



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

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Press Release

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FARM CREDIT SYSTEM REPORTS NET INCOME OF \$7.4 BILLION FOR 2023

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

NEW YORK - The Farm Credit System today reported combined net income of \$7.4 billion for the year ended December 31, 2023, as compared with \$7.3 billion for the prior year. The System also reported combined net income of \$1.9 billion for the fourth quarter of 2023, as compared with \$1.8 billion for the fourth quarter of 2022.

“System earnings for the fourth quarter and the full year continued to reflect strong financial performance by System institutions,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Overall credit quality remained sound as System institutions manage credit risk through disciplined risk management and administration processes.”

2023 Results of Operations

Combined net income increased \$177 million or 2.4% for the year ended December 31, 2023, as compared with the prior year. The increase primarily resulted from increases in net interest income and noninterest income, partially offset by increases in the provision for credit losses, noninterest expense and the provision for income taxes.

Net interest income increased \$891 million or 8.5% to \$11.4 billion for 2023, as compared with \$10.5 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 the liquidity investment portfolio. Average earning assets grew \$29.8 billion or 6.7% to \$470.7 billion for 2023, as compared with the prior year.

The net interest margin increased four basis points to 2.43% for 2023, as compared to 2.39% for 2022 due to a 27 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital), partially offset by a decrease in net interest spread of 23 basis points to 1.93% for 2023, as compared with 2.16% for 2022. The decrease in net interest spread was primarily due to increased debt costs, competitive market pressures impacting loan spreads in a higher interest rate environment and greater levels of investments in the liquidity portfolio, which have lower spreads generally commensurate with lower risk.

The System recognized provisions for credit losses of \$614 million and \$40 million for the years ended December 31, 2023 and 2022. The 2023 provision for credit losses primarily reflected higher specific reserves resulting from credit quality deterioration for a limited number of customers and macroeconomic forecasts impacting modeled credit losses 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 and increases in the pooled component of the allowance due to increased loan volume. 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 in 2022 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.

Noninterest income increased \$240 million or 24.8% to \$1.2 billion for 2023, as compared with \$969 million for 2022, primarily due to increases in income earned on Insurance Fund assets of \$92 million and loan-related fee income of \$71 million as well as a \$26 million net gain on derivative, investment and other transactions in 2023, as compared with a \$30 million net loss for 2022.

Noninterest expense increased \$366 million or 9.1% to \$4.4 billion for 2023, as compared with \$4.0 billion for 2022, primarily due to increases in salaries and employee benefits, occupancy and equipment expense and other operating expense. Salaries and employee benefits increased \$178 million primarily due to annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased \$30 million primarily due to higher software costs. Other operating expense increased \$193 million primarily due to increases in pension non-service costs driven by higher discount rates, technology expenses, business travel expenses in a post-COVID-19 pandemic environment and advertising and member relations expenses.

The System recorded a provision for income taxes of \$180 million for 2023, as compared with \$166 million for 2022. The effective tax rate increased marginally to 2.4% for 2023 from 2.2% for 2022.

Fourth Quarter 2023 Results of Operations

Combined net income increased \$119 million or 6.5% to \$1.9 billion for the fourth quarter of 2023, as compared with \$1.8 billion for the fourth quarter of 2022. The increase in net income resulted from increases in net interest income of \$246 million and noninterest income of \$95 million, partially offset by increases in the provision for credit losses of \$101 million, noninterest expense of \$97 million and the provision for income taxes of \$24 million.

Net interest income increased \$246 million or 9.1% to \$3.0 billion for the fourth quarter of 2023, as compared with the same period of the prior year primarily from a higher level of average earning assets. Average earning assets grew \$27.9 billion or 6.2% to \$480.1 billion for the fourth quarter of 2023, as compared with the same period of the prior year.

The net interest margin for the fourth quarter of 2023 increased to 2.46%, as compared with 2.39% for the same period of the prior year. This resulted from an 18 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital), partially offset by a decrease in the net interest spread of 11 basis points to 1.92%. The decrease in the net interest spread was primarily due to increasing debt costs and higher levels of investments in the liquidity portfolio, which have lower spreads generally commensurate with lower risk.

The System reported provisions for credit losses of \$150 million and \$49 million for the fourth quarters of 2023 and 2022. The provision for credit losses recorded in the fourth quarter of 2023 primarily reflected credit quality deterioration for a limited number of customers.

Noninterest income increased \$95 million or 28.5% to \$428 million for the fourth quarter of 2023, as compared with \$333 million for the fourth quarter of 2022. The increase was primarily due to increases in other noninterest income of \$50 million, income earned on Insurance Fund assets of \$25 million and net gains on derivative, investment and other transactions of \$22 million.

Noninterest expense increased \$97 million or 8.4% to \$1.3 billion for the fourth quarter of 2023, as compared with \$1.2 billion for the fourth quarter of 2022, primarily due to increases in other operating expense of \$62 million and salaries and employee benefits of \$40 million. The increase in other operating expense was primarily due to increases in pension non-service costs, merger expenses and technology expenses.

