



# CoBank 2017 Financial Results

March 6, 2018





**Kevin Riel**  
Chairman of the Board



**Thomas Halverson**  
President &  
Chief Executive Officer



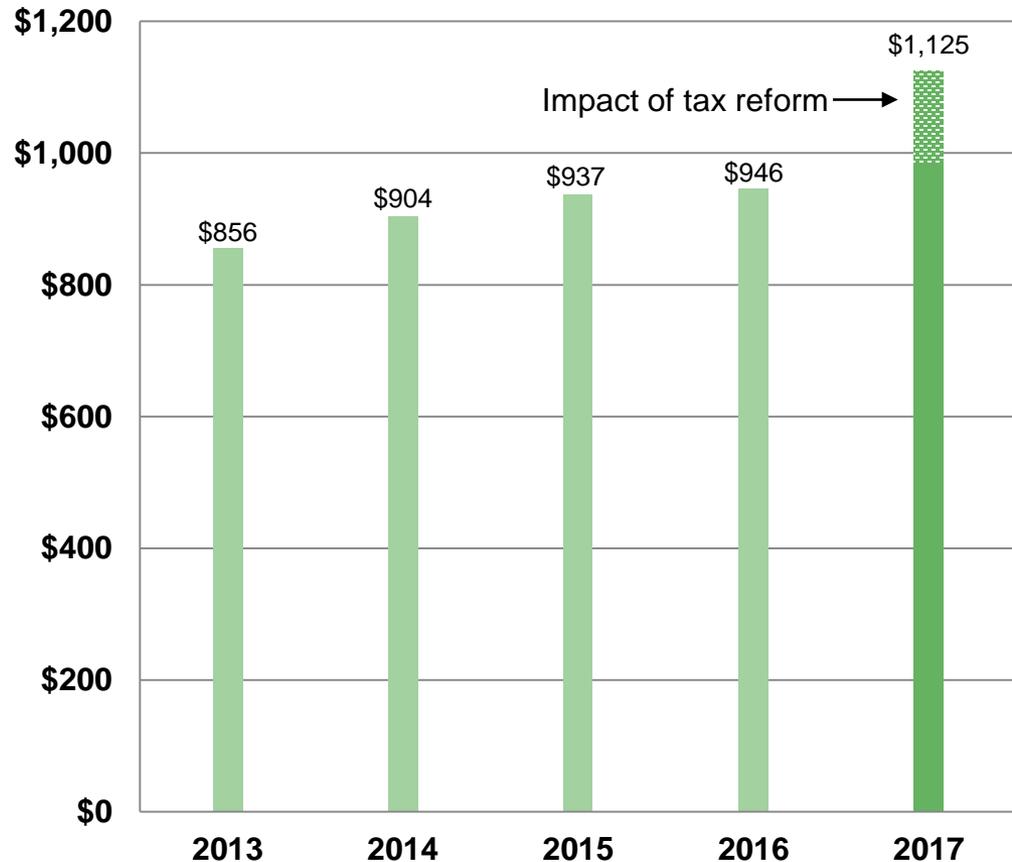
**David Burlage**  
Chief Financial Officer

# 2017 Financial Highlights



- Strong organic growth in loan volume across all three operating segments
- Positive impact from tax reform on net income
- Continuing solid credit quality
- Capital and liquidity well above regulatory minimums
- Record patronage distribution for eligible borrowers

CoBank net Income (\$ in millions)



# New Capital Plans & Patronage Programs



Customer or loan type	Equity requirement <sup>1</sup>	Target patronage level – former plan <sup>2</sup>	Target patronage level – new plan <sup>2</sup>	Cash/equity split – former plan <sup>3</sup>	Cash/equity split – new plan <sup>3</sup>
Agribusiness, communications & project finance	8%	100 bps	95 bps	75% / 25%	75% / 25%
Electric & water	8%	100 bps	80 bps	75% / 25%	60% / 40%
Loans purchased from Farm Credit partners	8%	100 bps	95 bps	75% / 25%	75% / 25%
Farm Credit affiliates	4%	45 bps	36 bps	100% / 0%	100% / 0%
Non-affiliated Farm Credit and other financing institutions	4%	45 bps	26 bps	20% / 80%	20% / 80%

<sup>1</sup> Cooperatives and other eligible direct borrowers fulfill their equity requirement over time through the equity portion of their annual patronage distributions, as do loans purchased from other Farm Credit institutions, and non-affiliated Farm Credit and other financing institutions. Affiliated Farm Credit associations capitalize their wholesale loans from the bank in full on an annual basis.

<sup>2</sup> Target patronage is defined as the number of basis points (bps) of current-year average loan volume for eligible borrowers.

<sup>3</sup> Once borrowers reach their target equity requirement, they effectively receive 100 percent of their patronage distribution in cash.

