Quarterly Report on FCS Conditions
December 14, 2023

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Topics for Open Session

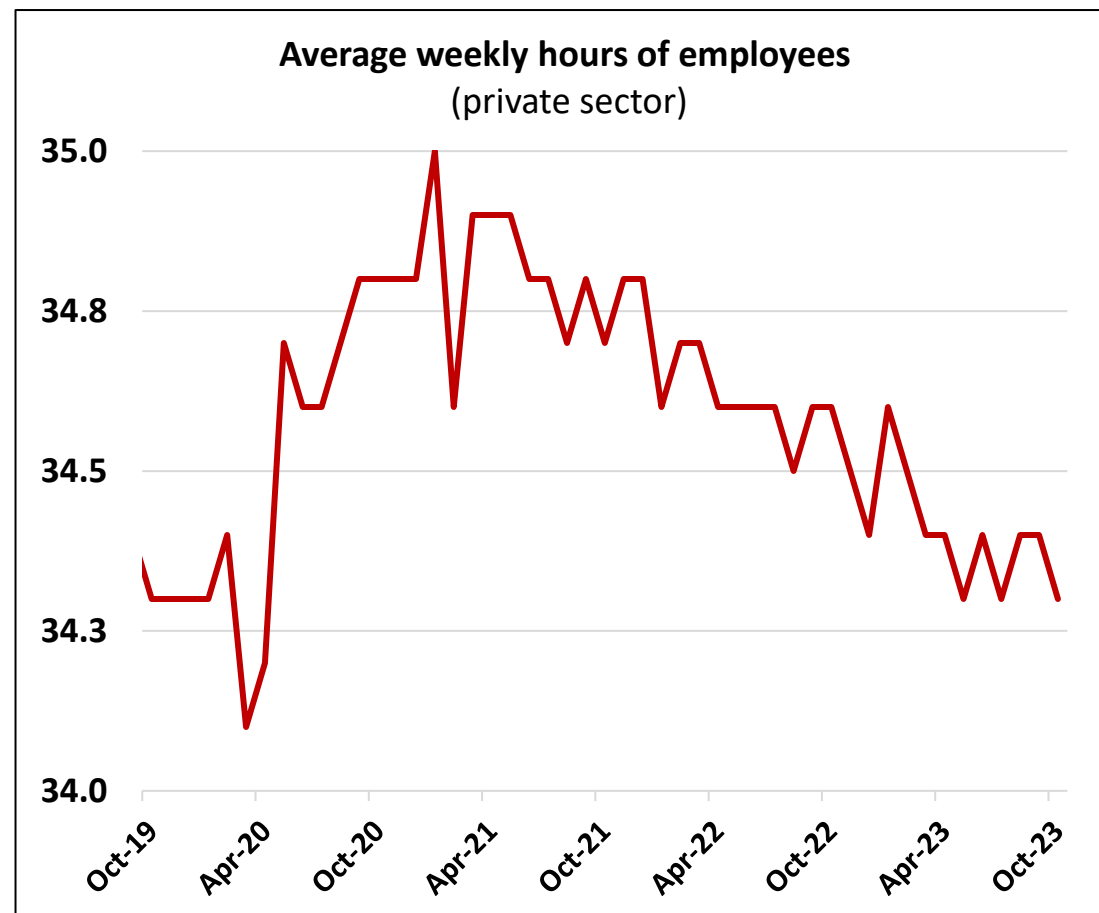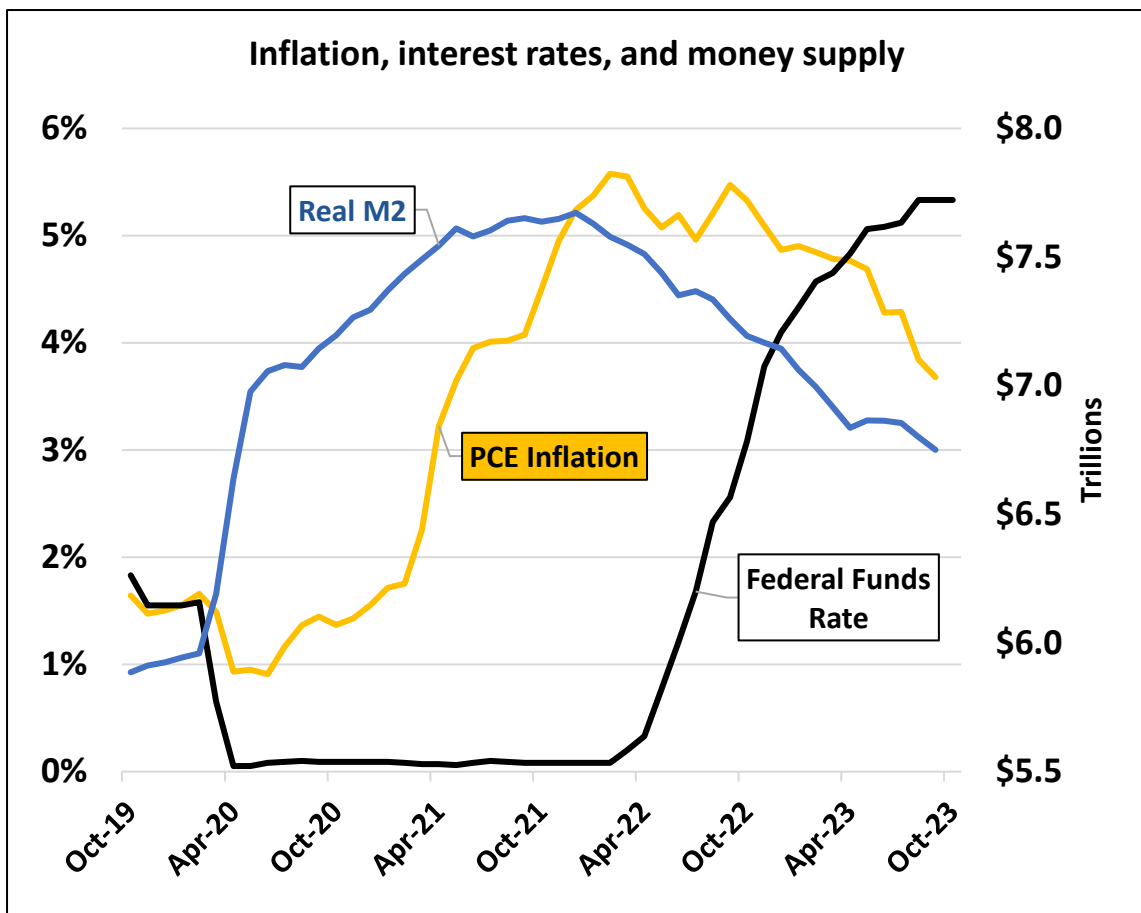Economic Conditions Affecting the Farm Credit System

- Macroeconomic conditions
- Supply and demand for commodities
- Farm and ranch margin outlook

Farm Credit System Condition and Performance

- System growth and loan portfolio
- Earnings and capital
- Financial Institution Rating System (FIRS)

Higher interest rates cool inflation, labor market

Inflation, interest rates, and money supply

Real M2

PCE Inflation

Federal Funds Rate

Average weekly hours of employees
(private sector)

