SECOND QUARTER FINANCIAL RESULTS | 2019

CoBank
COOPERATIVE. CONNECTED. COMMITTED.

KEY FINANCIAL DATA

($ in millions)

INCOME STATEMENT	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net interest income	$350	$373	$709	$744
(Loan loss reversal)/ provision for loan losses	(7)	(10)	21	40
Noninterest income	55	94	120	175
Operating expenses	98	88	191	173
Net income	280	361	552	646

BALANCE SHEET (period-end)	June 30, 2019	December 31, 2018
Total loans	$104,294	$104,494
Total assets	138,512	139,016
Shareholders' equity	10,249	9,535

PROFITABILITY METRICS	Six months ended June 30, 2019	Six months ended June 30, 2018
Net interest margin	1.04%	1.14%
Return on average common equity	12.33%	16.26%
Return on average assets	0.80%	0.98%
Operating expense ratio	21.47%	18.56%

CEO & CFO COMMENTARY

"We experienced a year-over-year decline in net income due to the effect of non-recurring items recorded in 2018 in combination with a number of marketplace trends that have impacted core earnings. That said, CoBank continues to generate robust earnings and remains in strong financial condition overall. We are investing in the business in order to build our long-term capabilities and enhance the value and level of service we provide to our customers."

– **Thomas Halverson,** President and CEO, CoBank

"We're pleased that credit quality for CoBank is strong despite some deterioration in the first half of the year due to stresses in the rural economy. The percentage of adverse assets in our loan portfolio remains in line with long-term averages, as does our level of non-accrual loans. In addition, we have a strong allowance for credit losses totaling over $720 million, which protects the bank and its capital base from losses inherent in our portfolio. We continue to monitor credit quality carefully while also working collaboratively with borrowers experiencing distress, consistent with our mission."

– **David Burlage,** CFO, CoBank

HIGHLIGHTS

- Average loan volume rose 3% in Q2 and 4% YTD and our loans outstanding totaled $104.3 billion
  - Loan growth primarily driven by lending across all three operating segments: affiliated Associations (Farm Credit Banking) and, to a much lesser extent, agricultural export finance and corporate finance (Agribusiness) and power and energy (Rural Infrastructure)
- Net income for Q2 was $279.9 million, compared to $361.4 million during Q2 2018. Net income for the first six months was $552.4 million, compared to $645.8 million in the same period last year
  - Decreases reflected non-recurring items in the first half of 2018, including the return of excess insurance funds from the Farm Credit System Insurance Corporation and significant gains from the sale of investment securities
  - Earnings were also impacted by marketplace trends including spread compression and the shape of the yield curve
- Net interest income for Q2 and YTD decreased 6% to $349.7 million and 5% to $709.4 million, respectively, driven by lower earnings on balance sheet positioning and lower spreads in our loan portfolio, partially offset by an increase in returns on invested capital and higher average loan volume
- Net interest margin YTD declined to 1.04%, which includes the impact of lower earnings on balance sheet positioning and lower spreads in our loan portfolio
- Credit quality remained generally favorable
- $21.0 million YTD provision for loan losses, which primarily reflects growth in Agribusiness lending activity, and deterioration in credit quality in our Rural Infrastructure operating segment and our Agribusiness operating segment
- Operating expenses YTD increased $18.0 million, primarily driven by an increase in employee compensation expense to support planned business initiatives and maintain high levels of customer service
  - As of June 30, 2019 and 2018, the bank had 1,092 and 1,039 employees, respectively
- Capital and liquidity levels in excess of regulatory minimums
  - Total capital ratio was 15.51%, compared with the 8.0% (10.5% inclusive of the fully phased-in capital conservation buffer) minimum established by the Farm Credit Administration, the bank's independent regulator
  - 170 days of liquidity

OPERATING SEGMENTS

($ in millions)

	Agribusiness		Rural Infrastructure		Farm Credit Banking	
Three months ended June 30,	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Average loan volume	$ 32,706	$ 32,848	$ 20,826	$ 20,895	$ 50,573	$ 47,348
Net income	148	172	74	98	58	92
Six months ended June 30,	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Average loan volume	$ 33,604	$ 33,244	$ 21,018	$ 20,968	$ 50,329	$ 47,161
Net income	284	305	155	188	114	153
Period-end loan volume June 30, 2019 and June 30, 2018	$ 32,239	$ 30,173	$ 20,872	$ 20,844	$ 51,183	$ 47,719

NET INTEREST MARGIN AND NET INTEREST INCOME

Net interest income decreased $34.2 million to $709.4 million for the six months ended June 30, 2019, compared to $743.6 million for the same prior-year period. The 5% decrease in net interest income was primarily driven by lower earnings on balance sheet positioning and lower overall spreads in our loan portfolio, partially offset by higher average loan volume and an increase in earnings on invested capital. Net interest margin declined to 1.04% for the first half of 2019 compared to 1.14% for the same period in 2018. The reduction in our net interest margin included the impact of lower earnings on balance sheet positioning and changes in asset mix, including increased lending to affiliated Associations and agricultural export finance customers and higher levels of investment securities, all of which have lower spreads commensurate with lower risk. Loan spreads also decreased due to continued competition for the business of our customers. These drivers were somewhat offset by an increase in earnings on invested capital which benefited net interest margin.