## ➤ Implementation timeline

- Changes for direct borrowers take effect in 2018 for patronage distributed in March 2019
- Affiliated Farm Credit associations will transition to their new target patronage level over two years beginning in 2019
- Non-affiliated Farm Credit associations and other financing institutions will transition to their new target patronage level over three years beginning in 2018

## ➤ No changes to equity requirements

## ➤ Patronage distributions continue to require annual approval of the board

# Summary Financial Results



(\$ in millions)	2016	2017	YoY%	Adjusted Results*	
				2017	YoY%
Interest income	\$ 2,610	\$ 3,141	20%		
Interest expense	1,248	1,748	-40%		
<i>Net interest income</i>	1,362	1,393	2%		
Provision for loan losses	63	42	33%		
<i>Net interest income after provision for loan losses</i>	1,299	1,351	4%		
Noninterest income	185	175	-5%		
Operating expenses	380	386	-2%		
Provision for income taxes	158	15	91%	\$ 157	1%
<i>Net income</i>	\$ 946	\$ 1,125	19%	\$ 983	4%
Return on average common equity	12.40 %	14.20 %	15%	12.26 %	-1%
Net interest margin	1.14 %	1.12 %	-2%		
Return on average assets	0.78 %	0.89 %	14%	0.78 %	0%
Operating expense ratio**	19.70 %	20.10 %	-2%		

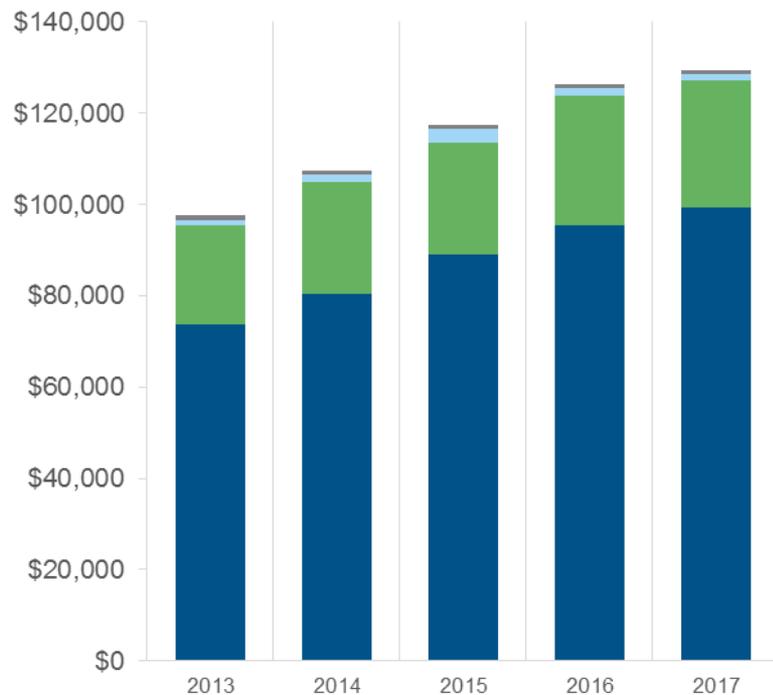
\* Adjusted to exclude \$142 million of income tax benefit resulting from tax reform

\*\* Excludes Insurance Fund premiums

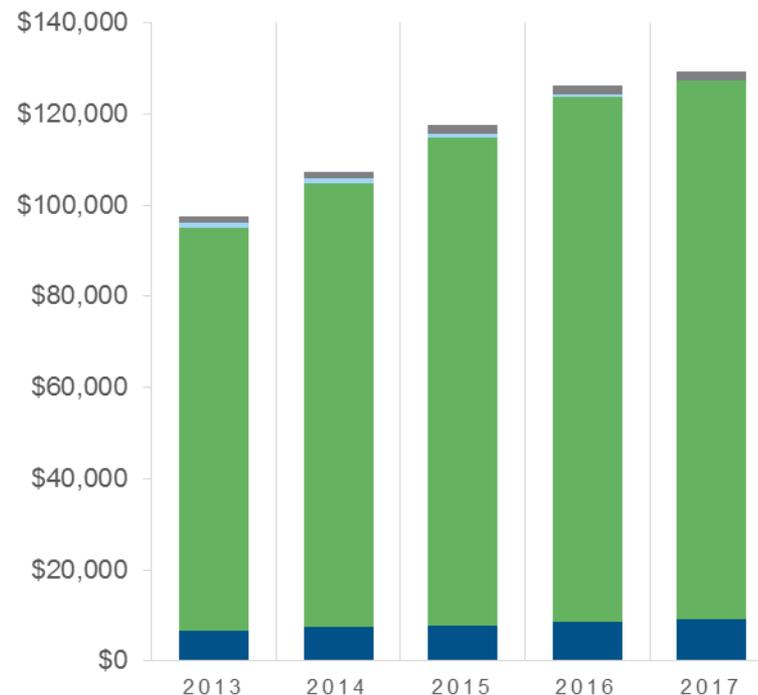
# Balance Sheet Trends



## Assets (\$ in Millions)



## Liabilities & Shareholders' Equity (\$ in Millions)



Other	\$	970	\$	823	\$	813	\$	697	\$	726
Cash*	\$	1,335	\$	1,856	\$	3,113	\$	1,661	\$	1,314
Investments**	\$	21,688	\$	24,320	\$	24,504	\$	28,515	\$	27,905
Gross Loans	\$	73,603	\$	80,382	\$	89,041	\$	95,258	\$	99,266

