

# CoBank Investor Presentation

December 31, 2018

Proud Member of the  
Farm Credit System 

 **COBANK**

# Summary Financial Results

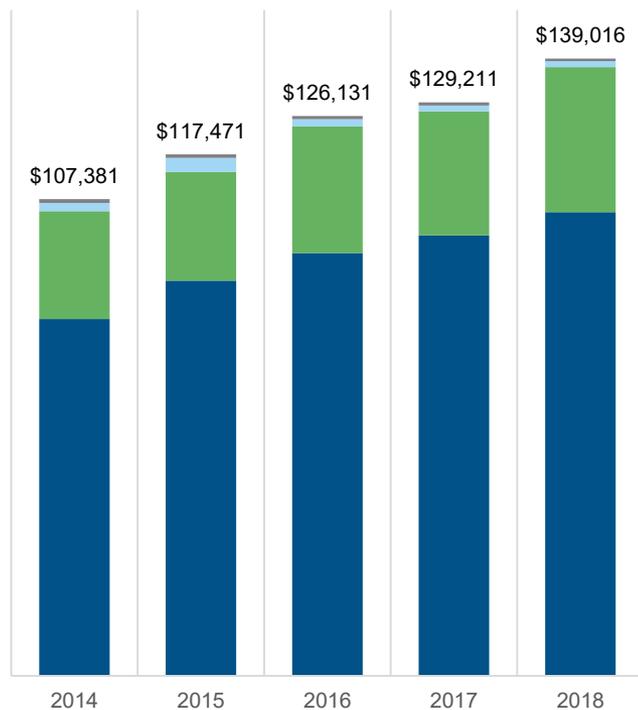
	For the Year Ended December 31,		
(\$ in millions)	2017	2018	YoY%
Interest income	\$ 3,141	\$ 4,031	28%
Interest expense	1,748	2,600	-49%
<i>Net interest income</i>	<i>1,393</i>	<i>1,431</i>	<i>3%</i>
Provision for loan losses	42	66	-57%
<i>Net interest income after provision for loan losses</i>	<i>1,351</i>	<i>1,365</i>	<i>1%</i>
Noninterest income	175	290	66%
Operating expenses	386	364	6%
<i>Income before income taxes</i>	<i>1,140</i>	<i>1,291</i>	<i>13%</i>
Provision for income taxes*	15	100	-567%
<i>Net income</i>	<i>\$ 1,125</i>	<i>\$ 1,191</i>	<i>6%</i>
Return on average common equity	14.20 %	14.60 %	3%
Net interest margin	1.12 %	1.09 %	-3%
Return on average assets	0.89 %	0.90 %	1%
Operating expense ratio**	20.11 %	20.27 %	-1%

\* Reflects the impact of \$142 million and \$16 million of income tax benefit recorded in 2017 and 2018, respectively, resulting from the enactment of federal tax reform in late 2017.

