NEWS RELEASE

COBANK REPORTS SECOND QUARTER FINANCIAL RESULTS

Average Loan Volume Increased 6 Percent to $101.1 Billion

Net Interest Income Increased 7 Percent to $372.6 Million

Net Income Increased 39 Percent to $361.4 Million

DENVER (August 6, 2018) — CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, today announced financial results for the second quarter and first six months of 2018.

Average loan volume rose 6 percent to $101.1 billion in the second quarter of 2018, from $95.4 billion in the same period last year. For the first six months of 2018, average loan volume rose 5 percent to $101.4 billion, from $96.7 billion in the same period last year. The increases resulted primarily from growth in lending to grain and farm supply cooperatives and to affiliated Farm Credit associations.

Net interest income increased 7 percent to $372.6 million in the second quarter of the year, from $347.2 million in the same period last year. For the first six months of the year, net interest income increased 6 percent to $743.6 million, compared to $703.3 million for the first six months of 2017. The increases were driven primarily by higher average loan volume, as well as increased earnings on invested capital due to higher interest rates.

Net income increased 39 percent to $361.4 million in the second quarter of 2018, compared to $259.8 million in the second quarter of 2017, primarily due to increases in noninterest income and net interest income as well as a lower provision for income taxes, reduction in the provision for loan losses and a decrease in operating expenses. Noninterest income increased $45.1 million, largely due to gains recognized on the sale of investment securities. These securities, which were acquired through the bank's 2012 merger with U.S. AgBank, were sold to manage credit exposure and to take advantage of favorable market conditions. Income tax expense declined by $15.6 million due to a favorable adjustment related to federal tax legislation enacted in December 2017. A $10 million loan loss reversal was recorded during the second quarter of 2018 while no loan provision or reversal was recorded in the second quarter of 2017. Operating expenses declined primarily due to a reduction in Farm Credit insurance premiums.

For the first six months of 2018, net income rose 24 percent to $645.8 million from $522.6 million in the same period of 2017. As described above, the increase in earnings for the first six months of the year also reflected increases in noninterest income and net interest income as well as a lower provision for income taxes and a decrease in operating expenses. In addition, net income for the first six months of the year also benefited from the return of $35 million in excess insurance funds from the Farm Credit System Insurance Corporation during the first quarter. These positive factors were somewhat offset by a higher provision for loan losses during the first six months of 2018. CoBank recorded a $40 million provision for loan losses for the first half of 2018, compared to $15 million in the prior-year period, due to specific reserves for a small number of agribusiness and rural infrastructure customers, overall credit quality deterioration and growth in average loan volume.

“In both the second quarter and year-to-date periods, CoBank benefited from non-recurring items that significantly enhanced our earnings,” said Thomas Halverson, president and chief executive officer. “At the same time, the underlying performance of our core business was also strong, reflecting solid growth in loan volume and slightly higher margins. We are pleased with our results so far this year and remain focused on serving our customers with excellence and fulfilling our mission in rural America.”

Net interest margin for the second quarter rose to 1.13 percent from 1.11 percent a year ago. For the first half of 2018, net interest margin increased to 1.14 percent from 1.12 percent for the same 2017 period. The improvements in margin primarily reflected increased levels of seasonal lending to grain and farm supply customers as well as increased earnings on invested capital.

“We have now had six months of slightly better margins after several years of margin declines caused by prolonged low interest rates, intense competition in the banking industry and other factors,” said David P. Burlage, CoBank’s chief financial officer. “While the increases in 2018 have primarily been due to the mix of our loan volume, we are encouraged by the stabilization we’ve seen and hopeful that market conditions will allow for continued margin improvement.”

The bank recorded a $40 million provision for loan losses for the first half of 2018 compared to $15 million in the prior-year period, due to specific reserves for a small number of agribusiness and rural infrastructure customers, overall credit quality deterioration and growth in average loan volume.

Credit quality in the bank’s loan portfolio remains strong, despite stresses in the rural economy from low commodity prices and other factors affecting rural industries. Nonaccrual loans increased to $400.1 million as of June 30, 2018, from $246.8 million at December 31, 2017, primarily due to a small number of agribusiness loans and a project finance loan. At quarter-end, 1.03 percent of CoBank’s loans were classified as adverse assets, compared to 1.00 percent at December 31, 2017. The bank’s allowance for credit losses totaled $704.1 million at quarter-end, or 1.40 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

The bank’s capital levels remained well in excess of regulatory minimums. As of June 30, 2018, shareholders’ equity totaled $9.1 billion, and the bank’s total capital ratio was 15.02 percent, compared with the 8.0 percent (10.5 percent inclusive of the fully phased-in capital conservation buffer) minimum established by the Farm Credit Administration, the bank’s independent regulator. At quarter-end, the bank held approximately $31.8 billion in cash, investments and overnight funds and had 180 days of liquidity, which was in excess of regulatory liquidity requirements.

“We remain confident in the overall financial condition of the bank. Our board and management team, in addition to our more than 1,000 associates, maintain a resolute focus on providing dependable credit and other financial services that our customers need,” Halverson said. “The bank also continues to invest in the people, processes and systems required to further support and enhance our ability to serve our customers and deliver value over the long term.”

About CoBank

CoBank is a $131 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's website at cobank.com.

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COBANK, ACB
CONSOLIDATED FINANCIAL STATEMENT INFORMATION
($ in millions)

BALANCE SHEET INFORMATION

	June 30, 2018 (Unaudited)	December 31, 2017
Loans	$ 98,736	$ 99,266
Less: Allowance for loan losses	622	577
Net loans	98,114	98,689
Cash	208	1,314
Federal funds sold and other overnight funds	850	1,035
Investment securities	30,783	26,870
Interest rate swaps and other financial instruments	257	181
Accrued interest receivable and other assets	989	1,122
Total assets	$ 131,201	$ 129,211
Bonds and notes	$ 120,508	$ 118,406
Interest rate swaps and other financial instruments	173	87
Reserve for unfunded commitments	82	94
Accrued interest payable and other liabilities	1,338	1,564
Total liabilities	122,101	120,151
Shareholders' equity	9,100	9,060
Total liabilities and shareholders' equity	$ 131,201	$ 129,211

STATEMENT OF INCOME INFORMATION

For the three months ended June 30,	2018	2017
	(Unaudited)	
Interest income	$ 1,014	$ 770
Interest expense	641	423
Net interest income	373	347
Loan loss reversal	(10)	-
Net interest income after loan loss reversal	383	347
Noninterest income	94	49
Operating expenses	89	93
Provision for income taxes	27	43
Net income	$ 361	$ 260

STATEMENT OF INCOME INFORMATION

For the six months ended June 30,	2018	2017
	(Unaudited)	
Interest income	$ 1,943	$ 1,508
Interest expense	1,199	805
Net interest income	744	703
Provision for loan losses	40	15
Net interest income after provision for loan losses	704	688
Noninterest income	176	104
Operating expenses	173	186
Provision for income taxes	61	83
Net income	$ 646	$ 523