The System recorded provisions for income taxes of \$38 million and \$14 million for the fourth quarters of 2023 and 2022. The effective tax rate increased to 1.9% for the fourth quarter of 2023 from 0.8% for the fourth quarter of 2022 primarily due to increased earnings attributable to taxable business activities during the fourth quarter of 2023.

Fourth Quarter 2023 Compared to Third Quarter 2023

Net income was \$1.9 billion for the fourth quarter of 2023, as compared with \$2.0 billion for the third quarter of 2023. Net income for the fourth quarter of 2023 was negatively impacted by increases in noninterest expense of \$187 million and the provision for credit losses of \$93 million. 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 2023 were increases in noninterest income of \$134 million and net interest income of \$70 million as well as a decrease in the provision for income taxes of \$13 million. The increase in noninterest income was partially due to an increase in financially-related services income due to the seasonality of crop insurance revenue.

Loan Portfolio Activity

Gross loans increased \$24.9 billion or 6.7% since year-end 2022 to \$398.2 billion at December 31, 2023. The increase primarily resulted from an increase in rural infrastructure, production and intermediate-term, processing and marketing and real estate mortgage 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 new and existing customers resulting from higher input prices and other inflationary pressures. 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.

Credit Quality

The System's accruing loan volume was \$396.6 billion at December 31, 2023, as compared with \$372.0 billion at December 31, 2022. Nonaccrual loans increased \$340 million to \$1.6 billion at December 31, 2023, 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 in the tree fruits, hogs and biofuels sectors. At December 31, 2023, 53.2% 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 \$1.8 billion at December 31, 2023 and represented 0.45%

of loans and other property owned, as compared with nonperforming assets¹ of \$1.8 billion at December 31, 2022 and represented 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 December 31, 2023, as compared with 98.4% at December 31, 2022. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.34% at December 31, 2023, as compared with 0.29% at December 31, 2022.

The allowance for credit losses² on loans was \$1.6 billion at both December 31, 2023 and 2022. Net loan charge-offs of \$319 million were recorded during 2023, as compared with \$38 million for 2022. The allowance for credit losses on loans as a percentage of total loans was 0.41% at December 31, 2023 and 0.42% at December 31, 2022. The allowance for credit losses on loans was 90% of the System's total nonperforming assets and 101% of its nonaccrual loans at December 31, 2023, as compared with 90% and 124% at December 31, 2022. Capital and the allowance for credit losses on loans, which is a measure of risk-bearing capacity, totaled \$74.9 billion at December 31, 2023 and \$70.2 billion at December 31, 2022, and represented 18.8% of System loans at both December 31, 2023 and 2022.

Agricultural Outlook

The February 2024 United States Department of Agriculture (USDA) forecast estimates 2023 net farm income (income after expenses from production) at \$155.9 billion, a \$29.7 billion decrease from 2022. The USDA's outlook for the farm economy, as a whole, forecasts 2024 net farm income at \$116.1 billion, a \$39.8 billion decrease from 2023. The projected decrease in net farm income from 2023 to 2024 is primarily due to expected decreases in cash receipts for crops of \$16.7 billion, cash receipts for animals and animal products of \$4.6 billion and direct government payments of \$1.9 billion as well as an increase in cash expenses of \$15.4 billion.

Liquidity and Capital Resources

Cash and investments (primarily held for liquidity purposes) increased \$3.6 billion to \$93.5 billion at December 31, 2023, as compared with \$89.9 billion at year-end 2022. The System's liquidity position was 183 days and 180 days at December 31, 2023 and 2022.

System capital increased \$4.7 billion since year-end 2022 to \$73.3 billion at December 31, 2023. Retained earnings increased \$361 million to \$57.6 billion at December 31, 2023, as compared with \$57.3 billion at December 31, 2022, due to net income earned and retained partially offset by \$3.1 billion of unallocated surplus transferred to additional paid-in-capital associated with Association mergers and patronage distributions of \$3.1 billion. During 2023, one Association redeemed \$100 million of preferred stock. Accumulated other comprehensive loss decreased \$975 million to \$4.5 billion at December 31, 2023, primarily as a result of the impact of market interest rate changes, which increased the fair value of existing fixed-rate investment securities. Investments are primarily comprised of U.S. Treasury and U.S. agency

¹Prior 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.

²CECL 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.

debt securities. Capital as a percentage of total assets was 14.4% at both December 31, 2023 and 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 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