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

Consumer spending resilient despite signs of stress

Real personal consumption expenditures
Monthly growth

Credit card metrics
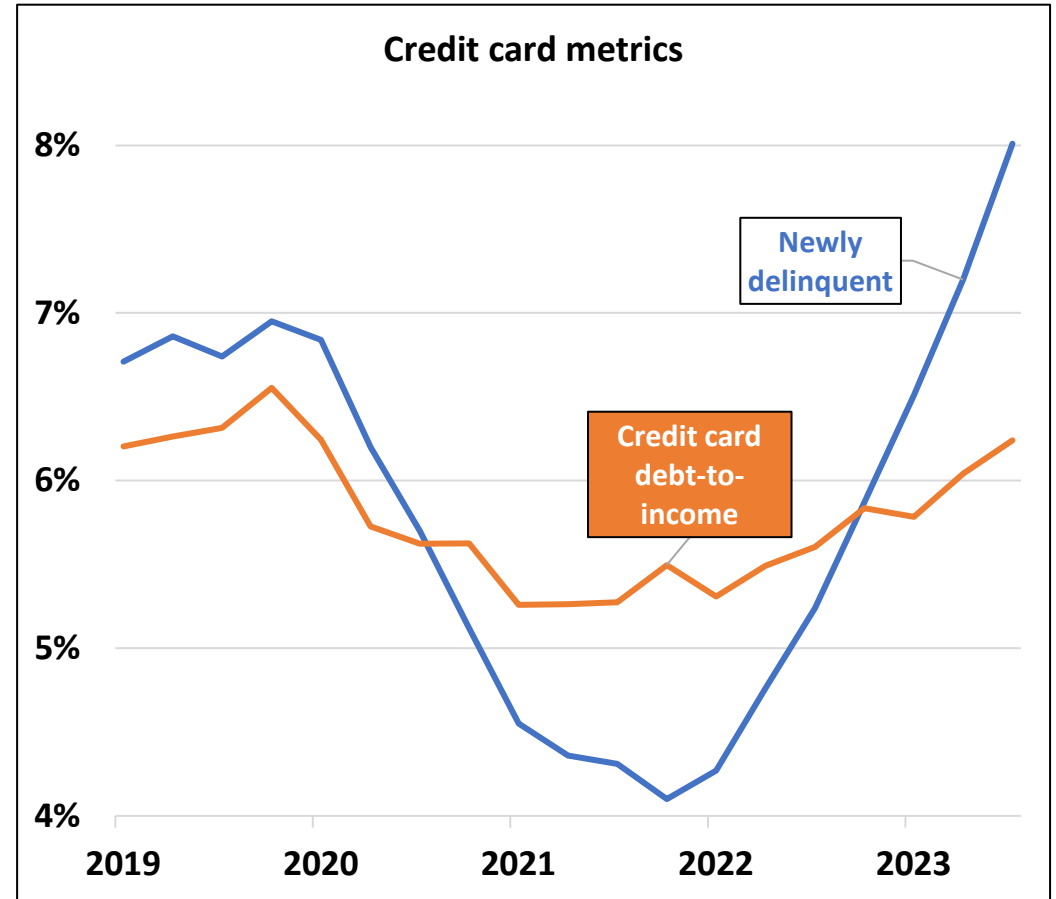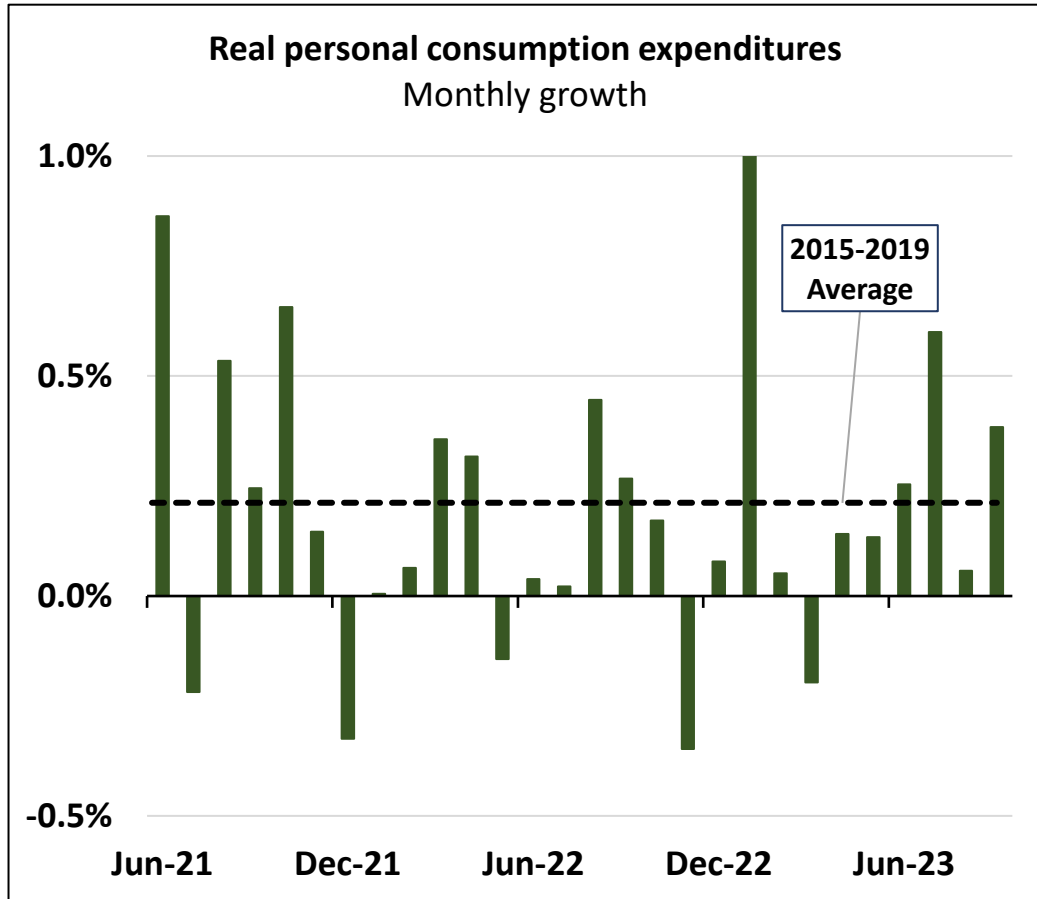
Sources: Bureau of Economic Analysis, New York Federal Reserve, Center for Microeconomic Data

Financial challenges for lenders and borrowers including in commercial real estate

- Maturing debt for commercial real estate must be refinanced at higher rates.
- Expensive deposits, tighter net interest margins for some lenders.
- Costly operating lines for farmers.

Commercial Real Estate at Commercial Banks

Net percentage tightening standards

Delinquency rate
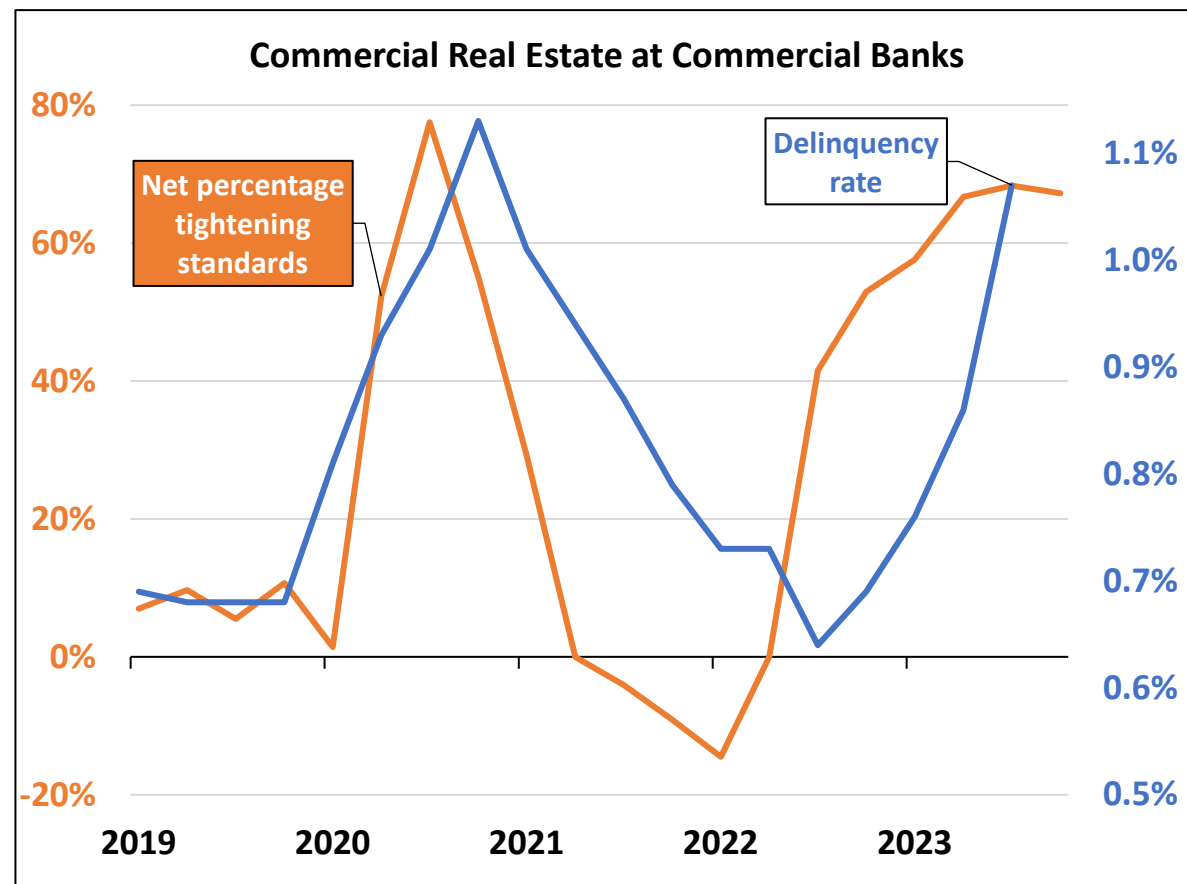
Sources: Federal Reserve Board of Governors

Net percentage is the percentage of respondents who are tightening standards minus the percentage of respondents who are loosening standards.

