



## NEWS RELEASE

### CoBank Reports Full-Year Financial Results for 2018

*Average Loan Volume Increased 5 Percent to \$100.6 Billion*

*Net Income Increased 6 Percent to \$1.2 Billion*

*2018 Patronage Distributions Will Total A Record \$700 Million*

**DENVER (February 22, 2019)** — CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, today announced financial results for the full year and fourth quarter of 2018.

CoBank's average loan volume for 2018 increased 5 percent to \$100.6 billion, reflecting increased lending across all three of the bank's operating segments. Net interest income increased 3 percent to \$1.431 billion, driven primarily by higher average loan volume. Full-year net income rose 6 percent to \$1.191 billion.

"We're extremely pleased with our financial performance for the year," said Thomas Halverson, CoBank's president and chief executive officer. "We grew the size of our loan portfolio to more than \$100 billion by continuing to meet the borrowing needs of our customers in a challenging period for the U.S. rural economy. At the same time, we delivered strong patronage returns to our customers and made significant investments in the business that will enhance the value of the enterprise for the long term."

Growth in net income reflected higher net interest income as well as a number of non-recurring items in both 2017 and 2018. In 2017, the bank recorded a \$142.3 million tax benefit due to the passage of federal tax legislation in that year. In 2018, the bank received a return of \$35 million in excess insurance funds from the Farm Credit System Insurance Corporation (FCSIC), and also recorded \$49 million in gains from the sale of investment securities acquired through the bank's merger with U.S. AgBank in 2012. Overall operating expenses were approximately \$22 million lower in 2018 due primarily to a reduction in FCSIC insurance premiums.

"Comparisons of net income are complicated this year by a number of unusual factors in 2018 as well as the prior year," said David P. Burlage, CoBank's chief financial officer. "That said, we are pleased that income from core lending operations was one of the primary drivers of earnings growth, reflecting underlying strength in our business."

For the fourth quarter of 2018, average loan volume increased 5 percent to \$101.7 billion as compared to the fourth quarter of 2017. Net interest income decreased 1 percent to \$346.6 million, primarily driven by lower lending spreads, somewhat offset by growth in overall loan volume. Net income for the quarter was \$253.6 million compared to \$391.1 million in the prior-year period. This decrease was primarily due to the aforementioned \$142.3 million income tax benefit recorded in the fourth quarter of 2017. Excluding the impact of this adjustment, net income increased \$4.8 million quarter over quarter.

Patronage for 2018 will total \$699.7 million, inclusive of the \$96.2 million all-cash special patronage payout made in September 2018 and \$603.5 million in regular cash and stock patronage to be distributed in March 2019.

“Patronage is a central component of the CoBank value proposition and one of the most powerful tangible benefits we deliver to eligible borrowers as a member-owned financial cooperative,” Halverson said. “We’re delighted with the level of patronage approved by our board of directors for 2018, which represented a 22.4 percent return on the average stock of active borrowers.”

CoBank’s net interest margin declined to 1.09 percent in 2018 from 1.12 percent in 2017, and interest rate spread decreased to 0.93 percent in 2018 from 1.00 percent in 2017. For the fourth quarter of 2018, net interest margin declined to 1.05 percent from 1.12 percent in the same period in 2017. For both the year and fourth quarter periods, the reduction in net interest margin and interest rate spread included the impact of lower earnings on balance sheet positioning, slightly lower loan spreads and lower fair value accretion income. The decreases in net interest margin were somewhat offset by an increase in earnings on invested capital.

“Over the past several years, CoBank has experienced margin compression due to a number of marketplace and other factors, including intense competition, low interest rates and the shape of the yield curve,” Burlage said. “From today’s vantage point, it is unclear whether we will see additional margin compression in our business in 2019. We will continue to manage our assets and liabilities to position the bank optimally for the current and anticipated interest rate environment.”

Credit quality in CoBank’s loan portfolio deteriorated in 2018 primarily due to marketplace stresses impacting a small number of borrowers in CoBank’s agribusiness and rural infrastructure operating segments. Nonetheless, overall credit quality remained stable by historical standards, reflecting the generally stable credit profile of the bank’s customer base. Nonaccrual loans totaled \$326.3 million, or 0.31 percent of total loans as of December 31, 2018, compared to \$246.8 million, or 0.25 percent of total loans, at the end of the prior year. The 10-year trailing average for this metric is 0.29 percent.

