49 million and \$94 million for the three and six months ended June 30, 2024, as compared to the same periods of the prior year, primarily due to annual merit increases, higher staffing levels and higher accrued incentive compensation at certain System institutions. For the three- and six-month periods ended June 30, 2024, other operating expense increased \$8 million and \$15 million primarily due to increases in technology, supervisory and exam, and other miscellaneous expenses.

The provisions for income taxes were \$49 million and \$115 million for the three and six months ended June 30, 2024, as compared with \$41 million and \$91 million for the same periods of the prior year. The effective tax rate increased to 2.8% for the first six months of 2024 from 2.5% for the first six months of 2023.

Second Quarter 2024 Compared to First Quarter 2024

Net income was \$1.9 billion for the second quarter of 2024, as compared with \$2.0 billion for the first quarter of 2024. Negatively impacting net income for the three months ended June 30, 2024 were increases in the provision for credit losses of \$79 million and noninterest expense of \$33 million. The increase in the provision for credit losses during the second quarter was primarily due to specific reserves associated with a limited number of customers. Positively impacting net income for the second quarter of 2024 was an increase in noninterest income of \$25 million primarily due to higher transaction-related lending fees and a decrease in the provision for income taxes of \$17 million.

Loan Portfolio Activity

Gross loans increased \$8.5 billion or 2.1% to \$406.7 billion at June 30, 2024, as compared with \$398.2 billion at December 31, 2023. The increase primarily resulted from an increase in real estate mortgage, processing and marketing, power and farm-related business loans, offset in part by a decrease in production and intermediate-term loans. The increase in real estate mortgage loans was primarily driven by targeted marketing efforts by certain Associations. Processing and marketing loans increased primarily due to increased loan volume with new and existing customers in the meat processing, fats and oils and other commodity sectors. The increase in power loans was primarily due to increases in the rural electric regulated utility and rural electric distribution sectors. Farm-related business loans increased primarily due to increased lending to farm machinery and equipment dealers, chemical companies and other farm-related businesses. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

Credit Quality

The System's accruing loan volume was \$404.5 billion at June 30, 2024, as compared with \$396.6 billion at December 31, 2023. Nonaccrual loans increased \$507 million to \$2.1 billion at June 30, 2024, as compared to December 31, 2023. The increase in nonaccrual loans was primarily due to credit quality deterioration impacting a limited number of borrowers in the tree fruits, nuts, hogs and various food processing related sectors. At June 30, 2024, 49.3% of nonaccrual loans were current as to principal and interest, as compared with 53.2% at December 31, 2023.

Nonperforming assets (which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned) were \$2.6 billion at June 30, 2024 and represented 0.64% of loans and other property owned, as compared with nonperforming assets of \$1.8 billion at December 31, 2023 or 0.45% 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 97.8% at June 30, 2024 and 98.1% at December 31, 2023. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.44% at June 30, 2024, as compared with 0.26% at June 30, 2023.

The allowance for credit losses on loans was \$1.6 billion at both June 30, 2024 and December 31, 2023. Net loan charge-offs of \$150 million were recorded during the first six months of 2024, as compared with net loan charge-offs of \$60 million for the same period of the prior year. The allowance for credit losses on loans as a percentage of total loans was 0.40% at June 30, 2024 and 0.41% at December 31, 2023. The allowance for credit losses on loans was 63% of the System's total nonperforming assets and 77% of its nonaccrual loans at June 30, 2024, as compared with 90% and 101% at December 31, 2023. The System also had \$197 million and \$206 million of allowance for credit losses on unfunded commitments at June 30, 2024 and December 31, 2023. Total capital and the allowance for credit losses on loans, which is a measure of risk-bearing capacity, totaled \$78.5 billion at June 30, 2024 and \$74.9 billion at December 31, 2023, and represented 19.3% of System loans at June 30, 2024, as compared with 18.8% at December 31, 2023.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) were \$91.0 billion at June 30, 2024 and \$93.5 billion at December 31, 2023. The System's liquidity portfolio provided 179 days coverage of maturing debt at June 30, 2024, as compared with 183 days coverage at December 31, 2023.

Total capital was \$76.8 billion at June 30, 2024, as compared with \$73.3 billion at December 31, 2023. The System's retained earnings increased \$2.9 billion to \$60.5 billion during the first six months of 2024 due to net income earned and retained. During the first six months of 2024, two Banks issued a total of \$600 million of preferred stock, while another Bank redeemed \$250 million of preferred stock. Capital as a percentage of total assets increased to 14.9% at June 30, 2024, as compared with 14.4% at December 31, 2023.