\*\* Excludes Insurance Fund premiums

# Balance Sheet Trends

## Assets (\$ in Millions)

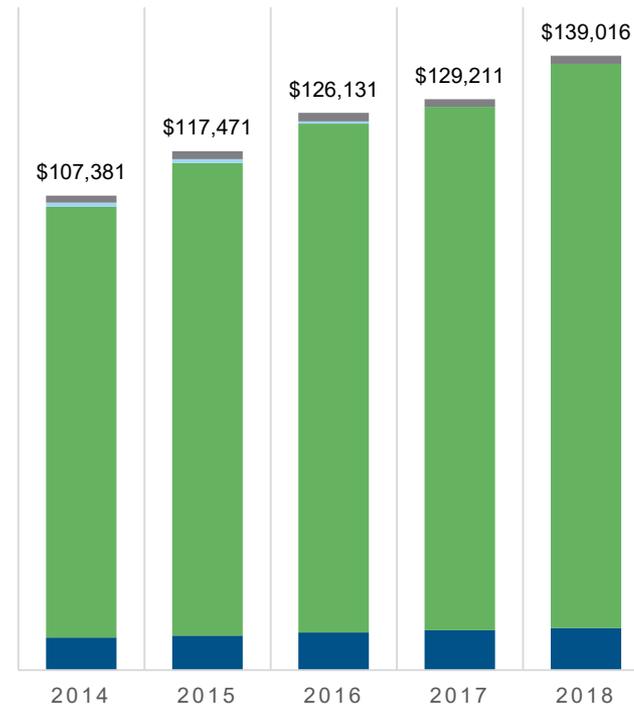


	2014	2015	2016	2017	2018
Other	\$ 823	\$ 813	\$ 697	\$ 726	\$ 562
Cash*	\$ 1,856	\$ 3,113	\$ 1,661	\$ 1,314	\$ 1,368
Investments **	\$ 24,320	\$ 24,504	\$ 28,515	\$ 27,905	\$ 32,592
Gross Loans	\$ 80,382	\$ 89,041	\$ 95,258	\$ 99,266	\$ 104,494

\*Represents Cash and Cash Equivalents

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

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

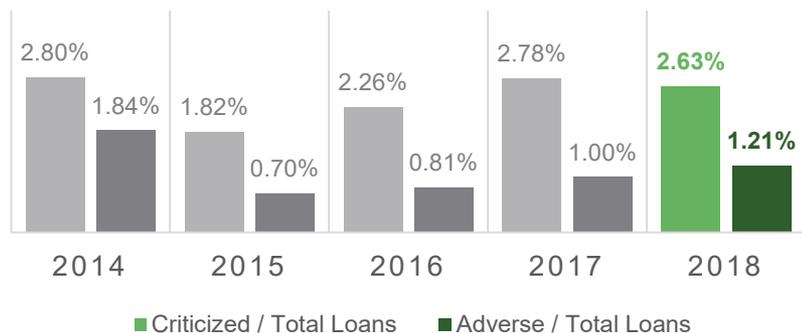


	2014	2015	2016	2017	2018
Other	\$ 1,574	\$ 1,788	\$ 1,972	\$ 1,745	\$ 1,849
Subordinated Debt	\$ 902	\$ 903	\$ 499	\$ -	\$ -
Bonds & Notes	\$ 97,535	\$ 106,970	\$ 115,086	\$ 118,406	\$ 127,632
Shareholders' Equity	\$ 7,370	\$ 7,810	\$ 8,574	\$ 9,060	\$ 9,535