Other	\$	1,576	\$	1,574	\$	1,788	\$	1,972	\$	1,745
Subordinated debt	\$	902	\$	902	\$	903	\$	499	\$	-
Bonds & Notes	\$	88,413	\$	97,535	\$	106,970	\$	115,086	\$	118,406
Shareholders' equity	\$	6,705	\$	7,370	\$	7,810	\$	8,574	\$	9,060

\* Represents Cash and Cash Equivalents

\*\* Includes Investment Securities, Federal Funds Sold and Other Overnight Funds

## Agribusiness



- Regional Cooperatives & Agribusinesses
- Large and Diversified Ag Cooperatives & Agribusinesses
- Food Companies & Other Eligible Borrowers
- Ag Export Financing
- Farm Credit Leasing
- Farm Credit System Purchased Participations

## Strategic Relationships



- 22 Affiliated Associations
- Nonaffiliated Associations
- Farm Credit Banks

## Rural Infrastructure



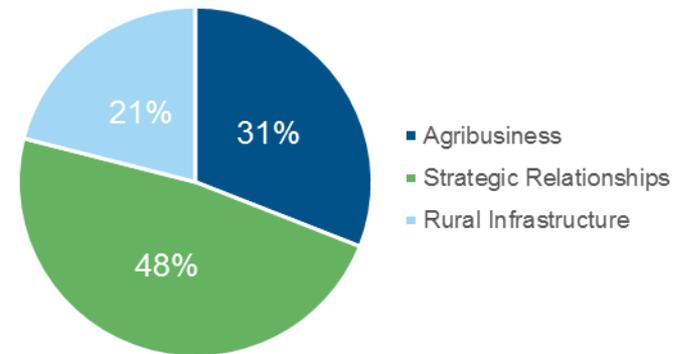
- Electric Distribution Cooperatives
- Generation & Transmission Cooperatives
- Rural Power Supply Companies
- Communications Companies
- Water & Waste Water Companies
- Vital Community Facilities

# Operating Segments

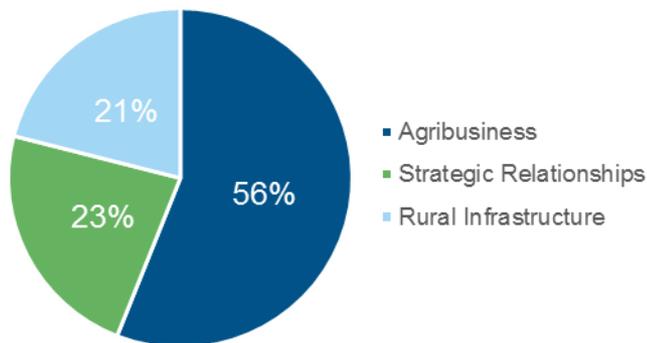
## Summary

- Three operating segments (Agribusiness, Strategic Relationships and Rural Infrastructure)
- Over \$99 billion in total loan volume
- Lower income in Strategic Relationships operating segment reflects narrower margins and lower risk profile from wholesale loans

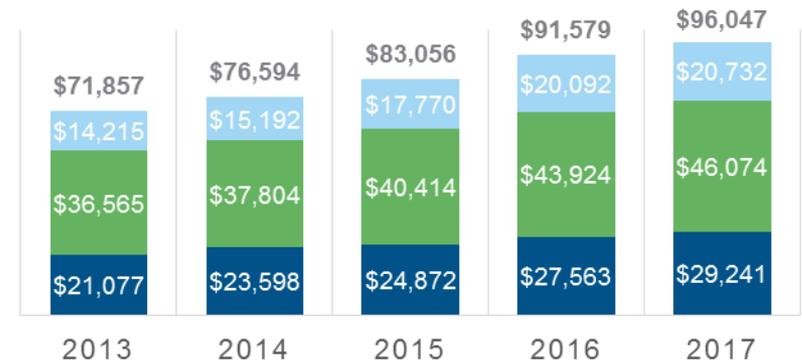
## Loan Volume – \$99.3 Billion at December 31, 2017