The bank recorded a \$66 million provision for loan losses during the year reflecting increases in specific reserves associated with a small number of customers in the bank’s agribusiness and rural infrastructure operating segments and due to overall loan growth, compared to a \$42 million provision in 2017. CoBank’s allowance for credit losses, which protects the bank’s capital base against losses embedded in its loan portfolio, totaled \$703.2 million at year-end, or 1.33 percent of nonguaranteed loans when wholesale loans to Farm Credit associations are excluded.

The bank’s capital and liquidity levels remain well in excess of regulatory minimums. As of December 31, 2018, shareholders’ equity was \$9.5 billion, and the bank’s total capital ratio was 15.58 percent, compared with the 8.0 percent minimum (10.5 percent inclusive of the fully phased-in capital conservation buffer) established by the Farm Credit Administration (FCA), the bank’s independent regulator. At year-end, the bank held approximately \$34 billion in cash and investments. The bank had 177 days of liquidity at the end of 2018, which exceeded the FCA minimum.

Halverson emphasized that CoBank’s strong business performance is enabling the bank to continuously improve its operating platform at the same time it is delivering robust financial returns to customer-owners. “As a relationship lender, we rely on both people and technology to fulfill our mission and deliver on our value proposition,” Halverson said. “We are focused on strengthening these important pillars of our business through significant investments that will benefit the bank and its customers going forward. Our board and executive team continue to work closely together to fulfill the mission of the bank and ensure it is well-positioned for future success.”

### **Customer Meetings, and 2018 Earnings Webcast and Conference Call**

CoBank will provide more information about its 2018 financial results at its annual series of regional customer meetings, which will take place in multiple cities around the country through April 2019. Managers and directors of any CoBank borrower are invited to attend these meetings, as are representatives of Farm Credit institutions. For complete details about the meeting program, please visit the bank’s events page at [www.cobank.com/events](http://www.cobank.com/events).

In addition, the bank will hold its annual year-end earnings conference call and webcast at 3:00 p.m. Eastern Time on Tuesday, February 26. The 60-minute call will feature a presentation of 2018 financial highlights and remarks from CoBank President and Chief Executive Officer Thomas Halverson, Chief Financial Officer David Burlage, and Board Chair Kevin Riel. Customer-owners and other participants will be able to submit questions during the call.

**To join via phone**, call 833-659-7625 and use passcode 692 6817. **To join via the Internet**, click [here](#) or visit the “Financial Information” section of the CoBank website.

### **About CoBank**

CoBank is a \$139 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](http://cobank.com).

### **Forward-Looking Statements**

Certain of the statements contained in this news release that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual future business may differ materially and adversely from our expectations expressed in any forward-looking statements. Forward-looking statements are typically identified by words such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “plan,” “project,” “target,” “may,” “will,” “should,” “would,” “could,” or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and subject to risks and uncertainties. We encourage you to read our Annual Report and Quarterly Reports located on the bank’s website at [www.cobank.com](http://www.cobank.com). We undertake no obligation to revise or publicly update our forward-looking statements for any reason.

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

**BALANCE SHEET INFORMATION**

	December 31, 2018	December 31, 2017
	(Unaudited)	
Loans	\$ 104,494	\$ 99,266
Less: Allowance for loan losses	622	577
Net loans	103,872	98,689
Cash and cash equivalents	1,368	1,314
Federal funds sold and other overnight funds	1,300	1,035
Investment securities	31,292	26,870
Interest rate swaps and other financial instruments	256	181
Accrued interest receivable and other assets	928	1,122
Total assets	<u>\$ 139,016</u>	<u>\$ 129,211</u>
Bonds and notes	\$ 127,632	\$ 118,406
Interest rate swaps and other financial instruments	155	87
Reserve for unfunded commitments	82	94
Accrued interest payable and other liabilities	1,612	1,564
Total liabilities	129,481	120,151
Shareholders' equity	9,535	9,060
Total liabilities and shareholders' equity	<u>\$ 139,016</u>	<u>\$ 129,211</u>

**STATEMENT OF INCOME INFORMATION**

For the year ended December 31,	2018	2017
	(Unaudited)	
Interest income	\$ 4,031	\$ 3,141
Interest expense	2,600	1,748
Net interest income	1,431	1,393
Provision for loan losses	66	42
Net interest income after provision for loan losses	1,365	1,351
Noninterest income	290	175
Operating expenses	364	386
Provision for income taxes	100	15
Net income	<u>\$ 1,191</u>	<u>\$ 1,125</u>