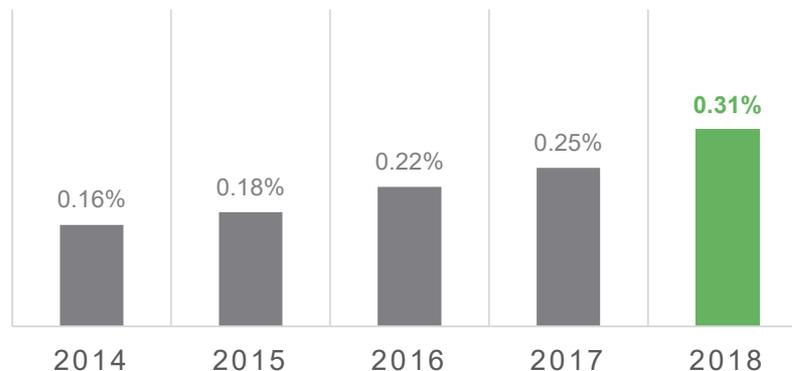


# Loan Quality

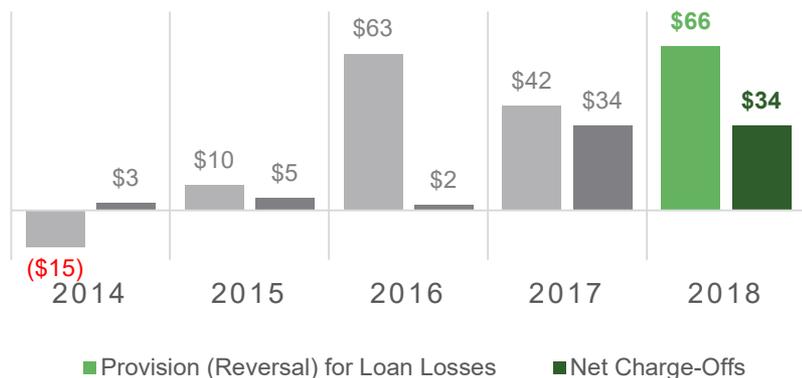
*Criticized / Total Loans & Adverse / Total Loans*