## Net Income – \$1,125 Million in 2017



## Average Loan Volume (\$ in Millions)



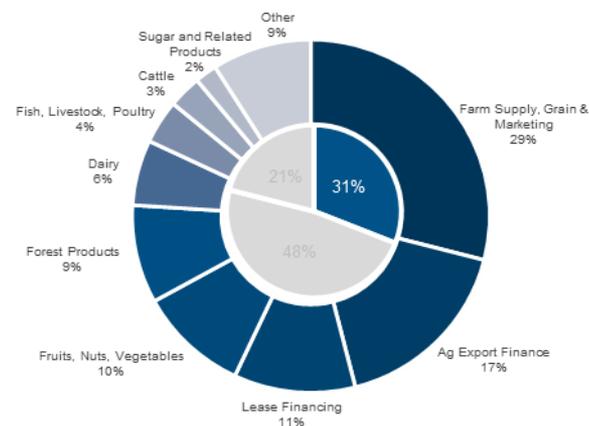
## Portfolio Highlights

- \$30.3 billion retail loan portfolio at December 31, 2017
- Grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing
- Integrated production agriculture in forest products; fruits, nuts, vegetables; and dairy
- Portfolio diversification enhanced by loan participations and syndications
- Includes \$5.0 billion in agricultural export loans; 20% are U.S. government-guaranteed
- Includes \$3.4 billion leasing portfolio

## Financial Summary

(\$ in millions)	2017	2016	2015
Period-End Loans	\$30,304	\$28,660	\$26,131
Average Loans	\$29,241	\$27,563	\$24,872
Net Income	\$ 630	\$ 403	\$ 449
<i>Net income ex. tax adjustment</i>	\$ 432		
Nonaccrual Loans	\$ 213	\$ 207	\$ 88

## Portfolio Sectors



## Loan Quality

	2017	2016	2015
Acceptable	93.56%	94.08%	95.44%
Special Mention	3.54	3.51	2.86
Substandard	2.89	2.39	1.70
Doubtful	0.01	0.02	-
Loss	-	-	-

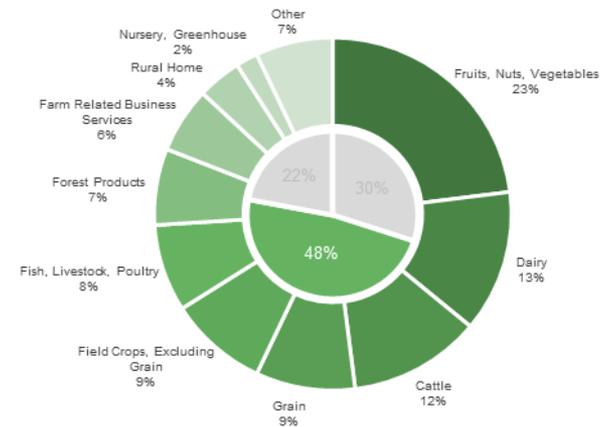
# Strategic Relationships Portfolio



## Portfolio Highlights

- \$47.9 billion wholesale loan portfolio at December 31, 2017
- Lending to 22 affiliated Farm Credit associations serving a diversified agricultural customer base in the Northwest, West, Southwest, Rocky Mountain, Mid-Plains, and Northeast regions of the United States
- Affiliates serve over 70,000 farmers, ranchers and other rural borrowers
- Includes \$4.9 billion of participations in other Farm Credit Banks' wholesale loans to their affiliated associations, primarily with Farm Credit Bank of Texas

## Portfolio Sectors



## Financial Summary

(\$ in millions)	2017	2016	2015
Period-End Loans	\$47,948	\$45,994	\$43,358
Average Loans	\$46,074	\$43,924	\$40,414
Net Income	\$ 262	\$ 245	\$ 242
Nonaccrual Loans	\$ -	\$ -	\$ -

## Loan Quality

	2017	2016	2015
Acceptable	99.02%	100%	100%
Special Mention	0.98	-	-
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-

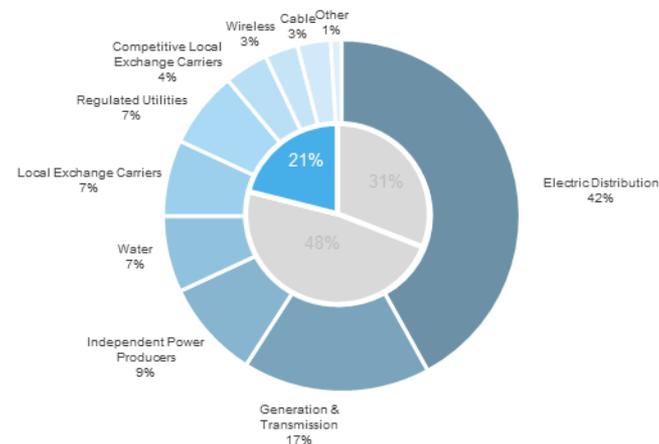
# Rural Infrastructure Portfolio



## Portfolio Highlights

- \$21.0 billion retail loan portfolio at December 31, 2017
- Broad geographic dispersion of rural infrastructure customers
- Customers provide vital rural services and include: rural electric generation and transmission cooperatives, electric distribution cooperatives, power supply companies, project finance companies, rural communications companies, water companies and rural community facilities