Higher interest rates slowing construction and related industries like timber

Mortgage rates and housing starts

30-year fixed rate mortgage

Housing starts

Virginia Pine Sawtimber
$/1,000 board-feet
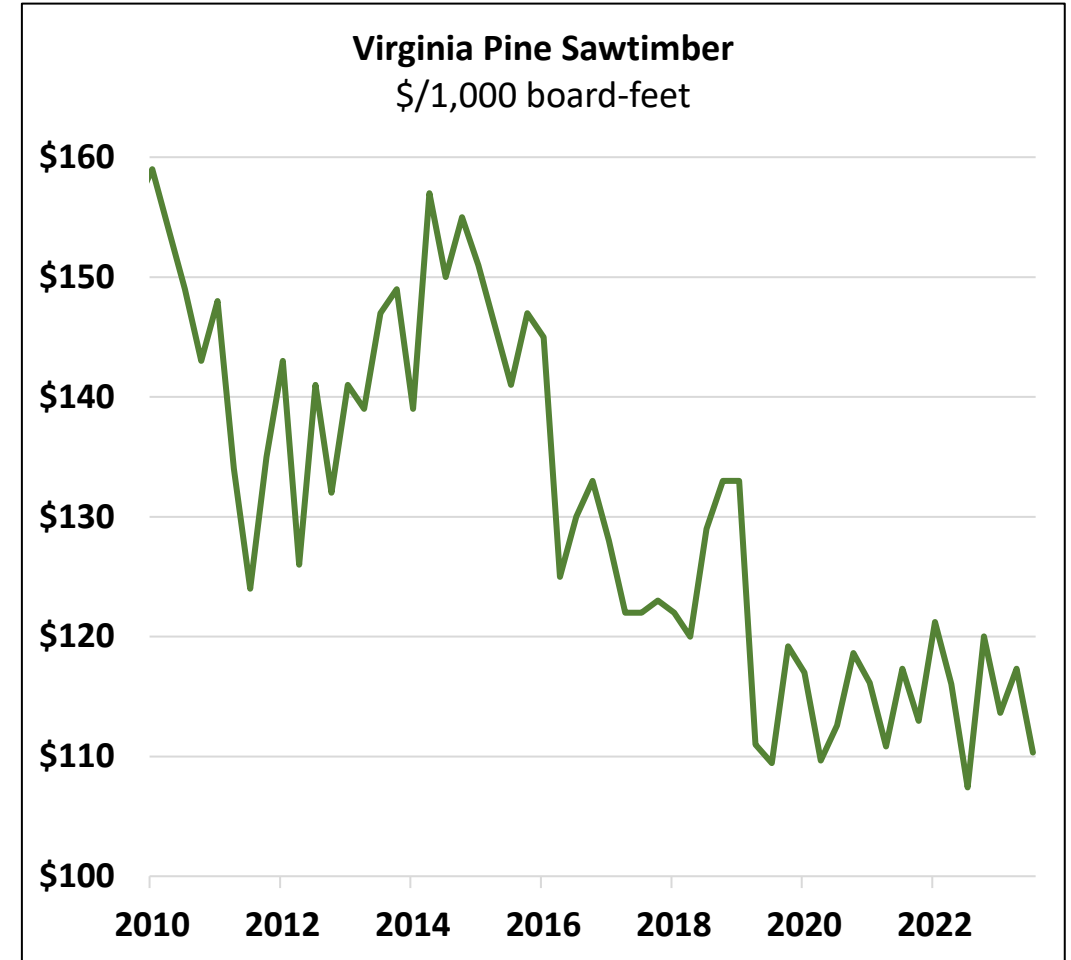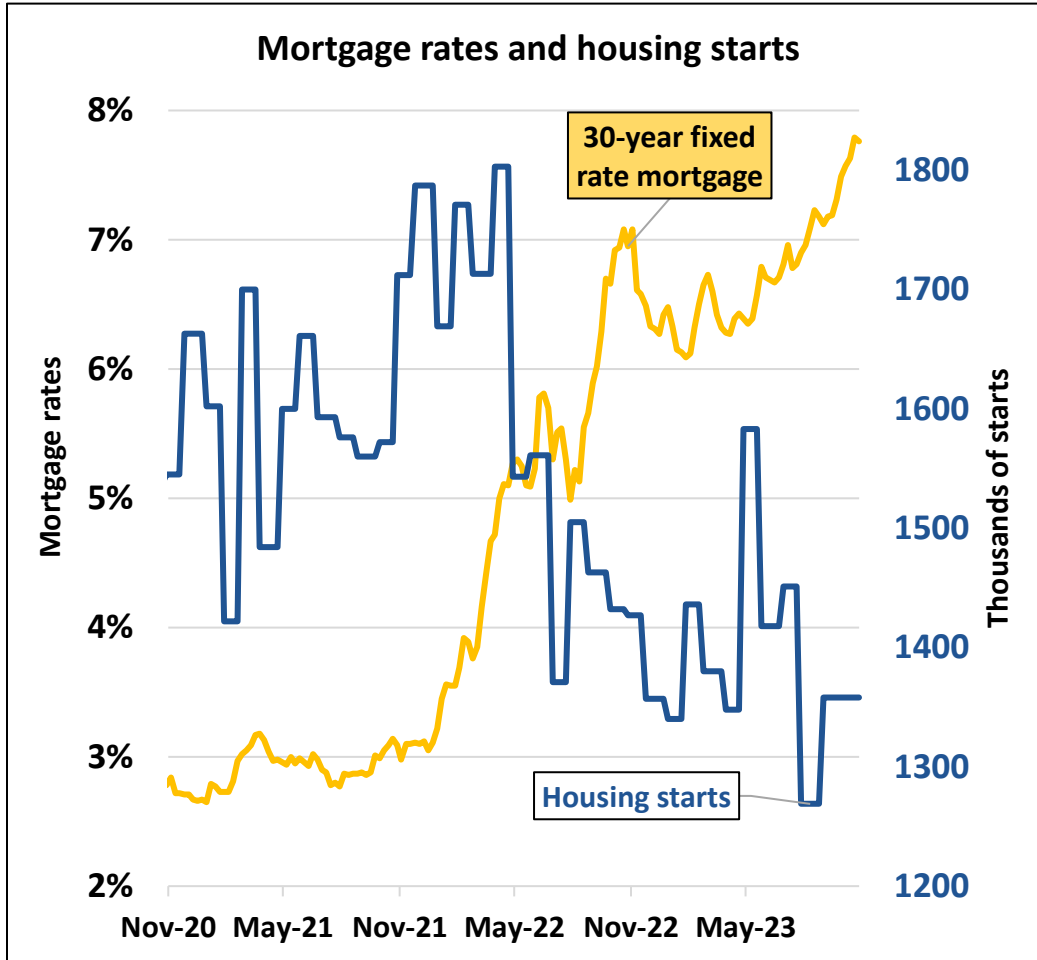
Sources: Census Bureau, Freddie Mac, Virginia Tech Forest Landowner Education Program

Grain prices lower than last year

Change in price from year-ago
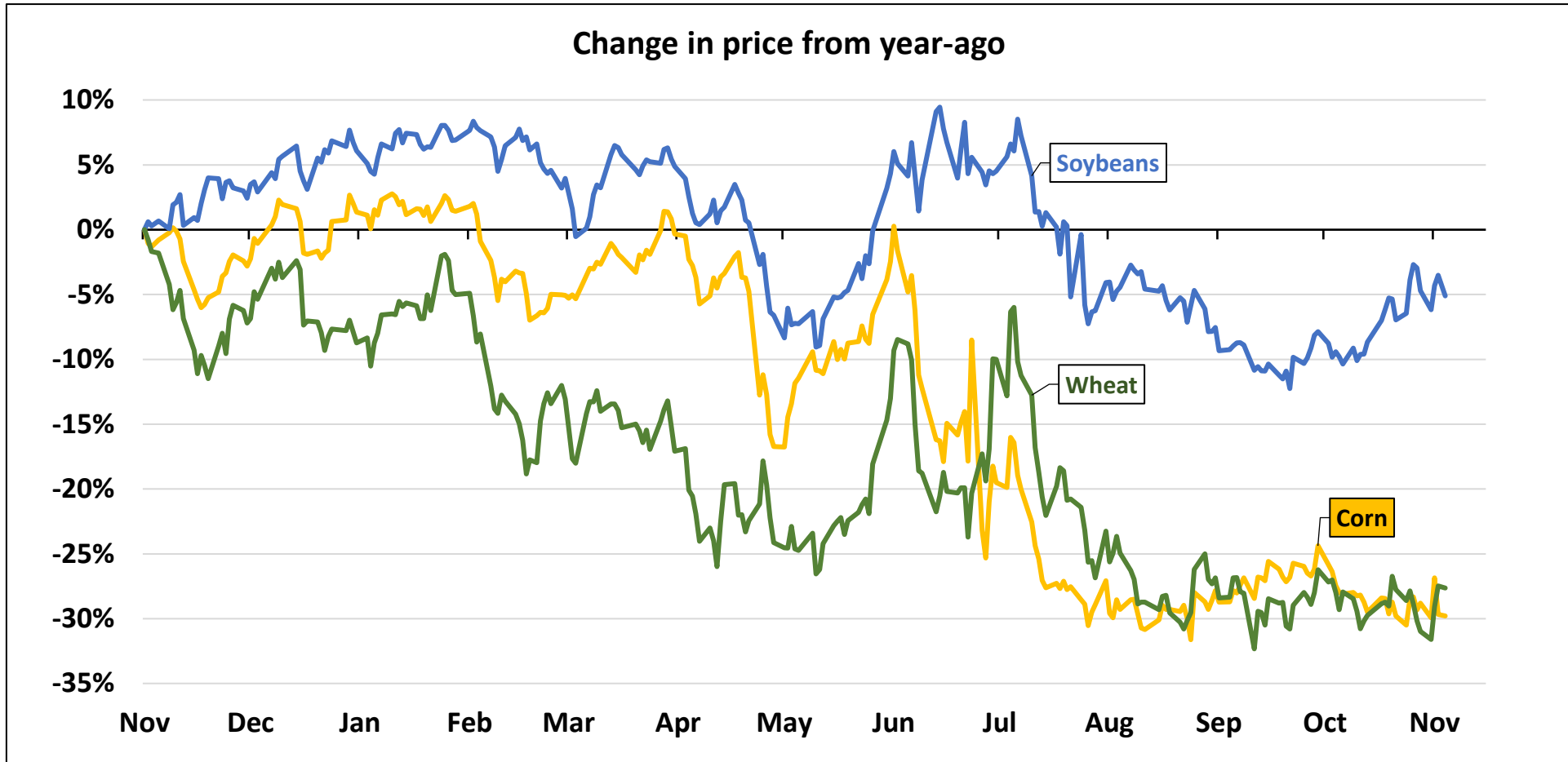
Sources: CME Group, CBOT