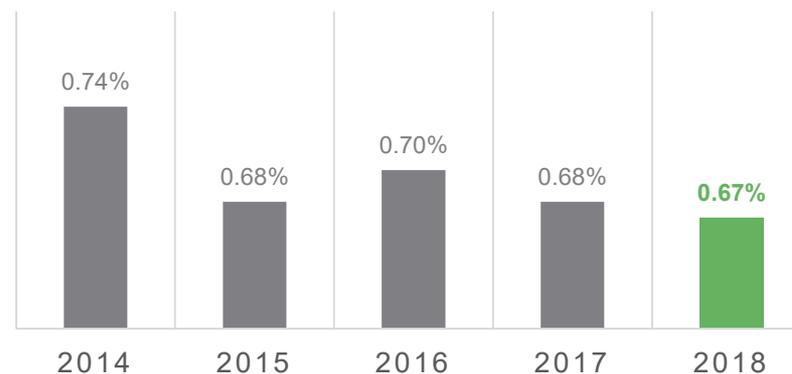
*Nonaccrual Loans / Total Loans*



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

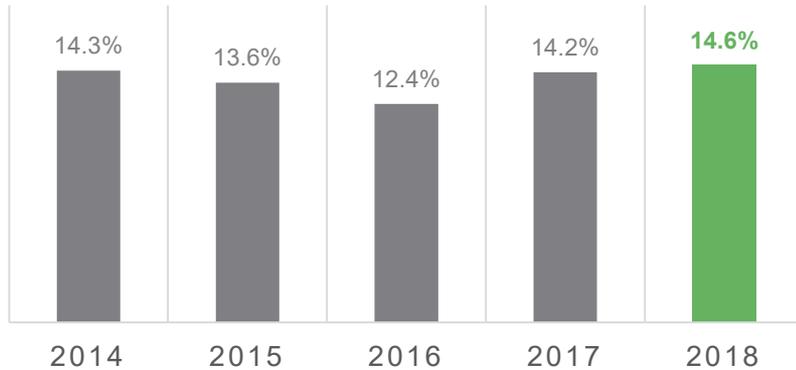


*Allowance for Credit Losses / Total Loans*

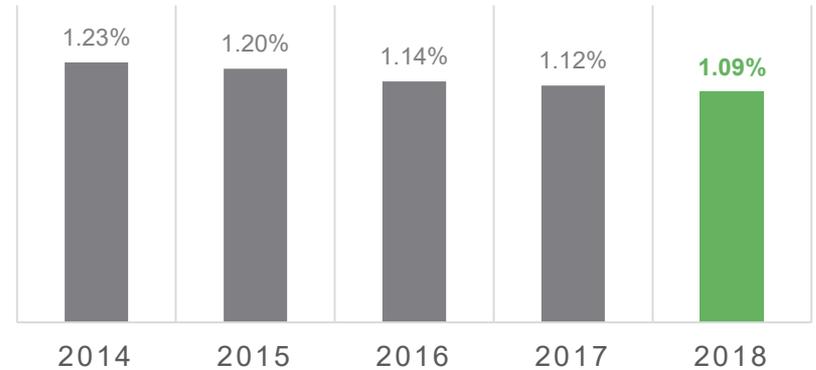


# Profitability and Efficiency

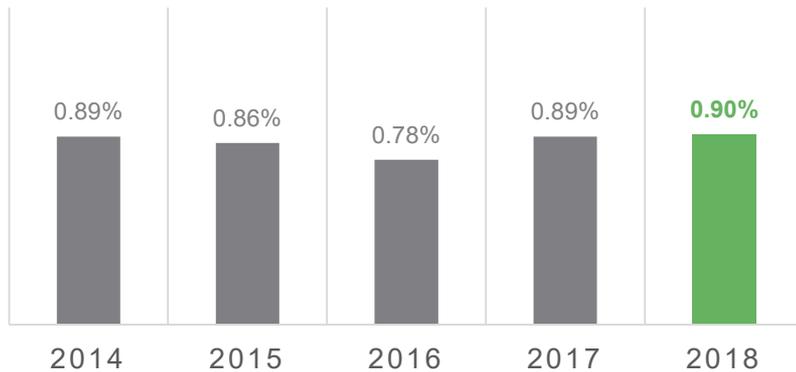
*Return on Average Common Equity*



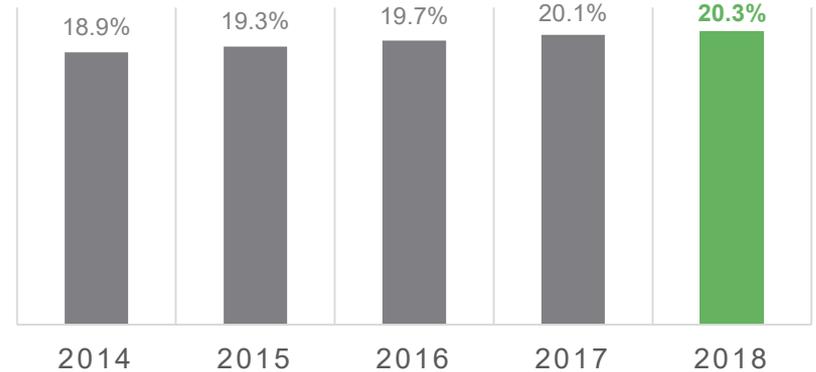
*Net Interest Margin*



*Return on Average Assets*



*Operating Expense Ratio Excluding Insurance Fund Premiums*



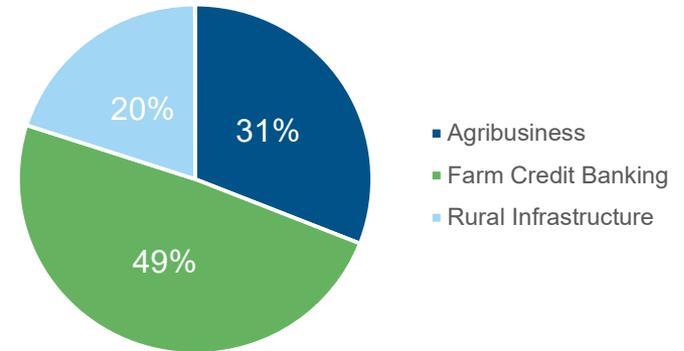
# Operating Segments

## Summary

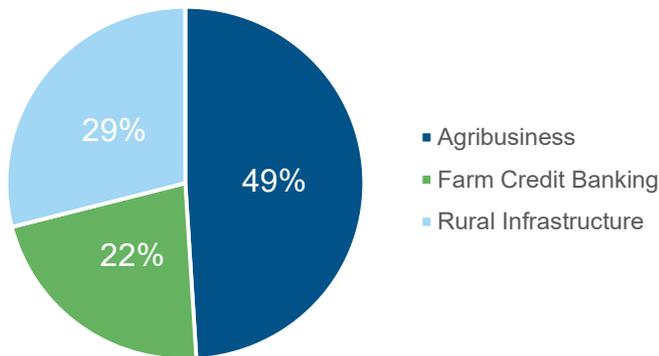
- Three operating segments (Agribusiness, Farm Credit Banking\* and Rural Infrastructure)
- Over \$104 billion in total loan volume
- Lower income in Farm Credit Banking operating segment reflects narrower margins and lower risk profile from wholesale loans