## Portfolio Sectors



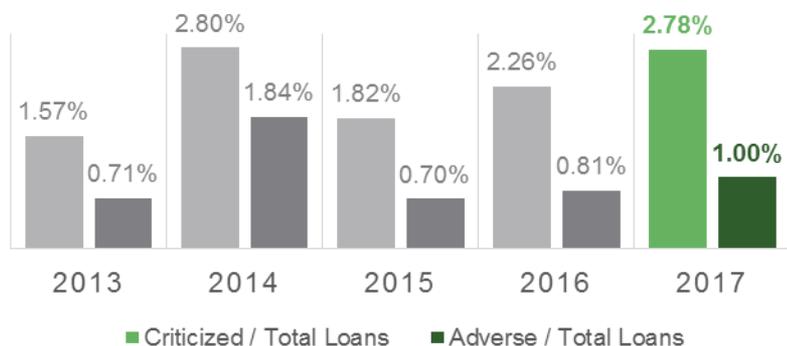
## Financial Summary

(\$ in millions)	2017	2016	2015
Period-End Loans	\$21,014	\$20,604	\$19,552
Average Loans	\$20,732	\$20,092	\$17,770
Net Income	\$ 241	\$ 308	\$ 255
<i>Net income ex. tax adjustment</i>	\$ 297		
Nonaccrual Loans	\$ 34	\$ -	\$ 69

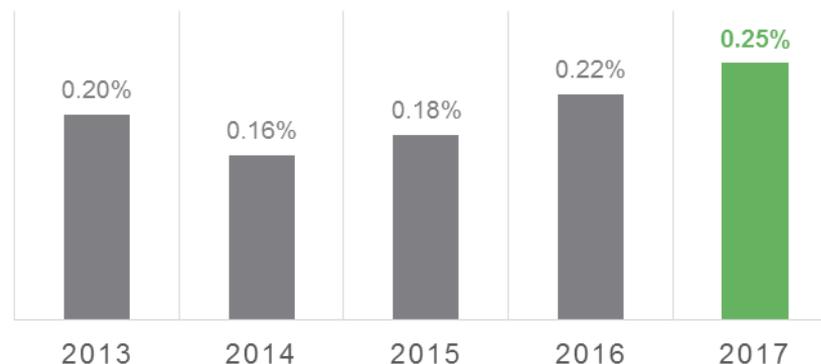
## Loan Quality

	2017	2016	2015
Acceptable	98.40%	97.79%	97.79%
Special Mention	1.05	1.84	1.29
Substandard	0.55	0.37	0.92
Doubtful	-	-	-
Loss	-	-	-

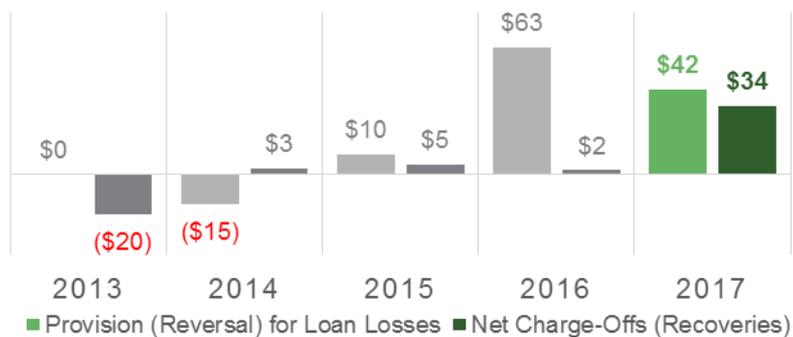
*Criticized / Total Loans & Adverse / Total Loans*



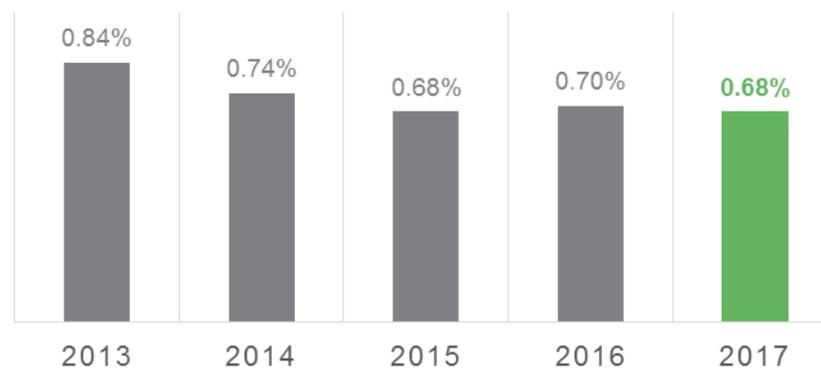
*Nonaccrual Loans / Total Loans*



*Provision (Reversal) for Loan Losses & Net Charge-Offs (Recoveries) (\$ in Millions)*