Falling water levels contribute to higher grain transportation costs

Mississippi River at Baton Rouge, LA
Height over seasonal average

Change in PPI for Water Transportation of Freight
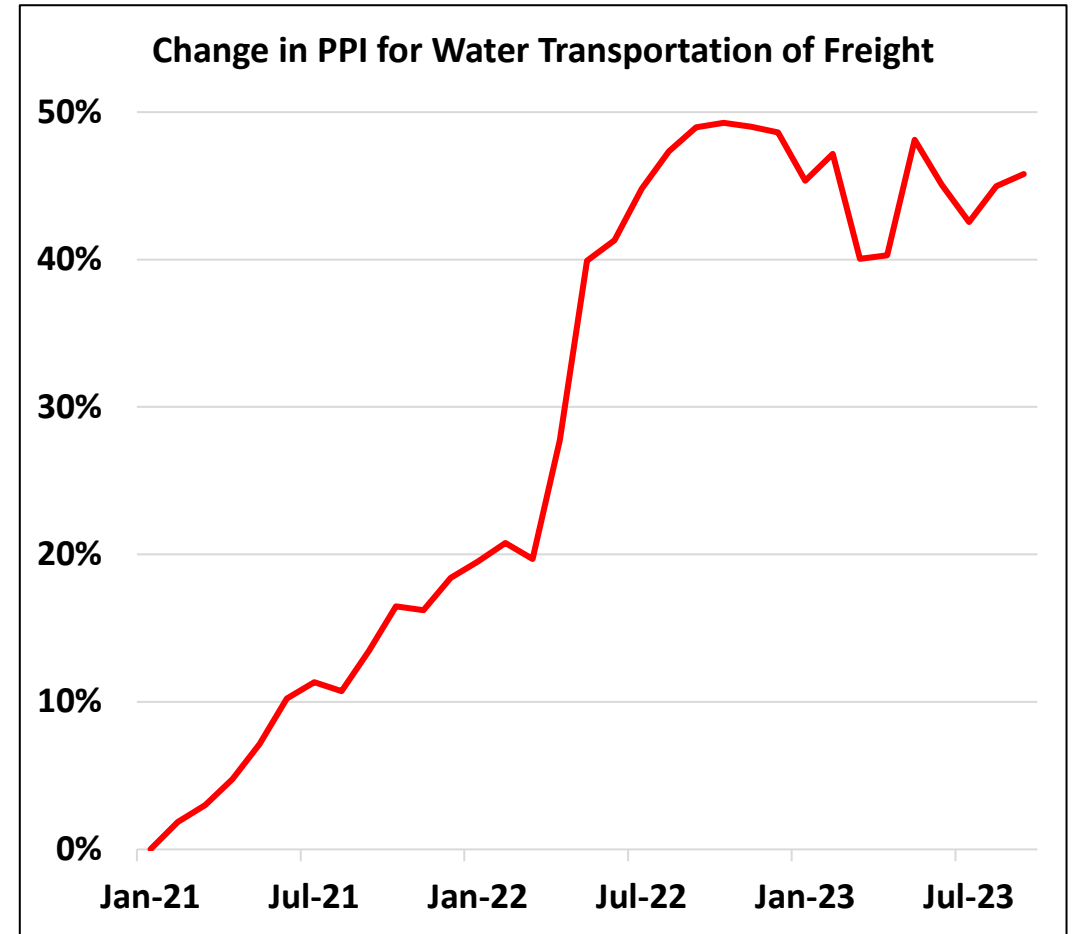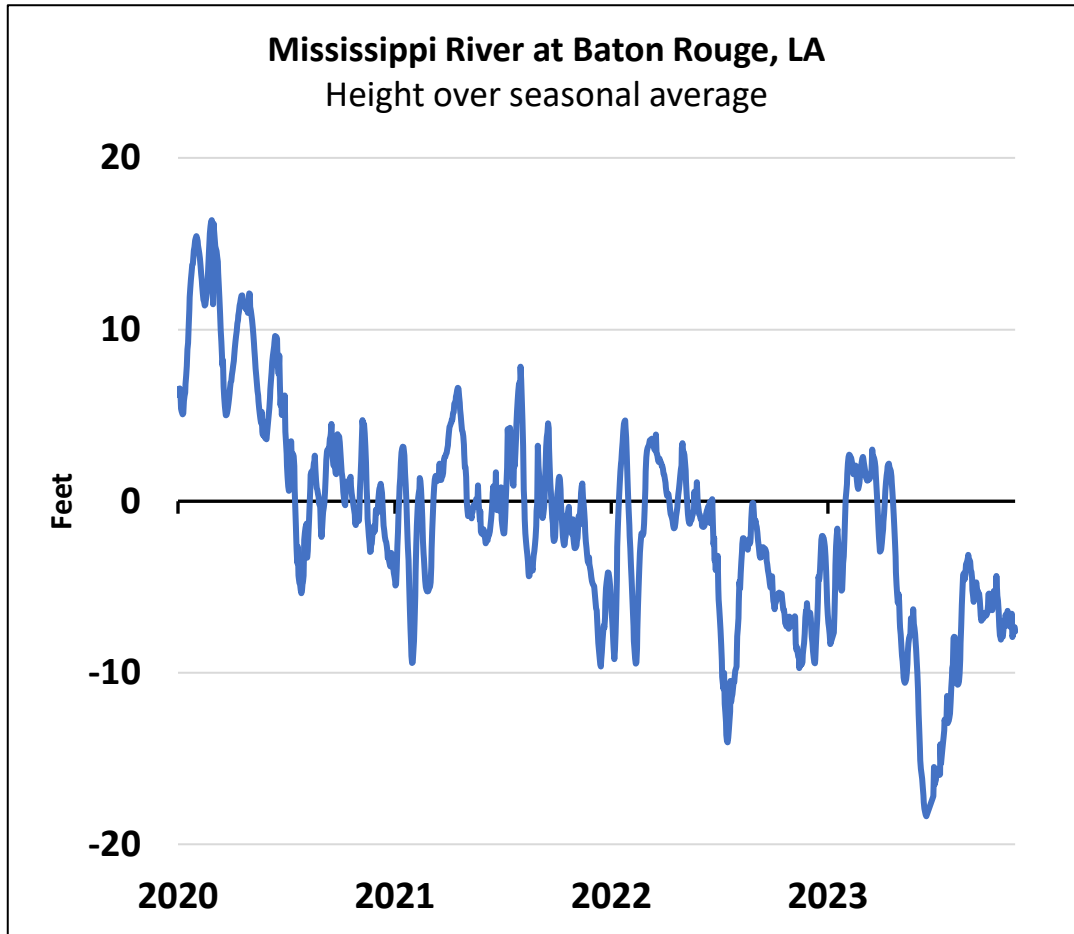
Sources: US Geological Survey, Bureau of Labor Statistics

Dairy and hog producers feel margin stress

Class III Milk ($/hundredweight)

Iowa Swine: Total profit (loss), $/head
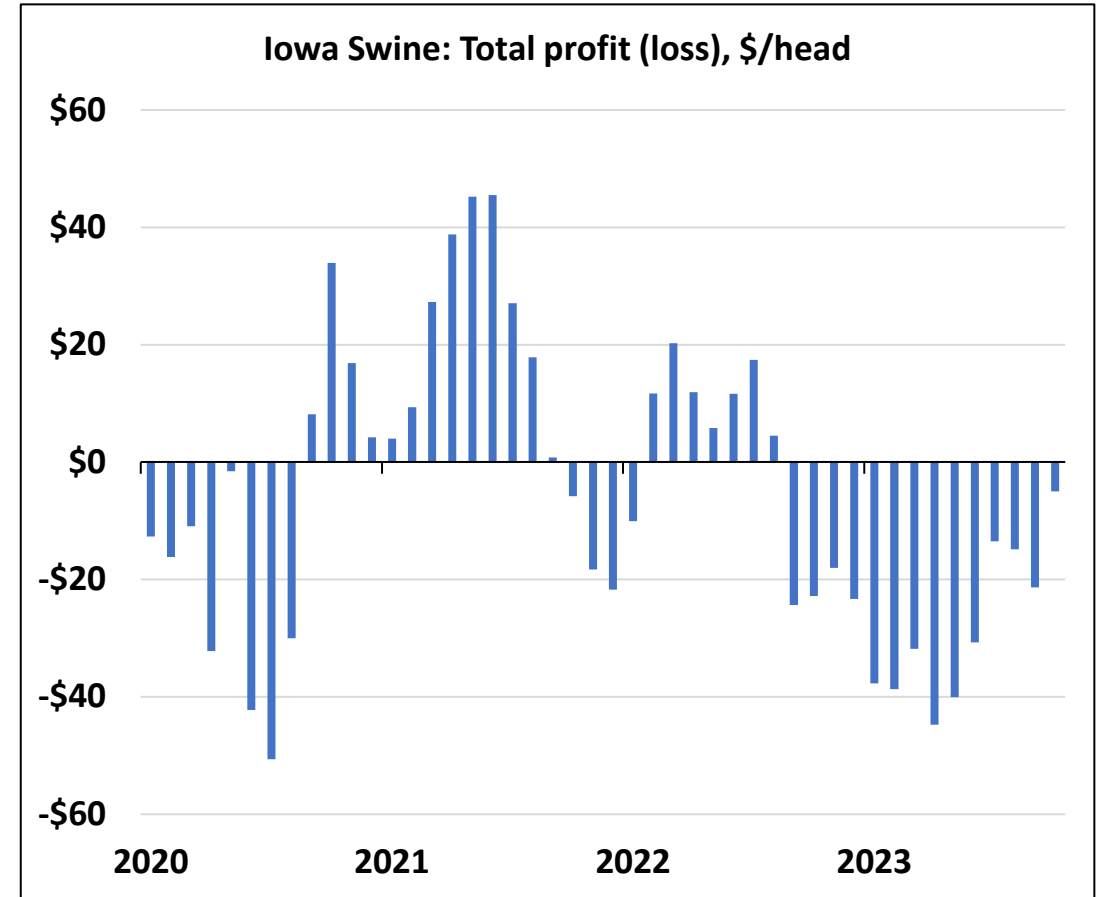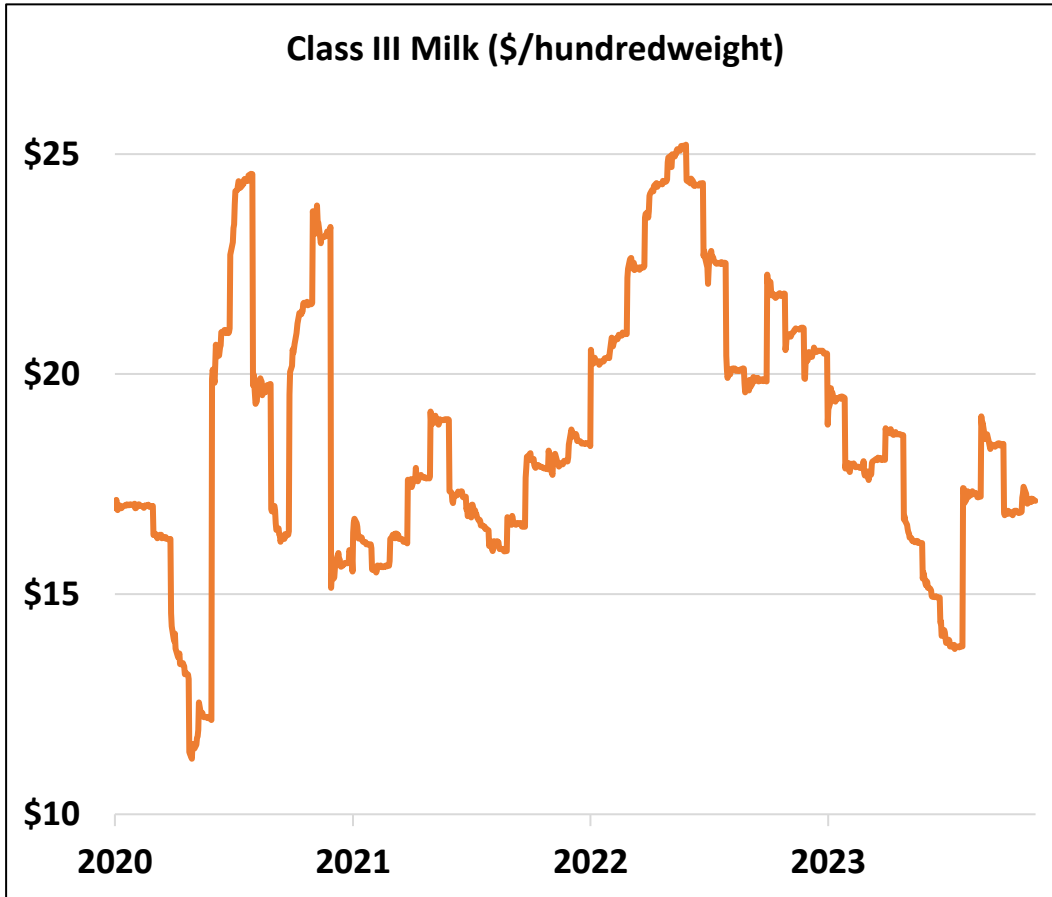
Sources: USDA, Iowa State University

California tree nut prices declined following glut of plantings

- High tree nut prices in the last decade encouraged farmers to plant tree nuts.