\* In 2018, the Strategic Relationships operating segment was renamed the Farm Credit Banking operating segment

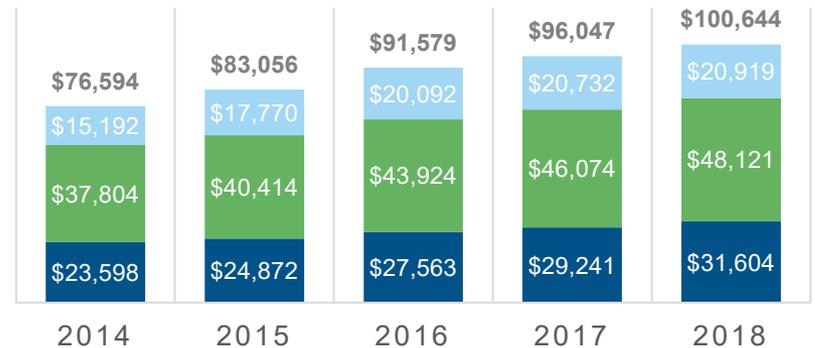
## Loan Volume – \$104.5 Billion at December 31, 2018



## Net Income – \$1.191 Billion



## Average Loan Volume (\$ in Millions)



# Agribusiness Portfolio

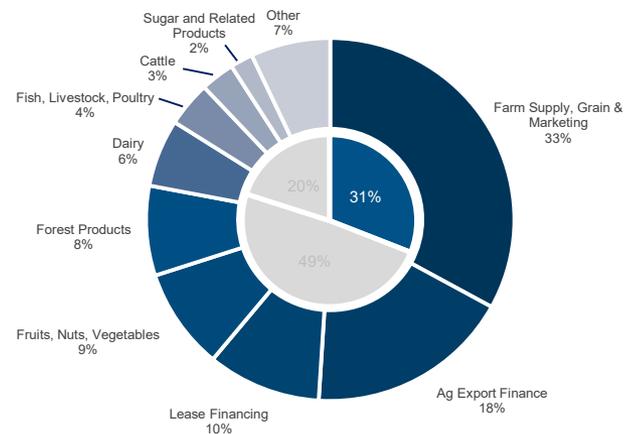
## Portfolio Highlights

- \$32.4 billion retail loan portfolio at December 31, 2018
- 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 \$5.8 billion in agricultural export loans; 18% are U.S. government-guaranteed
- Includes \$3.4 billion leasing portfolio

## Financial Summary

(\$ in millions)	2018	2017	2016
Period-End Loans	\$ 32,432	\$ 30,304	\$ 28,660
Average Loans	\$ 31,604	\$ 29,241	\$ 27,563
Net Income	\$ 583	\$ 630	\$ 403
Nonaccrual Loans	\$ 288	\$ 213	\$ 207

## Portfolio Sectors



## Loan Quality

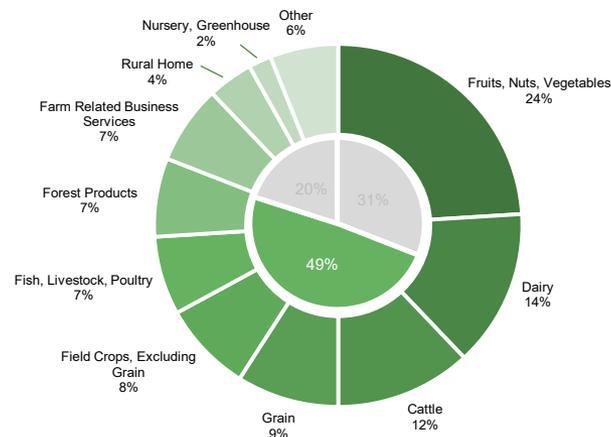
	2018	2017	2016
Acceptable	94.40%	93.56%	94.08%
Special Mention	2.69	3.54	3.51
Substandard	2.89	2.89	2.39
Doubtful	0.02	0.01	0.02
Loss	-	-	-