*Allowance for Credit Losses / Total Loans*



## Summary

- CoBank is not authorized to accept deposits and sources its funding largely through senior unsecured Farm Credit System debt securities
- Broad, consistent access to capital markets through business and economic cycles due to Farm Credit's GSE status
- Liquidity position = days into the future we could meet maturing debt obligations by using cash and eligible investments
  - Bank-established minimum is 150 days
  - Actual liquidity was 176 days at December 31, 2017
- Preferred stock provides additional risk-bearing capacity

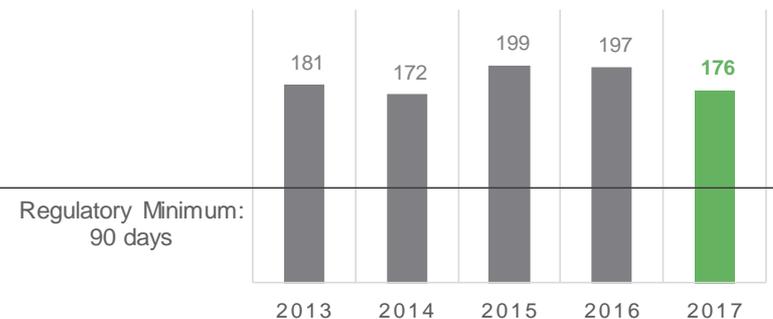
## Debt (\$ in Millions) <sup>(1)</sup>

Type	Amount	% of Debt	Avg. Maturity (in years)
Discount Notes	\$16,124	13.6%	0.4
Bonds – Noncallable	92,170	77.9%	3.0
Designated Bonds – Noncallable	775	0.7%	0.3
Bonds – Callable, Other	8,344	7.0%	4.3
S/T Customer Investments and Other	993	0.8%	0.1
	<b>\$118,406</b>	<b>100.0%</b>	<b>2.7</b>

## Equity (\$ in Millions) <sup>(1)</sup>

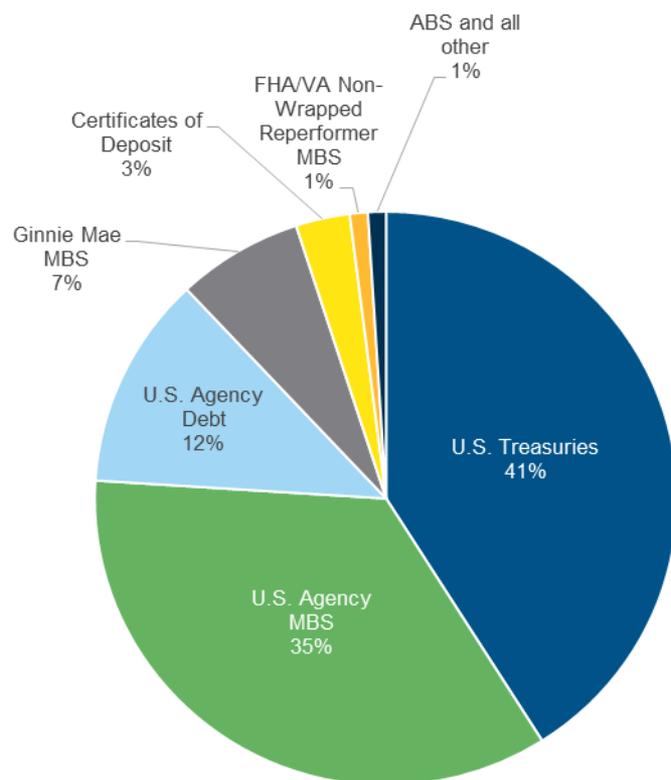
Type	Amount	% of Equity
Preferred Stock:		
Series E	\$225	2.5%
Series F	400	4.4%
Series G	200	2.2%
Series H	300	3.3%
Series I	375	4.1%
Common Stock	3,240	35.8%
Unallocated Retained Earnings	4,552	50.2%
Accumulated Other Comprehensive Loss	(232)	(2.5)%
	<b>\$9,060</b>	<b>100.0%</b>

## Total Days Liquidity (as of period end)



(1) As of December 31, 2017

Total \$26.9 Billion (as of December 31, 2017)



## Summary

- \$26.9 billion market-diversified portfolio plus \$1.3 billion of cash and cash equivalents and \$1.0 billion in Federal Funds Sold and Other Overnight Funds as of December 31, 2017
- Largely composed of securities issued or guaranteed by GSEs or U.S. government
- Cash flow average life of 3.6 years and duration of 2.5 years

(\$ in Millions)

