



## NEWS RELEASE

### COBANK REPORTS SECOND QUARTER FINANCIAL RESULTS

*Merger With U.S. AgBank Continues to Deliver Benefits*

*Net Income Increases 40 Percent To \$252.4 Million*

**DENVER (August 2, 2012)** — 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 of 2012.

Second quarter net income rose almost 40 percent to \$252.4 million, compared with \$180.7 million for the second quarter of last year. Net interest income for the quarter was \$307.1 million, compared with \$276.5 million a year ago. Average loan volume for the quarter was \$69.4 billion, compared to \$52.1 billion for the same period in 2011.

For the first six months of 2012, net income increased 23 percent to \$482.9 million from \$392.8 million for the same period in 2011. Net interest income increased 7 percent to \$620.2 million. Total loan volume for the bank at June 30, 2012 was \$69.2 billion.

The bank's results reflected the benefits of its merger with U.S. AgBank, which closed on January 1, 2012. Through the merger, the bank acquired U.S. AgBank's assets and liabilities, including approximately \$20 billion in wholesale loans to 25 Farm Credit associations. The transaction increased average loan volume as well as net interest income, net income and certain other key measures of financial performance.

Second-quarter and year-to-date results also included the impact of \$44.6 million in refunds from the Farm Credit System Insurance Corporation.

"We're pleased with CoBank's results through the midpoint of 2012," said Robert B. Engel, president and chief executive officer. "The merger with U.S. AgBank continues to deliver significant benefits for our business at a time of real challenge in the broader market environment. We remain focused on building the financial strength and flexibility of the bank and meeting the needs of our customers across all of the industries we serve."

The performance of the bank's individual operating segments has varied in 2012 due to the merger as well as external economic and market factors. Average agribusiness loan volume declined significantly owing to lower average prices for grains and other commodities earlier in the year and reduced inventory financing at agricultural cooperatives. At the same time, the bank continues to experience solid growth in lending to rural infrastructure customers, particularly in the power supply and electric distribution industries. Loans to Farm Credit associations have increased significantly due to the merger, but organic growth in that segment is soft due to continuing low demand for debt capital at the producer level of the U.S. farm economy.

At quarter end, 1.02 percent of the bank's loans were classified as adverse assets, the same level as at the end of the first quarter and down from 1.25 percent at December 31, 2011. Nonaccrual loans improved to \$106.9 million, compared to \$125.0 million in the prior quarter and \$134.9 million at the end of the year. During the second quarter, the bank recorded a \$5.0 million provision for loan losses, increasing the provision to \$10.0 million for the first half of the year. The provision for loan losses in the first six months of 2011 was \$37.5 million.

"Credit quality in CoBank's loan portfolio remains strong compared to historical averages," said David P. Burlage, CoBank's chief financial officer. "CoBank continues to benefit from the addition of U.S. AgBank's portfolio of high quality loans to Farm Credit associations, as well as relatively strong conditions in the U.S. rural economy."

The bank's allowance for credit losses totaled \$547.7 million at June 30, 2012, or 1.77 percent of non-guaranteed loans outstanding excluding loans to Farm Credit associations.

Capital and liquidity levels at CoBank remain well above regulatory minimums. As of June 30, 2012, shareholders' equity totaled \$6.2 billion, and the bank's permanent capital ratio was 15.8 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration, the bank's independent regulator. At quarter end, CoBank's cash and investments totaled \$19.7 billion and days liquidity totaled 193 days. During the quarter, the bank recorded \$3.0 million in impairment losses on certain investment securities, compared with \$4.0 million in impairment losses during the same quarter last year.

Engel noted that overall conditions in the U.S. and global economies remain weak, putting downward pressure on loan demand in many of the industries served by the bank. Many areas in the United States are also currently being impacted by drought conditions, which has the potential to reduce revenues at grain and farm supply cooperatives and increase costs in the protein and biofuels sectors. In addition, extremely low interest rates and a flattened yield curve make it more difficult to generate meaningful earnings on invested capital.

"Despite these challenges, we believe CoBank remains well positioned to continue fulfilling its mission to agriculture, rural infrastructure, and rural America," Engel said. "Under the guidance of our board, we remain committed to providing our customers with exceptional, sustainable value and to managing the enterprise for the long term."

## **About CoBank**

CoBank is a 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 and the nation's rural economy. 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 web site at [www.cobank.com](http://www.cobank.com).

**Contact**

Arthur Hodges  
Senior Vice President, Corporate Communications  
303-740-4061  
[ahodges@cobank.com](mailto:ahodges@cobank.com)

Dan Haley  
Director of Corporate Communications  
303-793-2239  
[dhaley@cobank.com](mailto:dhaley@cobank.com)

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

**BALANCE SHEET INFORMATION**

	June 30, 2012	December 31, 2011
	(Unaudited)	
Loans	\$ 69,172	\$ 46,285
Less: Allowance for loan losses	381	388
Net loans	68,791	45,897
Cash	962	2,772
Investment securities	18,774	12,995
Interest rate swaps and other financial instruments	1,101	1,049
Accrued interest receivable and other assets	695	577
Total assets	<u>\$ 90,323</u>	<u>\$ 63,290</u>
Bonds and notes	\$ 81,638	\$ 56,104
Subordinated debt	1,000	1,000
Interest rate swaps and other financial instruments	162	137
Reserve for unfunded commitments	167	154
Accrued interest payable and other liabilities	1,161	999
Total liabilities	84,128	58,394
Shareholders' equity	6,195	4,896
Total liabilities and shareholders' equity	<u>\$ 90,323</u>	<u>\$ 63,290</u>

**STATEMENT OF INCOME INFORMATION**

For the three months ended June 30,	2012	2011
	(Unaudited)	
Interest income	\$ 503	\$ 460
Interest expense	196	183
Net interest income	307	277
Provision for loan losses	5	25
Net interest income after provision for loan losses	302	252
Noninterest income	74	30
Operating expenses	65	56
Provision for income taxes	59	45
Net income	<u>\$ 252</u>	<u>\$ 181</u>

**STATEMENT OF INCOME INFORMATION**

For the six months ended June 30,	2012	2011
	(Unaudited)	
Interest income	\$ 1,021	\$ 946
Interest expense	401	368
Net interest income	620	578
Provision for loan losses	10	38
Net interest income after provision for loan losses	610	540
Noninterest income	107	64
Operating expenses	124	109
Provision for income taxes	110	102
Net income	<u>\$ 483</u>	<u>\$ 393</u>