# Farm Credit Banking Portfolio

## Portfolio Highlights

- \$50.7 billion wholesale loan portfolio at December 31, 2018
- 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)	2018	2017	2016
Period-End Loans	\$ 50,695	\$ 47,948	\$ 45,994
Average Loans	\$ 48,121	\$ 46,074	\$ 43,924
Net Income	\$ 264	\$ 262	\$ 245
Nonaccrual Loans	\$ -	\$ -	\$ -

## Loan Quality

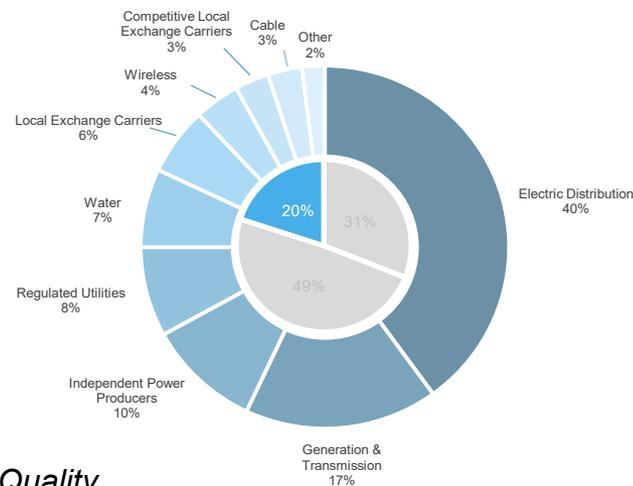
	2018	2017	2016
Acceptable	98.95%	99.02%	100%
Special Mention	0.93	0.98	-
Substandard	0.12	-	-
Doubtful	-	-	-
Loss	-	-	-

# Rural Infrastructure Portfolio

## Portfolio Highlights

- \$21.4 billion retail loan portfolio at December 31, 2018
- 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)	2018	2017	2016
Period-End Loans	\$ 21,367	\$ 21,014	\$ 20,604
Average Loans	\$ 20,919	\$ 20,732	\$ 20,092
Net Income	\$ 349	\$ 241	\$ 308
Nonaccrual Loans	\$ 38	\$ 34	\$ -

## Loan Quality

	2018	2017	2016
Acceptable	98.08%	98.40%	97.79%
Special Mention	0.65	1.05	1.84
Substandard	1.27	0.55	0.37
Doubtful	-	-	-
Loss	-	-	-

# Capital Position

## Summary

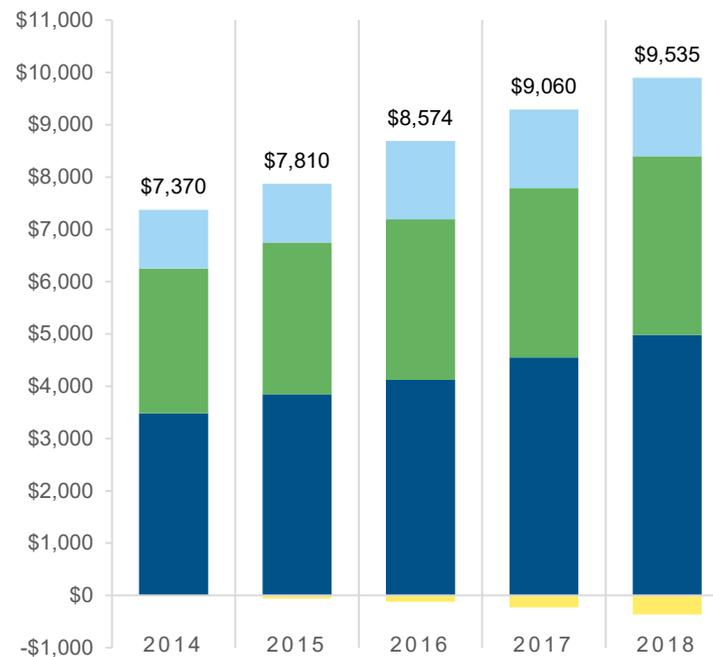
- Capital ratios exceed required regulatory minimums
- Assures continued viability and capacity to meet our customers' borrowing needs
- Preferred stock provides additional layer of risk-bearing capacity

