

CoBank Reports Increased Earnings and Patronage Distributions for 2005

For Immediate Release

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DENVER (Feb. 15, 2006) — CoBank today reported 2005 year-end earnings of \$298 million, an increase from \$275 million in 2004. This represents an eight percent increase, and was driven largely by a lower provision for credit losses reflecting improved credit quality, and a lower level of losses on debt prepayments, which more than offset a decline in net interest income.

“CoBank has once again closed the year with higher earnings than ever before,” says Douglas D. Sims, chief executive officer of CoBank. “We also increased our capital, maintained strong credit quality, continued to improve the effectiveness of core business processes, and expanded our relationship with other Farm Credit System institutions. By following sound business practices and continuing to expand the services we offer, we consistently deliver value to our customer-owners.”

Because CoBank is a cooperative bank, its customer-owners directly benefit from the bank’s financial performance through patronage distributions. For 2005, CoBank will pay a patronage distribution of \$168 million to its customer-owners, of which \$116 million will be paid in cash and the remainder in stock.

“We have a unique, mutually beneficial relationship with our customers,” says Sims. “Our success is built on their success, and we share our financial success with our customer-owners through patronage. These patronage payments are a significant component of our value proposition, and the 2005 enhancements to our capital plan made that value even stronger.”

Patronage distributions for 2005 represent a 15.8 percent return on average invested capital for customer-owners. In addition to the cash patronage of \$116 million, stock retirements totaling \$55 million will be made for 2005, resulting in total cash payouts of \$171 million in 2006. For the past five years, CoBank customer-owners received an average of \$151 million per year in cash as a result of their investment in the bank. CoBank enhanced its capital plan again in 2005, increasing the level of cash patronage paid to stockholders. The 2005 enhancements also provide for stock retirements to be paid in a single installment rather than quarterly throughout the year.

Financial Highlights for 2005

Net earnings increased to \$298 million from \$275 million in 2004, capital remained stable at \$2.9 billion, and assets increased to \$33.8 billion from \$30.9 billion at December 31, 2004.

Total loans and leases outstanding to U.S. and international customers increased to \$26.3 billion from \$24.0 billion at the end of 2004. This growth was primarily due to increases in agribusiness loan volume, lending to Farm Credit associations, and loans to rural energy customers.

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

BALANCE SHEET INFORMATION

December 31,	2005	2004
Loans and leases	\$ 26,297	\$ 23,956
Less: Allowance for credit losses	437	436
Net loans and leases	25,860	23,520
Investment securities	6,533	5,901
Cash, federal funds sold, securities purchased under resale agreements and other	930	1,023
Accrued interest receivable and other assets	468	373
Interest rate swaps and other financial instruments	44	39
Total assets	<u>\$ 33,835</u>	<u>\$ 30,856</u>
Bonds and notes	\$ 30,039	\$ 27,352
Accrued interest payable and other liabilities	554	450
Interest rate swaps and other financial instruments	340	192
Total liabilities	30,933	27,994
Shareholders' equity	2,902	2,862
Total liabilities and shareholders' equity	<u>\$ 33,835</u>	<u>\$ 30,856</u>

STATEMENT OF INCOME INFORMATION

For the years ended December 31,	2005	2004
Interest income	\$ 1,528	\$ 1,145
Interest expense	1,045	620
Net interest income	483	525
Provision for credit losses	25	49
Net interest income after provision for credit losses	458	476
Noninterest income	53	22
Noninterest expenses	143	155
Provision for income taxes	70	68
Net income	<u>\$ 298</u>	<u>\$ 275</u>

CoBank Reports 2005 Year-End Earnings

- CoBank's Strategic Relationships Division, which includes Farm Credit association customers and participations purchased from other Farm Credit System entities, comprised the largest customer segment in the bank, totaling \$7.8 billion in loans outstanding or 30 percent of the portfolio at year-end 2005. Of this total, \$7.2 billion in loans were to CoBank's five affiliated Farm Credit association customers that serve 27,000 customers in 13 states in the Northeast and Northwest.
- With \$6.9 billion in loans outstanding, the Agribusiness Banking Group comprised 26 percent of the total portfolio at year-end, an increase of \$1 billion from year end 2004. Our agribusiness customers include grain marketing and farm supply cooperatives, ethanol producers, financial cooperatives and other co-ops specializing in cotton, livestock, dairy, timber, sugar, oilseed processing, fruits, nuts and vegetables. This banking group also includes Farm Credit Leasing, which accounts for \$1.1 billion in leases outstanding.
- The Communications and Energy Banking Group had \$6.8 billion in loans outstanding at year-end, an increase of \$483 million over year-end 2004. Loans outstanding to customers in the energy and water sector totaled \$4.6 billion, or 18 percent of the total portfolio. For customers in the communications segment, loans outstanding totaled \$2.2 billion, or eight percent of the total portfolio.
- The Global Financial Services Group had \$4.8 billion in loans outstanding at year-end or 18 percent of the total portfolio. Large corporate agribusiness, food and international customers comprise this group. Approximately 74 percent of the bank's \$2.3 billion in export loans is guaranteed by the U.S. government, and approximately half of our total export loans went to banks in Mexico and Latin America.

CoBank's credit quality remained strong in 2005 with 97.8 percent of the bank's loan and lease portfolio ranking in the two highest categories used to classify credit quality. Since 2002 we have reduced our exposure to certain higher-risk, higher-yielding sectors in our Communications and Energy Banking Group. As a result, our credit quality has consistently improved over the past three years. The provision for credit losses declined to \$25.0 million for 2005, compared to \$49.0 million in 2004, and \$68.6 million in 2003. The bank's net charge-offs were \$23.8 million for 2005, compared to \$28.4 million and \$65.2 million for 2004 and 2003, respectively.

As Rural America's Cooperative Bank, CoBank specializes in providing financial solutions and leasing services to cooperatives, agribusinesses, Farm Credit associations, and rural energy, communications and water companies. The bank also finances agricultural exports. CoBank has a national office in Denver, additional offices across the U.S., and two international representative offices. CoBank is part of the \$140-billion U.S. Farm Credit System.

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