The 2023 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>2023</u>	December 31, <u>2022</u>
Cash and investments	\$ 93,487	\$ 89,896
Loans	398,176	373,266
Less: allowance for credit losses on loans	<u>(1,617)</u>	<u>(1,576)</u>
Net loans	<u>396,559</u>	<u>371,690</u>
Accrued interest receivable	4,726	3,572
Other assets	5,606	5,232
Restricted assets	<u>7,458</u>	<u>6,673</u>
Total assets	<u>\$507,836</u>	<u>\$477,063</u>
Systemwide Debt Securities:		
Due within one year	\$148,366	\$144,776
Due after one year	<u>267,167</u>	<u>245,201</u>
Total Systemwide Debt Securities	415,533	389,977
Subordinated debt	398	398
Other bonds	6,288	5,599
Other liabilities	<u>12,288</u>	<u>12,488</u>
Total liabilities	<u>434,507</u>	<u>408,462</u>
Preferred stock	3,327	3,416
Capital stock	2,141	2,134
Additional paid-in-capital	7,286	4,597
Restricted capital	7,458	6,673
Accumulated other comprehensive loss	(4,517)	(5,492)
Retained earnings	<u>57,634</u>	<u>57,273</u>
Total capital	<u>73,329</u>	<u>68,601</u>
Total liabilities and capital	<u>\$507,836</u>	<u>\$477,063</u>

STATEMENT OF INCOME DATA

	For the Quarter Ended <u>December 31,</u>		For the Year Ended <u>December 31,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Interest income	\$7,093	\$5,293	\$26,240	\$16,716
Interest expense	<u>(4,141)</u>	<u>(2,587)</u>	<u>(14,807)</u>	<u>(6,174)</u>
Net interest income	2,952	2,706	11,433	10,542
Provision for credit losses	(150)	(49)	(614)	(40)
Noninterest income	428	333	1,209	969
Noninterest expense	<u>(1,254)</u>	<u>(1,157)</u>	<u>(4,403)</u>	<u>(4,037)</u>
Income before income taxes	1,976	1,833	7,625	7,434
Provision for income taxes	<u>(38)</u>	<u>(14)</u>	<u>(180)</u>	<u>(166)</u>
Net income	<u>\$1,938</u>	<u>\$1,819</u>	<u>\$ 7,445</u>	<u>\$ 7,268</u>

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

Statement of Condition Data – Five Quarter Trend

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Cash and investments	\$ 93,487	\$ 91,632	\$ 92,286	\$ 93,874	\$ 89,896
Loans	398,176	385,145	378,003	376,968	373,266
Less: allowance for credit losses on loans	<u>(1,617)</u>	<u>(1,668)</u>	<u>(1,691)</u>	<u>(1,571)</u>	<u>(1,576)</u>
Net loans	<u>396,559</u>	<u>383,477</u>	<u>376,312</u>	<u>375,397</u>	<u>371,690</u>
Accrued interest receivable	4,726	4,913	3,904	3,395	3,572
Other assets	5,606	5,479	5,082	5,005	5,232
Restricted assets	<u>7,458</u>	<u>7,249</u>	<u>7,050</u>	<u>6,858</u>	<u>6,673</u>
Total assets	<u>\$507,836</u>	<u>\$492,750</u>	<u>\$484,634</u>	<u>\$484,529</u>	<u>\$477,063</u>
Systemwide Debt Securities	\$415,533	\$401,854	\$396,319	\$397,717	\$389,977
Subordinated debt	398	398	398	398	398
Other bonds	6,288	7,546	6,573	6,004	5,599
Other liabilities	<u>12,288</u>	<u>10,682</u>	<u>10,181</u>	<u>10,092</u>	<u>12,488</u>
Total liabilities	<u>434,507</u>	<u>420,480</u>	<u>413,471</u>	<u>414,211</u>	<u>408,462</u>
Preferred stock	3,327	3,426	3,424	3,418	3,416
Capital stock	2,141	2,115	2,093	2,069	2,134
Additional paid-in-capital	7,286	6,995	6,994	6,679	4,597
Restricted capital	7,458	7,249	7,050	6,858	6,673
Accumulated other comprehensive loss	<u>(4,517)</u>	<u>(5,715)</u>	<u>(5,278)</u>	<u>(4,871)</u>	<u>(5,492)</u>
Retained earnings	<u>57,634</u>	<u>58,200</u>	<u>56,880</u>	<u>56,165</u>	<u>57,273</u>
Total capital	<u>73,329</u>	<u>72,270</u>	<u>71,163</u>	<u>70,318</u>	<u>68,601</u>
Total liabilities and capital	<u>\$507,836</u>	<u>\$492,750</u>	<u>\$484,634</u>	<u>\$484,529</u>	<u>\$477,063</u>

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Interest income	\$7,093	\$6,771	\$6,429	\$5,947	\$5,293
Interest expense	<u>(4,141)</u>	<u>(3,889)</u>	<u>(3,610)</u>	<u>(3,167)</u>	<u>(2,587)</u>
Net interest income	2,952	2,882	2,819	2,780	2,706
Provision for credit losses	(150)	(57)	(171)	(236)	(49)
Noninterest income	428	294	231	256	333
Noninterest expense	<u>(1,254)</u>	<u>(1,067)</u>	<u>(1,054)</u>	<u>(1,028)</u>	<u>(1,157)</u>
Income before income taxes	1,976	2,052	1,825	1,772	1,833
Provision for income taxes	<u>(38)</u>	<u>(51)</u>	<u>(41)</u>	<u>(50)</u>	<u>(14)</u>
Net income	<u>\$1,938</u>	<u>\$2,001</u>	<u>\$1,784</u>	<u>\$1,722</u>	<u>\$1,819</u>