## Capital Ratios

	December 31, 2018			
	Regulatory Minimum	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 (CET1) Capital Ratio	4.5 %	12.38 %	7.88 %	2.5 % *
Tier 1 Capital Ratio	6.0	14.57	8.57	2.5 *
Total Capital Ratio	8.0	15.58	7.58	2.5 *
Tier 1 Leverage Ratio	4.0	7.53	3.53	1.0
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5	3.19	n/a	n/a
Permanent Capital Ratio	7.0	14.69	n/a	n/a

\* Reflects fully-phased in buffer

## Shareholders' Equity (\$ in Millions)



Preferred Stock	\$ 1,125	\$ 1,125	\$ 1,500	\$ 1,500	\$ 1,500
Common Stock	\$ 2,769	\$ 2,900	\$ 3,072	\$ 3,240	\$ 3,416
Retained Earnings	\$ 3,482	\$ 3,846	\$ 4,121	\$ 4,552	\$ 4,982
Other Comprehensive Loss	\$ (6)	\$ (61)	\$ (119)	\$ (232)	\$ (363)

# Patronage

## Summary

- Patronage is a key part of the value proposition we provide our eligible customer-owners
- In 2017, we announced changes to our capital plans and patronage programs. These changes began to take effect in 2018 for patronage to be paid in 2019
- In 2018, we made a special cash patronage distribution of \$96.2 million to customer-owners

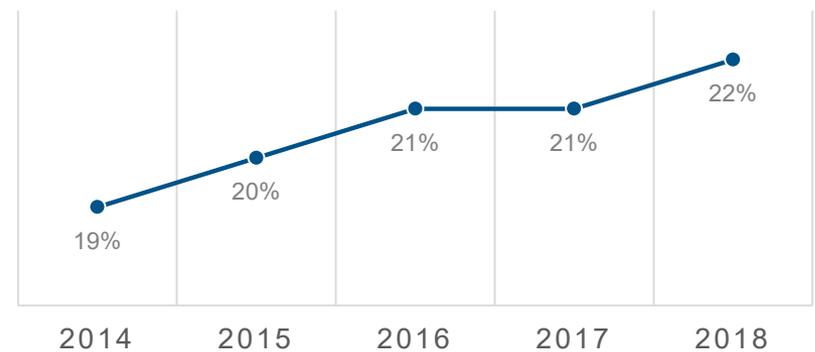
## Patronage (\$ in Millions)



## Total Cash Payouts (\$ in Millions)



## Return on Active Patron Investment



# Funding

## 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
  - Rated Aaa/P-1 (Moody's), AAA/F1+ (Fitch) & AA+/A-1+ (S&P)
  - Includes bonds and discount notes
  - Joint and several liability of all System banks
- Favorable spreads relative to U.S. Treasuries

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

Type	Amount	% of Equity
Preferred Stock:		
Series E	\$225	2.4%
Series F	400	4.2%
Series G	200	2.1%
Series H	300	3.1%
Series I	375	3.9%
Common Stock	3,416	35.8%
Unallocated Retained Earnings	4,982	52.2%
Accumulated Other Comprehensive Loss	(363)	-3.7%
	<b>\$9,535</b>	<b>100.0%</b>