- 3-to-7-year lead time for trees to bear fruit means oversupply of nuts today.

- Emblematic of risks for many perennial crops.

Tree nut acreage and prices

Legend: Bearing Walnuts, Bearing Almonds, Walnut Price, Almond Price
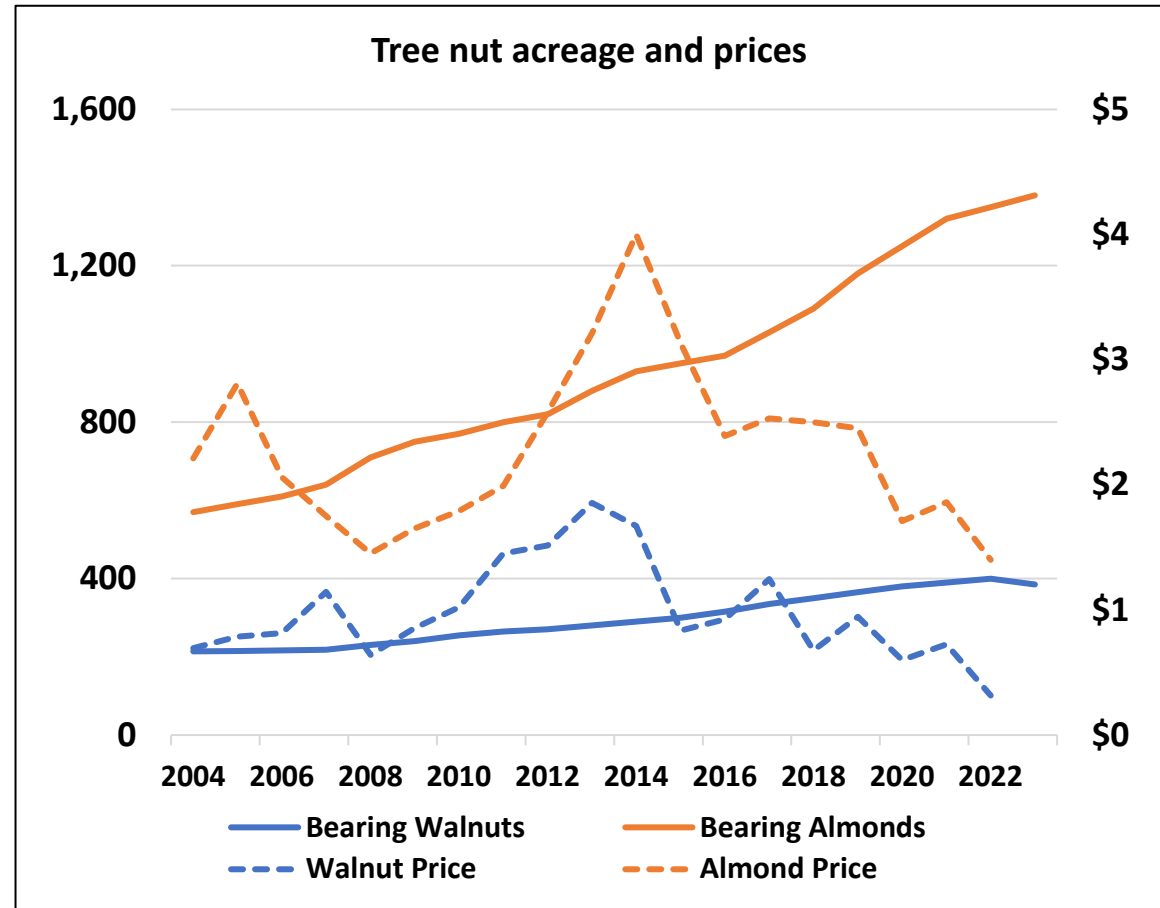
Sources: USDA - NASS

Questions

Loan growth slows; rural infrastructure lending drives gains

Total Assets 9/30/23	$492.8 billion	+1.7%	Qtr
		+3.3%	YTD
		+6.0%	12M

Gross Loans 9/30/23	$385.1 billion	1.9%	Qtr
		+3.2%	YTD
		+6.5%	12M

Portfolio Loan Growth
(% change year-to-date through September)

Bar chart values by year:
- 2014: 3.5%
- 2015: 4.5%
- 2016: 2.7%
- 2017: 0.9%
- 2018: 2.0%
- 2019: 1.0%
- 2020: 5.1%
- 2021: 3.3%
- 2022: 5.2%
- 2023: 3.2%
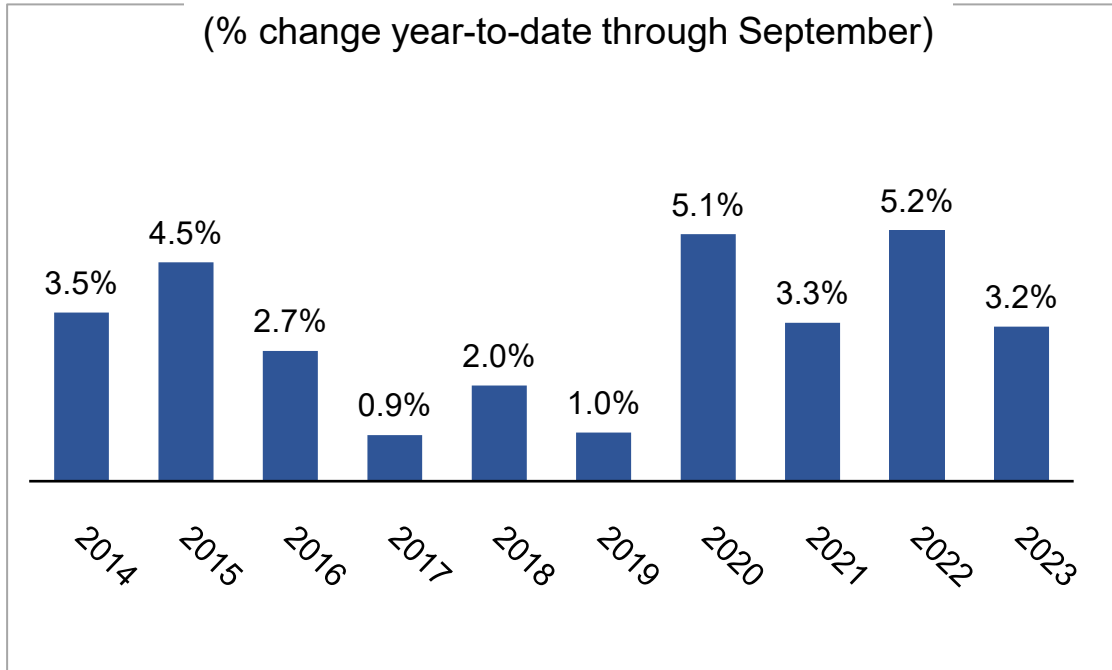
Loan Growth by Loan Type
(% change year-to-date through September)

Legend: 2021, 2022, 2023

- Real Estate Mortgage (45%): 2021: 7.8%, 2022: 4.0%, 2023: 1.2%
- Production & Intermediate (18%): 2021: 0.6%, 2022: -1.1%, 2023: 4.3%
- Agribusiness (18%): 2021: -5.3%, 2022: 7.8%, 2023: 0.0%
- Rural Infrastructure (13%): 2021: 5.1%, 2022: 11.6%, 2023: 17.0%