Type	Fair Value
U.S. Treasuries	\$11,029
U.S. Agency MBS	9,295
U.S. Agency Debt	3,356
Ginnie Mae MBS	1,856
Certificates of Deposit	775
FHA/VA Non-Wrapped Reperformer MBS	257
ABS and all other	302
<b>Total</b>	<b>\$26,870</b>

## Summary

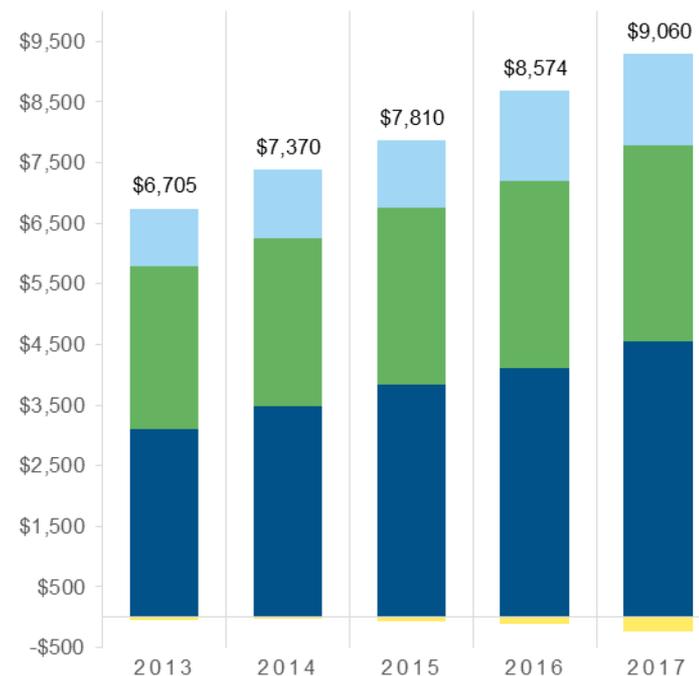
- CoBank adopted the Farm Credit Administration's new capital regulations on January 1, 2017
- Capital ratios exceed required regulatory minimums
- Assures continued viability and capacity to meet our customers' borrowing needs
- Preferred stock provides additional layer of risk-bearing capacity

## Capital Ratios

	December 31, 2017			
	Regulatory Minimum	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 (CET1) Capital Ratio	4.5%	11.67%	7.17%	2.5% *
Tier 1 Capital Ratio	6.0	13.97	7.97	2.5 *
Total Capital Ratio	8.0	15.24	7.24	2.5 *
Tier 1 Leverage Ratio	4.0	7.26	3.26	1.0
Unallocated Retained Earnings (URE) and URE Equivalent Leverage Ratio	1.5	2.96	n/a	n/a
Permanent Capital Ratio	7.0	14.29	n/a	n/a

\* Reflects fully-phased in buffer

## Shareholders' Equity (\$ in Millions)



Preferred Stock	\$ 962	\$ 1,125	\$ 1,125	\$ 1,500	\$ 1,500
Common Stock	\$ 2,677	\$ 2,769	\$ 2,900	\$ 3,072	\$ 3,240
Retained Earnings	\$ 3,104	\$ 3,482	\$ 3,846	\$ 4,121	\$ 4,552
Other Comprehensive Loss	\$ (38)	\$ (6)	\$ (61)	\$ (119)	\$ (232)

# Patronage

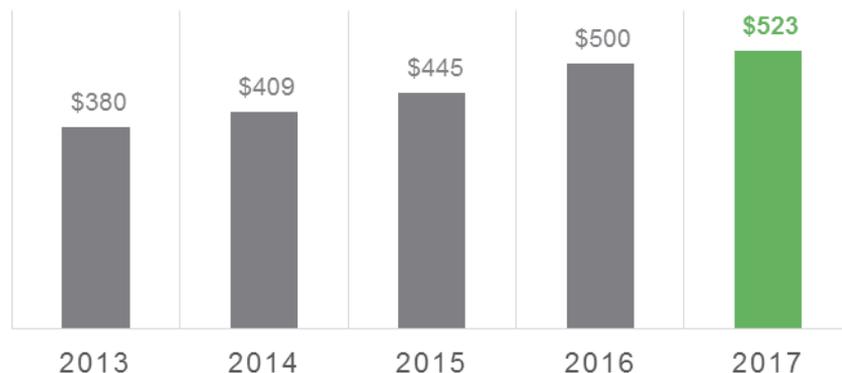
## Summary

- Cooperatives and other directly eligible borrowers earned 100 basis points of patronage based on average qualifying loan volume for the year
  - 75 bps paid in cash
  - 25 bps paid in equity
- Affiliated associations earned 45 basis points of cash patronage under a separate capital plan
- Non-eligible customers do not earn patronage
- In August 2017, we announced changes to our capital plans and patronage programs which will begin to take effect in 2018