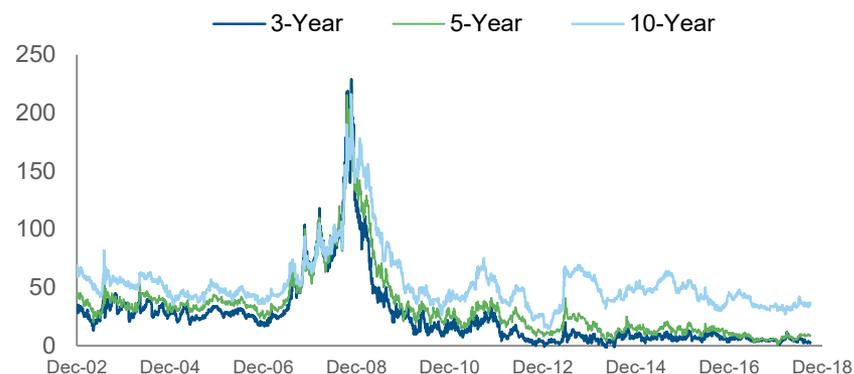
(1) As of December 31, 2018

(2) Weighted average interest rates include the effect of related derivatives.

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

Type	Amount	% of Debt	Avg. Maturity (in years)	Weighted Avg. Rate <sup>(2)</sup>
Discount Notes	\$14,243	11.2%	0.4	2.41%
Bonds – Noncallable	102,673	80.4%	2.8	2.38%
Bonds – Callable, Other	9,733	7.6%	4.1	2.21%
S/T Customer Investments and Other	983	0.8%	0.1	1.41%
	<b>\$127,632</b>	<b>100.0%</b>	<b>2.6</b>	<b>2.37%</b>

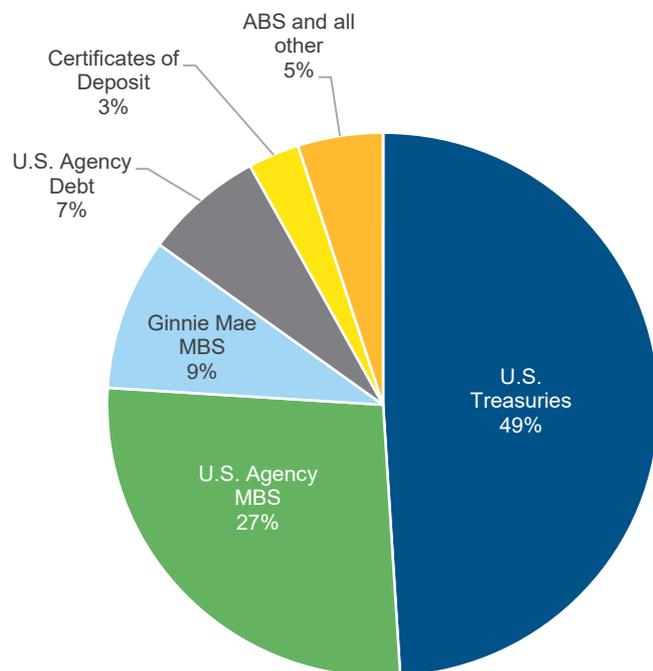
## Farm Credit System Spreads to U.S. Treasuries (Basis Points)



# Investment Portfolio

## Total Investment Securities of \$31.3 Billion

(as of December 31, 2018)



## Summary

- \$31.3 billion market-diversified portfolio plus \$1.4 billion of cash and cash equivalents and \$1.3 billion in Federal Funds Sold and Other Overnight Funds as of December 31, 2018
- Largely composed of securities issued or guaranteed by GSEs or U.S. government
- Cash flow average life of 3.2 years and duration of 2.1 years
- Earns average spread of approximately 16 basis points
- 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 177 days at December 31, 2018
  - CoBank's long-term debt to loans was approximately 66% as of December 31, 2018

(\$ in Millions)

Type	Fair Value
U.S. Treasuries	\$15,268
U.S. Agency MBS	8,395
Ginnie Mae MBS	2,940
U.S. Agency Debt	2,239
Certificates of Deposit	975
ABS and all other	1,475
<b>Total</b>	<b>\$31,292</b>