Source: Federal Farm Credit Banks Funding Corporation Information Statements
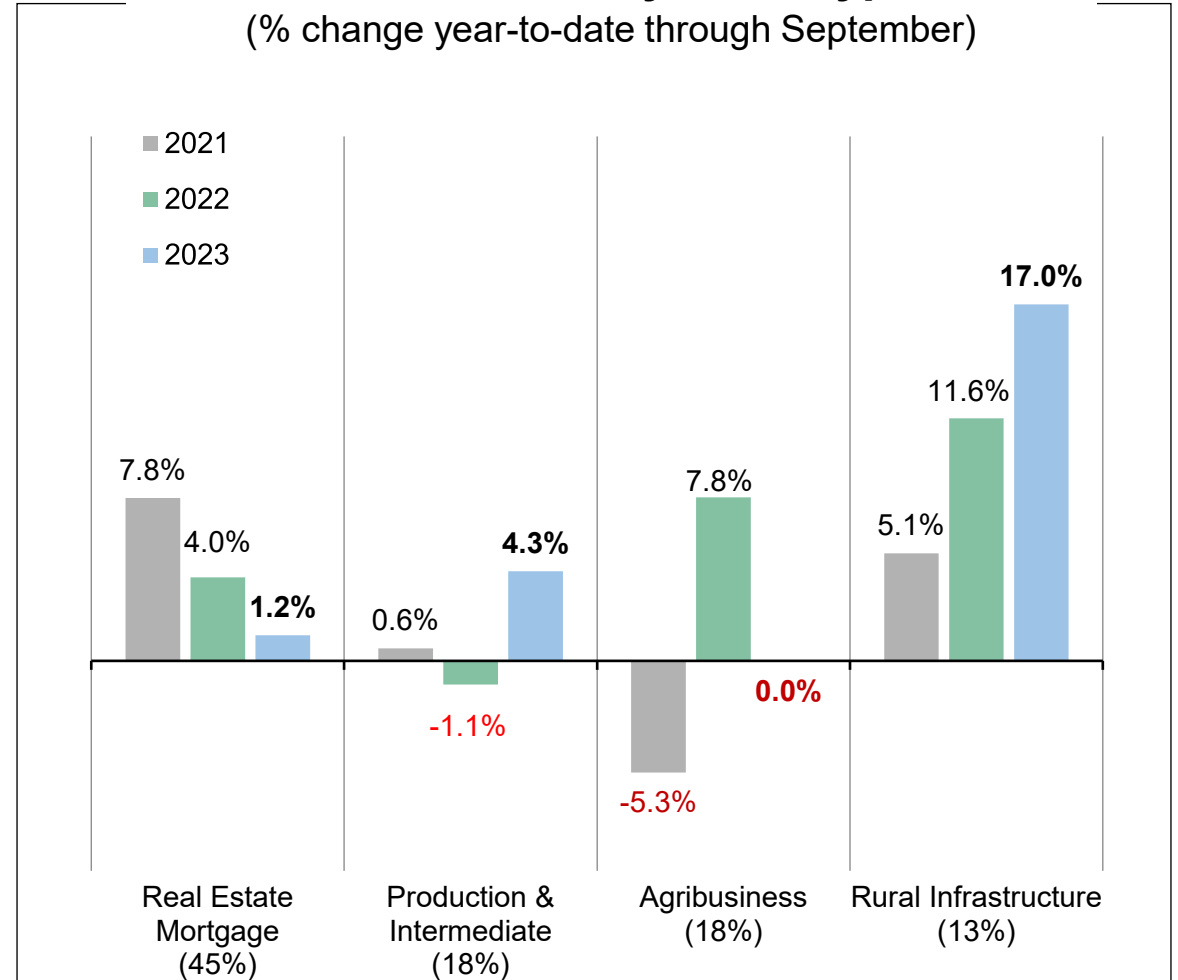
Portfolio loan quality is strong; credit risk indicators move slightly higher

Nonperforming Assets[1]
(as a percentage of loans outstanding and other property owned)

Legend:
- Nonaccrual Loans
- Other Nonperforming
- OPO
- % Nonperforming assets

Data points (% Nonperforming assets): 0.85%, 0.83%, 0.92%, 0.92%, 0.77%, 0.55%, 0.51%, 0.53%

Bar totals: $2,056, $2,099, $2,439, $2,549, $2,321, $1,784, $1,830, $2,042

Categories: Sep-16, Sep-17, Sep-18, Sep-19, Sep-20, Sep-21, Sep-22, Sep-23
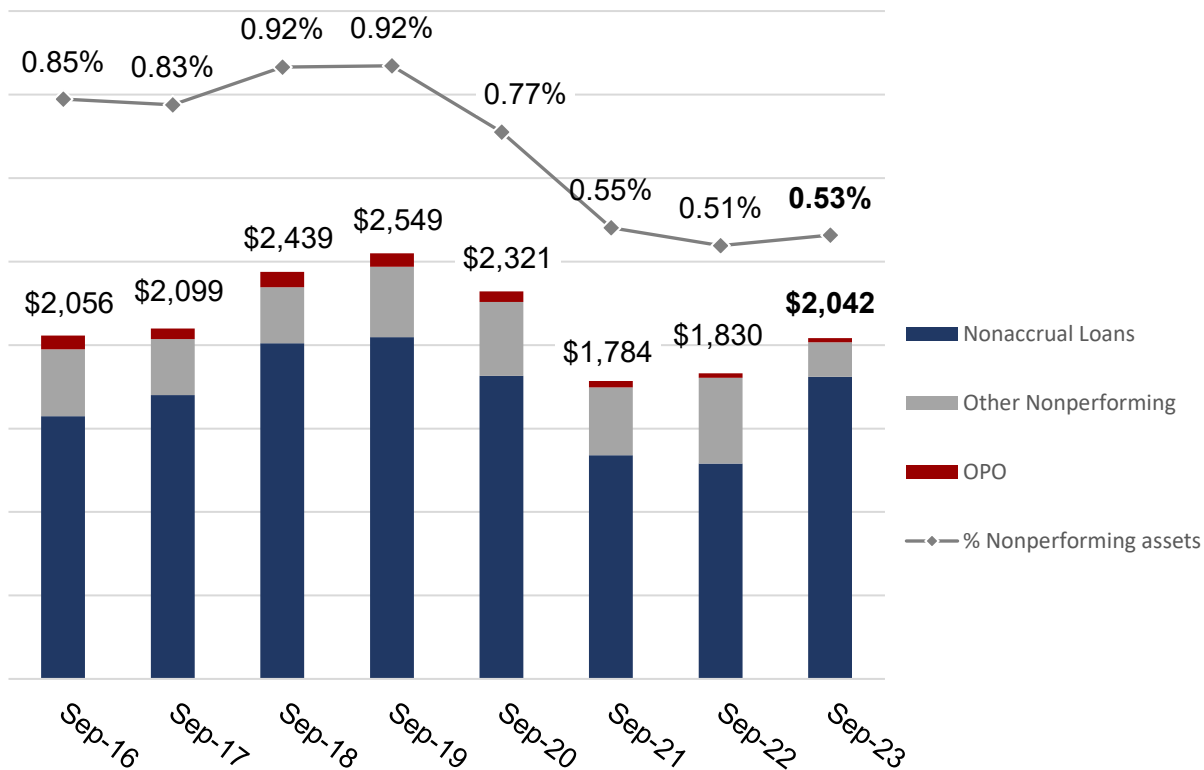
(amounts in millions)

Loans Classified Less than Acceptable
(as a percentage of loans outstanding)

Legend: Sep-23, Sep-22, Sep-21

Category	Sep-23	Sep-22	Sep-21
Total Portfolio	4.0%	3.4%	4.9%
Real Estate Mortgage	3.5%	3.0%	4.6%
Production & Intermediate (1)	5.8%	5.3%	7.5%
Agribusiness	5.5%	4.8%	5.8%
Rural Infrastructure	2.4%	1.1%	1.2%
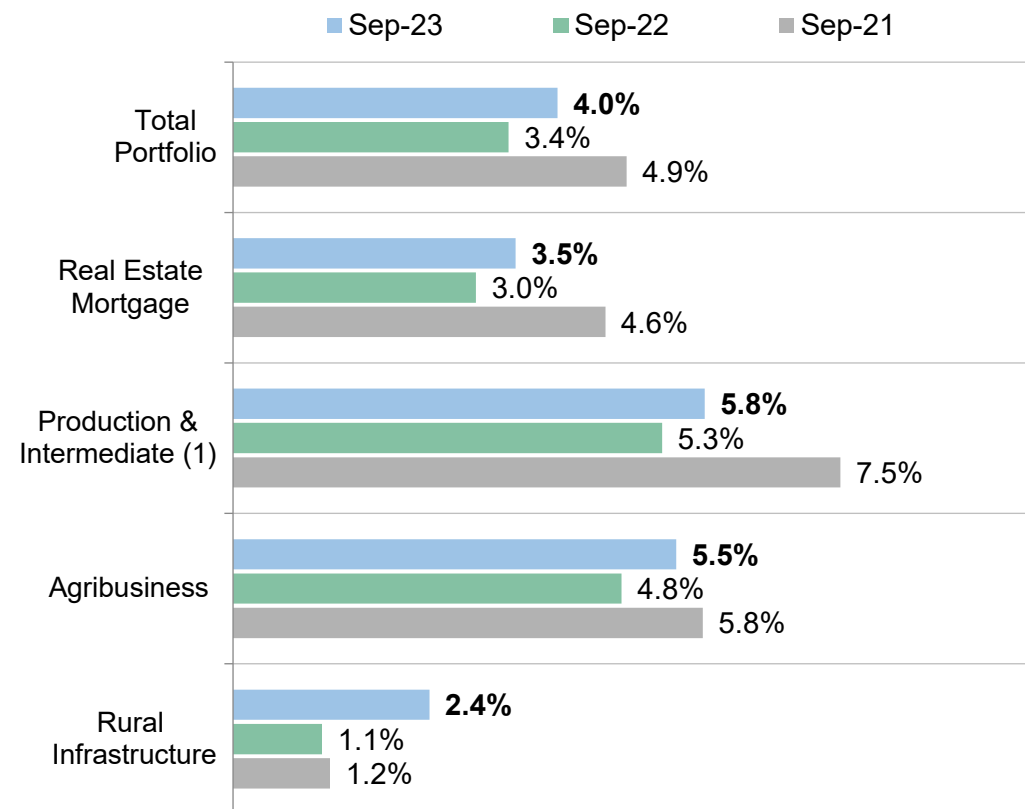
(1) Includes lease receivables

(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans
Source: Federal Farm Credit Banks Funding Corporation Information Statements

The System reported solid earnings through the 1st nine months

System Earnings
(year-to-date through September)

- System Net Income
- Provisions for Credit Losses - Loans

3Q-16	3Q-17	3Q-18	3Q-19	3Q-20	3Q-21	3Q-22	3Q-23
$3,589	$3,716	$4,012	$4,055	$4,446	$5,201	$5,449	**$5,507**
218	188	146	95	165	(142)	(9)	**464**

(amounts in millions)