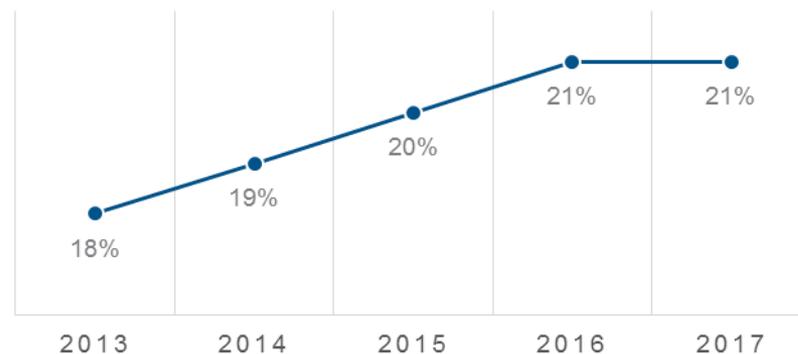
## Patronage (\$ in Millions)



## Total Cash Payouts (\$ in Millions)



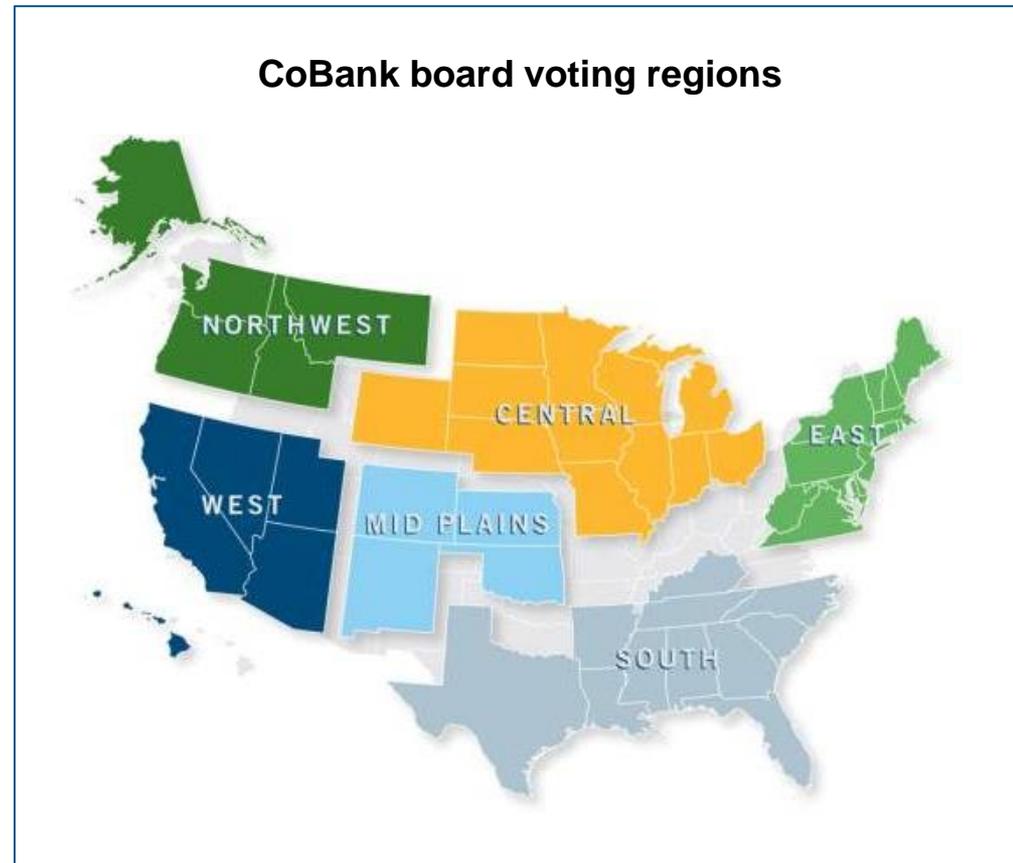
## Return on Active Patron Investment





**Brandon Wittman**  
Northwest Region  
One stockholder, one vote  
seat

- Governance bylaw changes approved by CoBank shareholders in 2015
- Board is being gradually downsized to 14 elected directors in 2020
  - Up to four appointed directors
  - Two outside, independent directors
- Six voting regions
- Board leadership transition in 2018



# Regional Customer Meetings



Date	Location
March 8-9	Napa, CA
March 12-13	Minneapolis, MN
March 15-16	Bloomington-Normal, IL
March 21-22	Wichita, KS
March 27-28	Fargo, ND
April 4-5	Amelia Island, FL
April 12-13	Austin, TX

# Thank You

## David Burlage

Chief Financial Officer

303-740-6464

[dburlage@cobank.com](mailto:dburlage@cobank.com)

[Investor Contact](#)

## Arthur Hodges

Senior Vice President,  
Corporate Communications

303-740-4061

[ahodges@cobank.com](mailto:ahodges@cobank.com)

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