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COBANK REPORTS INCREASED EARNINGS AND PATRONAGE DISTRIBUTIONS FOR 2004

For Immediate Release

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DENVER (Feb. 18, 2005) — CoBank today reported that its earnings for year-end 2004 increased to \$275 million from \$261 million in 2003. As a result of the bank's continuing financial success, it will return \$160 million in patronage to customer-owners for 2004. With \$30.9 billion in assets, CoBank specializes in financing for agribusinesses and Farm Credit associations as well as rural communications, energy and water systems.

Because CoBank is a cooperative bank, its customer-owners directly benefit from the bank's financial performance. "For customers, patronage remains one of the most tangible measures of our success," reported Douglas D. Sims, chief executive officer of CoBank.

"In 2004, we continued to build on our history of consistent financial performance," Sims said. "Even though loans and leases declined slightly for 2004, capital grew, our risk profile improved and earnings increased." The bank reported net earnings of \$275 million for 2004, a five percent increase over 2003. The increase was driven largely by a lower provision for credit losses, reflecting improved credit quality, and by lower financial assistance expenses for the Farm Credit System.

For 2004, CoBank expects to pay customer-owners \$163 million in cash for both stock retirements and cash patronage. Patronage distributions for 2004 represent a record 13.3 percent return on average invested capital for customer-owners. For the past five years, CoBank customer-owners received an average of \$121 million per year in cash as a result of their investment in the bank.

CoBank enhanced its capital plan for 2004 by increasing the overall rate at which patronage is calculated and by increasing the level of cash patronage paid to stockholders. The capital plan in place for 2003 would have returned \$67 million in cash patronage to customer-owners. With enhancements to the plan, the bank will distribute an additional \$25 million in cash patronage to customer-owners for 2004, for a total of \$92 million returned in cash.

"CoBank's consistent financial performance and reputation as a dependable source of credit for rural America come from the bank's adherence to strong business fundamentals," explained Sims, adding, "Across the country, CoBank plays an integral role in delivering the difference in rural America by providing all our customers, large and small, with the financial solutions they need to be successful in their industries and communities." In 2004, he said, the bank continued to enhance its governance process, execute sound business strategies and employ best practices in day-to-day operations—all factors that position the bank solidly for future success.

CoBank Reports Increased Earnings and Patronage Distributions for 2004

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Financial Highlights for 2004

Net earnings increased to \$275 million from \$261 million in 2003, capital rose to \$2.9 billion from \$2.8 billion for 2003, and assets remained stable at \$30.9 billion.

Total loans and leases outstanding to U.S. and international customers declined slightly to \$24.0 billion from \$24.8 billion at the end of 2003. Most of the reduction in loans outstanding can be attributed to changing market conditions and refocusing our portfolio strategy with our core, rural customer segments.

- CoBank's Strategic Relationships Division, which includes primarily Farm Credit association customers, comprised the largest customer segment in the bank, totaling \$7.4 billion in loans outstanding or 31 percent of the portfolio at year-end 2004. Of this total, \$6.5 billion in loans were to CoBank's five affiliated Farm Credit association customers that serve 26,000 customers in 13 states in the Northeast and Northwest.
- The Global Financial Services Group had \$4.9 billion in loans outstanding at year-end or 21 percent of the total portfolio. Large corporate agribusiness, food and international customers comprise this group. Approximately 78 percent of the bank's \$2.6 billion in export loans is guaranteed by the U.S. government, and approximately half of our total export loans was provided to banks in Mexico and Latin America.
- With \$4.2 billion in loans outstanding, the Agribusiness Banking Group comprised 17.5 percent of the total portfolio at year-end and included loans to grain marketing and farm supply cooperatives, financial cooperatives and other co-ops specializing in cotton, livestock, dairy, timber, sugar, oilseed processing, fruits, nuts and vegetables.
- The Communications and Energy Banking Group had \$6.3 billion in loans outstanding at year-end. Loans outstanding to customers in the energy and water segment totaled \$4.2 billion at year-end or 17.5 percent of the total portfolio. For customers in the communications segment, loans outstanding totaled \$2.1 billion or nine percent at year-end.
- Leases accounted for \$1.1 billion at year-end or four percent of CoBank's total loan and lease portfolio. Leasing customers include approximately 7,000 agricultural cooperatives, communication and energy companies as well as agricultural producers nationwide, most of whom are customers of Farm Credit associations.

CoBank's credit quality improved in 2004 with 97.8 percent of the bank's loan and lease portfolio ranking in the two highest categories used to classify credit quality. Overall credit quality has consistently improved since 2002. However, the bank continued to experience credit-related challenges in the merchant independent power production sector. The bank recognized the financial effect of these challenges in our 2002 and 2003 provisions for credit losses, which totaled \$128 million and \$69 million, respectively. In 2004, the provision for credit losses declined to \$49 million, reflecting a more typical business environment and a continuing commitment to our core rural customers. The bank's net charge-offs declined to \$28 million for 2004 compared to \$65 million for 2003. As a result of the bank's 2004 provision and lower net charge-offs, the allowance for credit losses increased to \$436 million at the end of 2004 from \$415 million the previous year.

As Rural America's Cooperative Bank, CoBank specializes in providing financial solutions and leasing services to cooperatives, agribusinesses, Farm Credit associations, and rural communications, energy and water companies. The bank also finances agricultural exports and is the owner of Farm Credit Leasing

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Services Corporation. CoBank has a national office in Denver, additional offices across the U.S. and two international representative offices. CoBank is part of the \$125-billion U.S. Farm Credit System.

To view a consolidated financial statement, [click here](#).