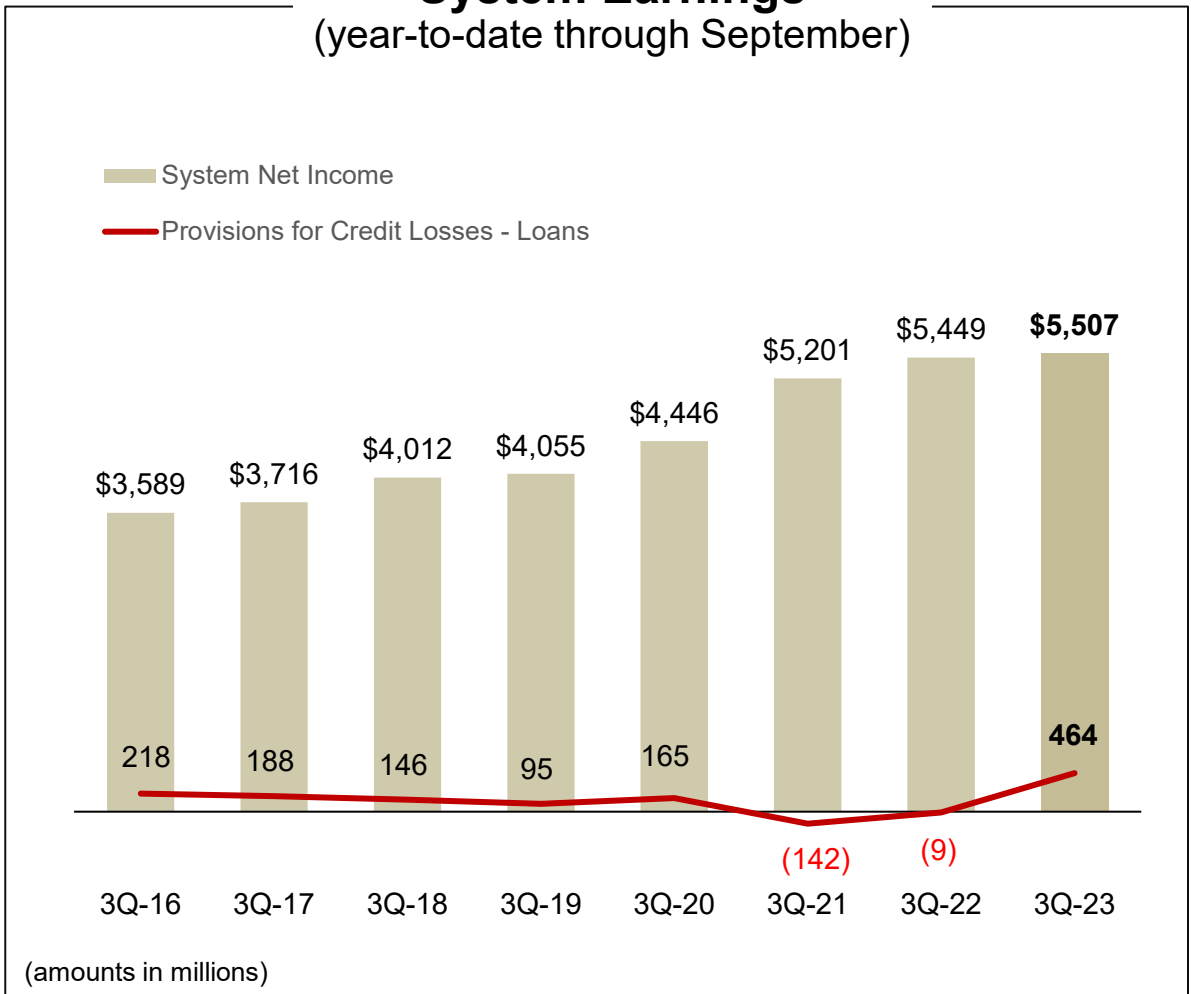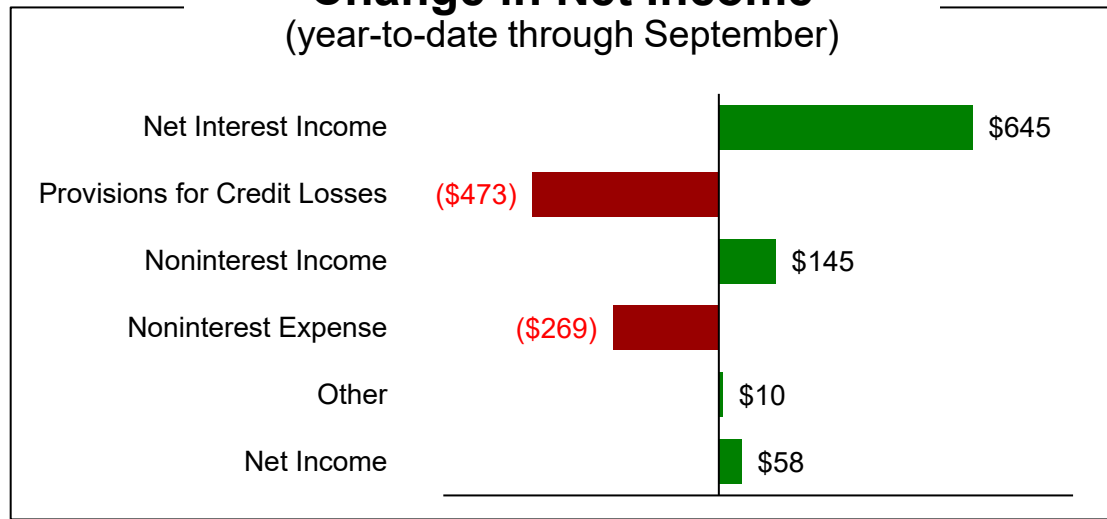Source: Federal Farm Credit Banks Funding Corporation Information Statements

Change in Net Income
(year-to-date through September)

Net Interest Income	$645
Provisions for Credit Losses	($473)
Noninterest Income	$145
Noninterest Expense	($269)
Other	$10
Net Income	$58

Net Interest Spread | Net Interest Margin

	2019	2020	2021	2022	Q3 2023
% Net Interest Margin	2.42%	2.46%	2.46%	2.39%	2.42%
% Net Interest Spread	2.04%	2.26%	2.33%	2.16%	1.95%
% Rate: Earning Assets	4.40%	3.56%	3.16%	3.79%	5.47%
% Rate: Interest-Bearing Liabilities	2.36%	1.30%	0.83%	1.63%	3.52%

- % Rate: Earning Assets
- % Rate: Interest-Bearing Liabilities
- % Net Interest Spread
- % Net Interest Margin

System capital and liquidity levels are strong

Capital & Liquidity
(as of September 30, 2023)

▶ In total, System capital has increased $2.9 billion or 4.1% year-over-year.

▶ Total regulatory capital ratios are sound
  - Banks: 13.2% to 16.9%
  - Associations: 12.5% to 33.9%.

▶ Days of liquidity for the 4 funding banks range from 167 to 197 days.

▶ Capital and the allowance for credit losses on loans equaled 19.2% of System loans as of September 30 compared with 19.6% a year ago.
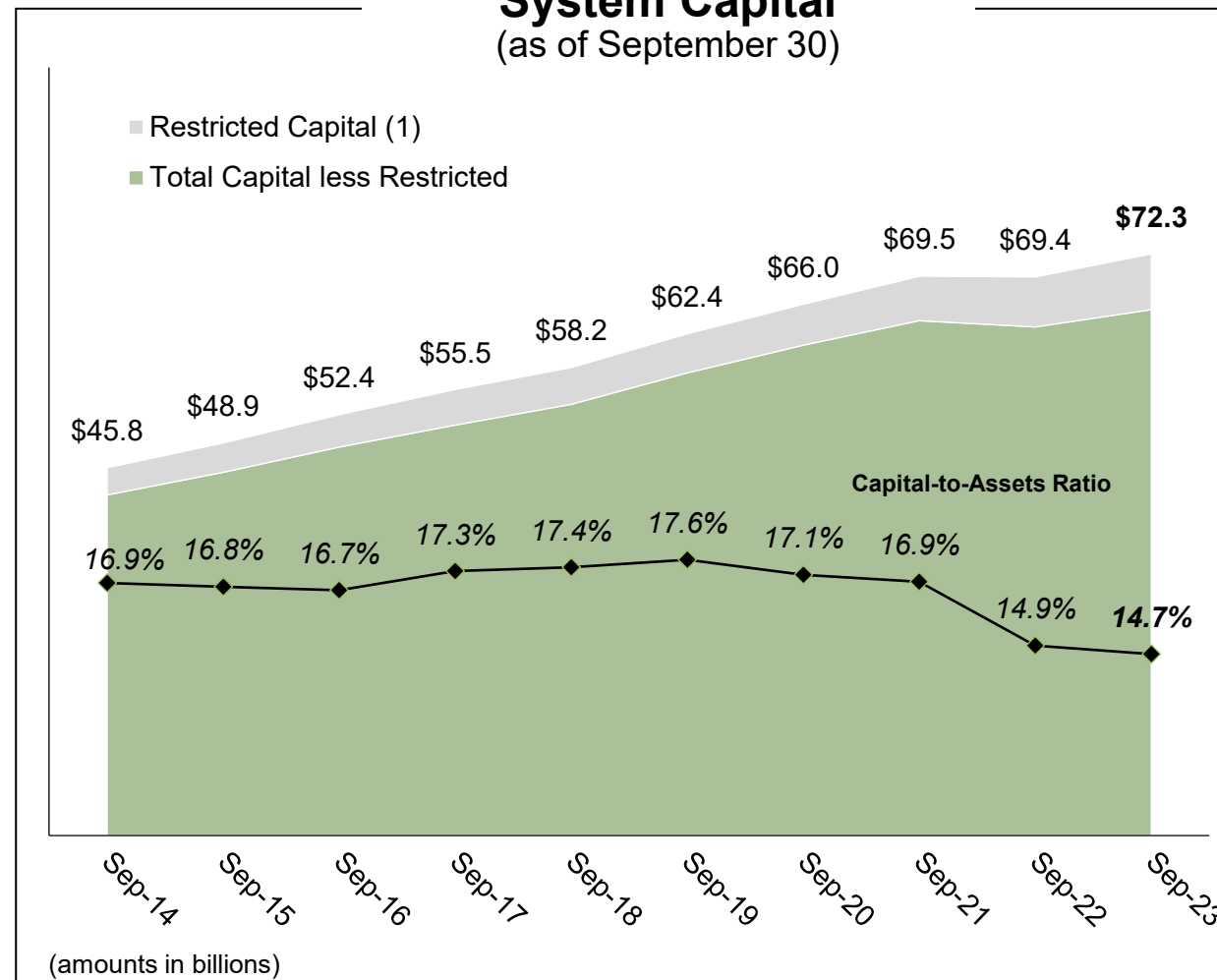
Source: Federal Farm Credit Banks Funding Corporation Information Statements