Net Interest Margin and Net Interest Income

Six months ended	June 30, 2019			June 30, 2018		
($ in millions)	Average Balance	Average Rate	Interest Income/Expense	Average Balance	Average Rate	Interest Income/Expense
Interest earning assets						
Loans	$ 104,951	3.70%	$ 1,928	$ 101,373	3.21%	$ 1,614
Investments	32,325	2.46%	394	30,313	2.19%	329
Total	137,276	3.41%	2,322	131,686	2.98%	1,943
Interest bearing liabilities	126,781	2.57%	1,613	122,057	1.98%	1,199
Interest rate spread		0.84%			1.00%	
Impact of equity financing	10,495	0.20%		9,629	0.14%	
Net interest margin & net interest income		1.04%	$ 709		1.14%	$ 744

CREDIT QUALITY

While the overall credit quality of our loan portfolio remains strong, we experienced deterioration during the first six months of 2019. We believe further deterioration could result from market factors impacting our customers, including an ongoing volatile agricultural commodity price environment, trade disputes between the United States and its trading partners, declining farm income and weather related events. Adverse assets totaled 1.32% of total loans compared to 1.21% at the end of last year. Nonaccrual loans improved slightly to $318.2 million at June 30, 2019, from $326.3 million at December 31, 2018. The bank's allowance for credit losses totaled $722.7 million, or 1.38% of non-guaranteed loans when loans to Farm Credit associations are excluded.

Loan Quality Ratios

	June 30, 2019			December 31, 2018		
	Wholesale Loans	Commercial Loans	Total	Wholesale Loans	Commercial Loans	Total
Acceptable	94.75%	95.13%	94.94%	98.95%	95.86%	97.37%
OAEM	5.14%	2.39%	3.74%	0.93%	1.88%	1.42%
Substandard	0.11%	2.48%	1.32%	0.12%	2.25%	1.20%
Doubtful	-	-	-	-	0.01%	0.01%
Loss	-	-	-	-	-	-
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

BALANCE SHEET INFORMATION

(period-end)

($ in millions)	June 30, 2019 (Unaudited)	December 31, 2018
Loans	$ 104,294	$ 104,494
Less: Allowance for loan losses	639	622
Net loans	103,655	103,872
Cash	203	1,368
Federal funds sold and other overnight funds	897	1,300
Investment securities	31,943	31,292
Interest rate swaps and other financial instruments	409	256
Accrued interest receivable and other assets	1,405	928
Total assets	$ 138,512	$ 139,016
Bonds and notes	$ 126,396	$ 127,632
Interest rate swaps and other financial instruments	262	155
Reserve for unfunded commitments	84	82
Accrued interest payable and other liabilities	1,521	1,612
Total liabilities	128,263	129,481
Shareholders' equity	10,249	9,535
Total liabilities and shareholders' equity	$ 138,512	$ 139,016

STATEMENT OF INCOME INFORMATION

($ in millions)	Three months ended June 30, 2019 (Unaudited)	Three months ended June 30, 2018 (Unaudited)	Six months ended June 30, 2019 (Unaudited)	Six months ended June 30, 2018 (Unaudited)
Interest income	$ 1,155	$ 1,014	$ 2,322	$ 1,943
Interest expense	805	641	1,613	1,199
Net interest income	350	373	709	744
(Loan loss reversal)/provision for loan losses	(7)	(10)	21	40
Net interest income after loan loss reversal/ provision for loan losses	357	383	688	704
Noninterest income	55	94	120	176
Operating expenses	98	88	191	173
Provision for income taxes	34	27	65	61
Net income	$ 280	$ 362	$ 552	$ 646

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 results 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. We undertake no obligation to revise or publicly update our forward-looking statements for any reason.

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 www.cobank.com.

MEDIA CONTACTS

Arthur Hodges

SVP Corporate Communications
303-740-4061
ahodges@cobank.com

Jo Solonika

VP Corporate Communications
720-583-9180
jsolonika@cobank.com