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 56 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:

Karen R. Brenner, Managing Director
Financial Management Division
Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302
(201) 200-8081
E-mail – kbrenner@farmcreditfunding.com

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

	June 30, 2024 (unaudited)	December 31, 2023 (audited)
Cash and investments	\$ 91,003	\$ 93,487
Loans	406,659	398,176
Less: allowance for credit losses on loans	<u>(1,636)</u>	<u>(1,617)</u>
Net loans	<u>405,023</u>	<u>396,559</u>
Accrued interest receivable	4,832	4,726
Other assets	5,566	5,606
Restricted assets	<u>7,637</u>	<u>7,458</u>
Total assets	<u>\$514,061</u>	<u>\$507,836</u>
Systemwide Debt Securities:		
Due within one year	\$150,242	\$148,366
Due after one year	<u>270,427</u>	<u>267,167</u>
Total Systemwide Debt Securities	420,669	415,533
Subordinated debt	398	398
Other bonds	5,998	6,288
Other liabilities	<u>10,150</u>	<u>12,288</u>
Total liabilities	<u>437,215</u>	<u>434,507</u>
Preferred stock	3,682	3,327
Capital stock	2,151	2,141
Additional paid-in-capital	7,286	7,286
Restricted capital	7,637	7,458
Accumulated other comprehensive loss	(4,395)	(4,517)
Retained earnings	<u>60,485</u>	<u>57,634</u>
Total capital	<u>76,846</u>	<u>73,329</u>
Total liabilities and capital	<u>\$514,061</u>	<u>\$507,836</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	(unaudited)	
	2024	2023	2024	2023
Interest income	\$7,334	\$6,429	\$14,518	\$12,376
Interest expense	<u>(4,385)</u>	<u>(3,610)</u>	<u>(8,623)</u>	<u>(6,777)</u>
Net interest income	2,949	2,819	5,895	5,599
Provision for credit losses	(119)	(171)	(159)	(407)
Noninterest income	269	231	513	487
Noninterest expense	<u>(1,122)</u>	<u>(1,054)</u>	<u>(2,211)</u>	<u>(2,082)</u>
Income before income taxes	1,977	1,825	4,038	3,597
Provision for income taxes	<u>(49)</u>	<u>(41)</u>	<u>(115)</u>	<u>(91)</u>
Net income	<u>\$1,928</u>	<u>\$1,784</u>	<u>\$ 3,923</u>	<u>\$ 3,506</u>

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data – Five Quarter Trend

	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)
Cash and investments	\$ 91,003	\$ 88,021	\$ 93,487	\$ 91,632	\$ 92,286
Loans	406,659	400,524	398,176	385,145	378,003
Less: allowance for credit losses on loans	<u>(1,636)</u>	<u>(1,575)</u>	<u>(1,617)</u>	<u>(1,668)</u>	<u>(1,691)</u>
Net loans	<u>405,023</u>	<u>398,949</u>	<u>396,559</u>	<u>383,477</u>	<u>376,312</u>
Accrued interest receivable	4,832	4,416	4,726	4,913	3,904
Other assets	5,566	5,535	5,606	5,479	5,082
Restricted assets	<u>7,637</u>	<u>7,607</u>	<u>7,458</u>	<u>7,249</u>	<u>7,050</u>
Total assets	<u>\$514,061</u>	<u>\$504,528</u>	<u>\$507,836</u>	<u>\$492,750</u>	<u>\$484,634</u>
Systemwide Debt Securities	\$420,669	\$413,862	\$415,533	\$401,854	\$396,319
Subordinated debt	398	398	398	398	398
Other bonds	5,998	5,677	6,288	7,546	6,573
Other liabilities	<u>10,150</u>	<u>9,976</u>	<u>12,288</u>	<u>10,682</u>	<u>10,181</u>
Total liabilities	<u>437,215</u>	<u>429,913</u>	<u>434,507</u>	<u>420,480</u>	<u>413,471</u>
Preferred stock	3,682	3,081	3,327	3,426	3,424
Capital stock	2,151	2,128	2,141	2,115	2,093
Additional paid-in-capital	7,286	7,286	7,286	6,995	6,994
Restricted capital	7,637	7,607	7,458	7,249	7,050
Accumulated other comprehensive loss	(4,395)	(4,548)	(4,517)	(5,715)	(5,278)
Retained earnings	<u>60,485</u>	<u>59,061</u>	<u>57,634</u>	<u>58,200</u>	<u>56,880</u>
Total capital	<u>76,846</u>	<u>74,615</u>	<u>73,329</u>	<u>72,270</u>	<u>71,163</u>
Total liabilities and capital	<u>\$514,061</u>	<u>\$504,528</u>	<u>\$507,836</u>	<u>\$492,750</u>	<u>\$484,634</u>

Statement of Income Data – Five Quarter Trend (unaudited)

For the three months ended:	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Interest income	\$7,334	\$7,184	\$7,093	\$6,771	\$6,429
Interest expense	<u>(4,385)</u>	<u>(4,238)</u>	<u>(4,141)</u>	<u>(3,889)</u>	<u>(3,610)</u>
Net interest income	2,949	2,946	2,952	2,882	2,819
Provision for credit losses	(119)	(40)	(150)	(57)	(171)
Noninterest income	269	244	428	294	231
Noninterest expense	<u>(1,122)</u>	<u>(1,089)</u>	<u>(1,254)</u>	<u>(1,067)</u>	<u>(1,054)</u>
Income before income taxes	1,977	2,061	1,976	2,052	1,825
Provision for income taxes	<u>(49)</u>	<u>(66)</u>	<u>(38)</u>	<u>(51)</u>	<u>(41)</u>
Net income	<u>\$1,928</u>	<u>\$1,995</u>	<u>\$1,938</u>	<u>\$2,001</u>	<u>\$1,784</u>