System Capital
(as of September 30)

■ Restricted Capital (1)
■ Total Capital less Restricted

$45.8 $48.9 $52.4 $55.5 $58.2 $62.4 $66.0 $69.5 $69.4 $72.3

Capital-to-Assets Ratio

16.9%   16.8%   16.7%   17.3%   17.4%   17.6%   17.1%   16.9%   14.9%   14.7%

Sep-14 Sep-15 Sep-16 Sep-17 Sep-18 Sep-19 Sep-20 Sep-21 Sep-22 Sep-23

(amounts in billions)

(1) Restricted Capital represents capital associated with the FCS Insurance Fund
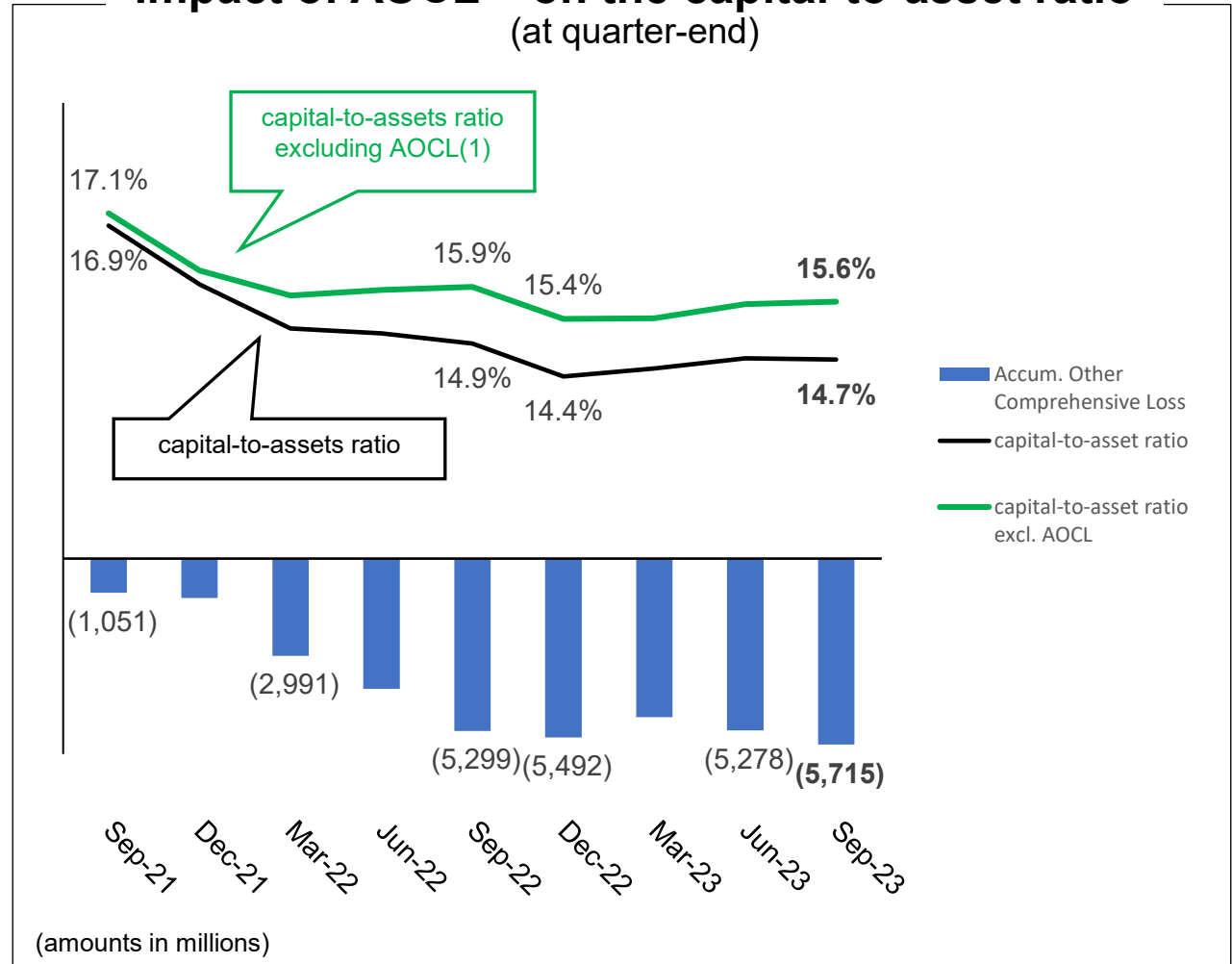
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Capital-to-assets ratio has improved recently despite increase in AOCL

- ▶ The System's capital-to-asset ratio as of September 30 was 14.7% as compared to 14.4% at year-end and 14.9% for the same period year ago.

- ▶ For 2023, accumulated other comprehensive loss (AOCL) has increased $437 million to $5.7 billion.

- ▶ Although capital growth has outpaced asset growth in 2023, it continues to lag asset growth year-over-year.

Source: Federal Farm Credit Banks Funding Corporation Information Statements

Impact of AOCL[1] on the capital-to-asset ratio
(at quarter-end)

(amounts in millions)

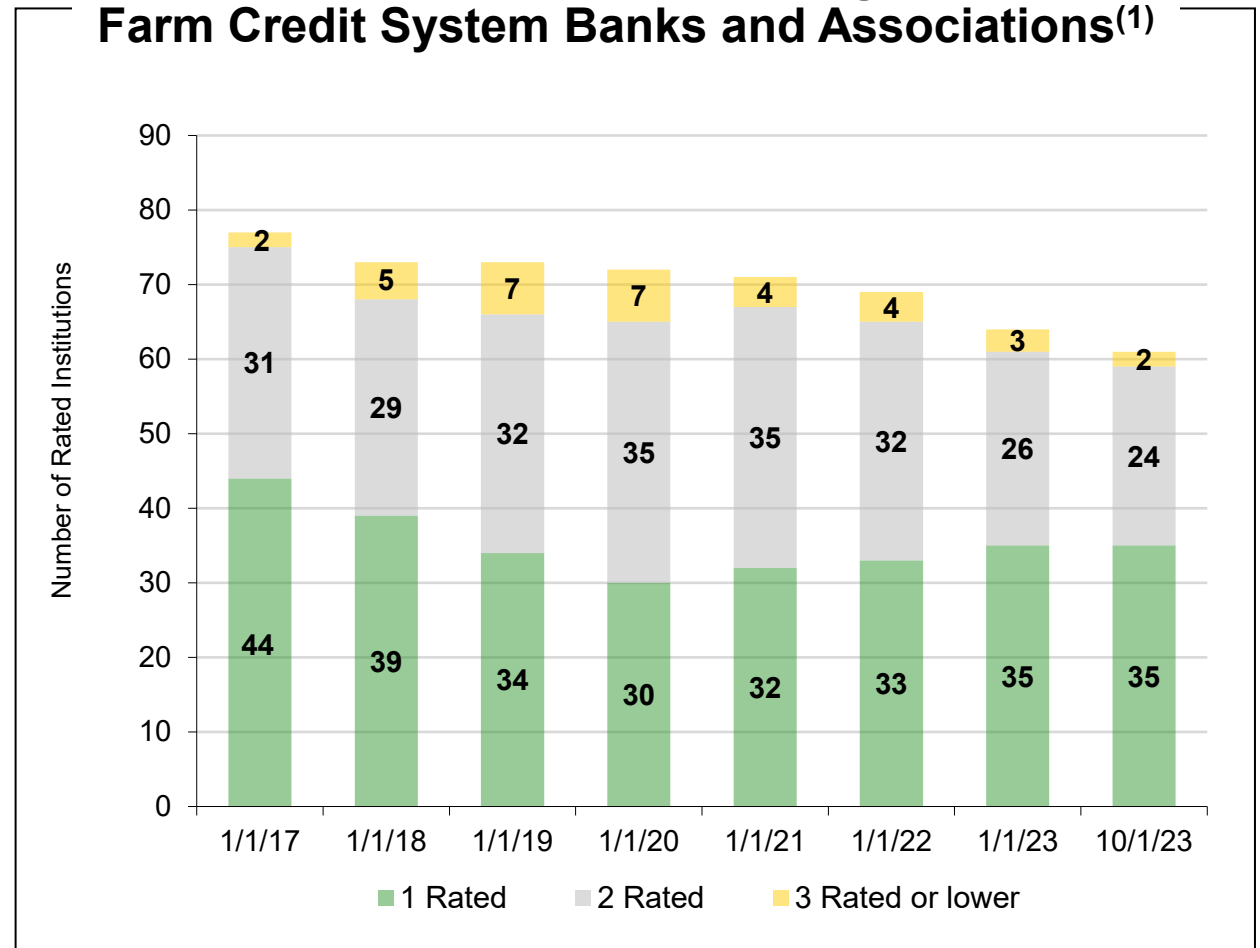(1) AOCL refers to accumulated other comprehensive loss

Composite FIRS ratings remain stable

Composite FIRS Ratings
(based on 9/30/23 financial reporting)

▶ Composite FIRS ratings reflect the System's sound financial condition.

▶ Over 96% of System banks and associations have a Composite FIRS rating of 1 or 2.

▶ Institutions rated 3 or lower hold under 1% of System assets.

Composite FIRS Ratings
Farm Credit System Banks and Associations[1]

Date	1 Rated	2 Rated	3 Rated or lower
1/1/17	44	31	2
1/1/18	39	29	5
1/1/19	34	32	7
1/1/20	30	35	7
1/1/21	32	35	4
1/1/22	33	32	4
1/1/23	35	26	3
10/1/23	35	24	2

(1) active and reporting

Source: FCA's FIRS ratings database