

# CoBank Investor Presentation

September 30, 2018

Proud Member of the  
Farm Credit System 

 **COBANK**

# Summary Financial Results

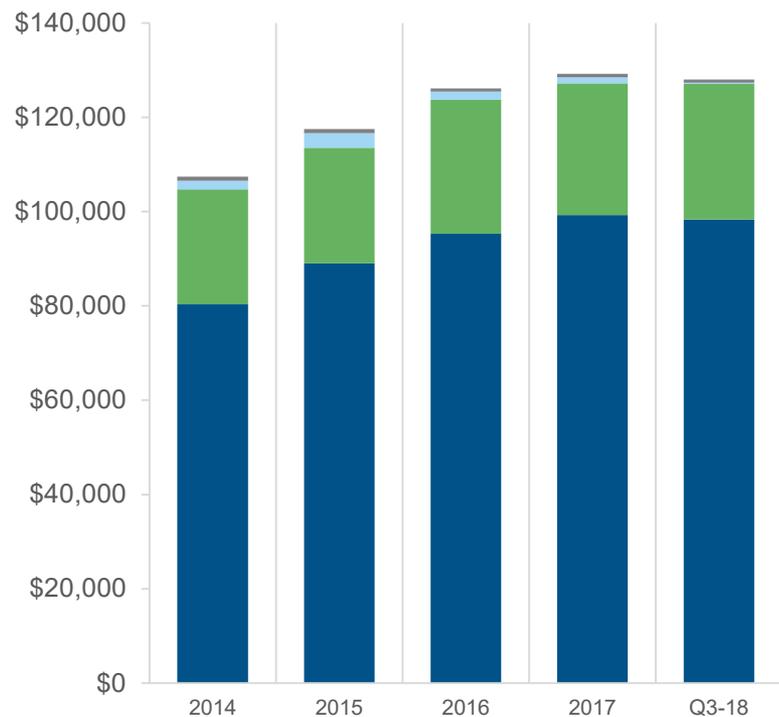
(\$ in millions)	For the Year Ended December 31,		For the Nine Months Ended September 30,		
	2016	2017	2017	2018	YoY%
Interest income	\$ 2,610	\$ 3,141	\$ 2,308	\$ 2,947	28%
Interest expense	1,248	1,748	1,266	1,862	-47%
<i>Net interest income</i>	<u>1,362</u>	<u>1,393</u>	<u>1,042</u>	<u>1,085</u>	4%
Provision for loan losses	63	42	38	43	-13%
<i>Net interest income after provision for loan losses</i>	<u>1,299</u>	<u>1,351</u>	<u>1,004</u>	<u>1,042</u>	4%
Noninterest income	185	175	122	234	92%
Operating expenses	380	386	279	262	6%
Provision for income taxes	158	15	113	77	32%
<i>Net income</i>	<u>\$ 946</u>	<u>\$ 1,125</u>	<u>\$ 734</u>	<u>\$ 937</u>	28%
Return on average common equity	12.40 %	14.20 %	12.27 %*	15.51 %*	26%
Net interest margin	1.14 %	1.12 %	1.11 %*	1.11 %*	0%
Return on average assets	0.78 %	0.89 %	0.78 %*	0.95 %*	22%
Operating expense ratio**	19.73 %	20.11 %	19.33 %	19.10 %	1%

\* Annualized

\*\* Excludes Insurance Fund premiums

# Balance Sheet Trends

## Assets (\$ in Millions)

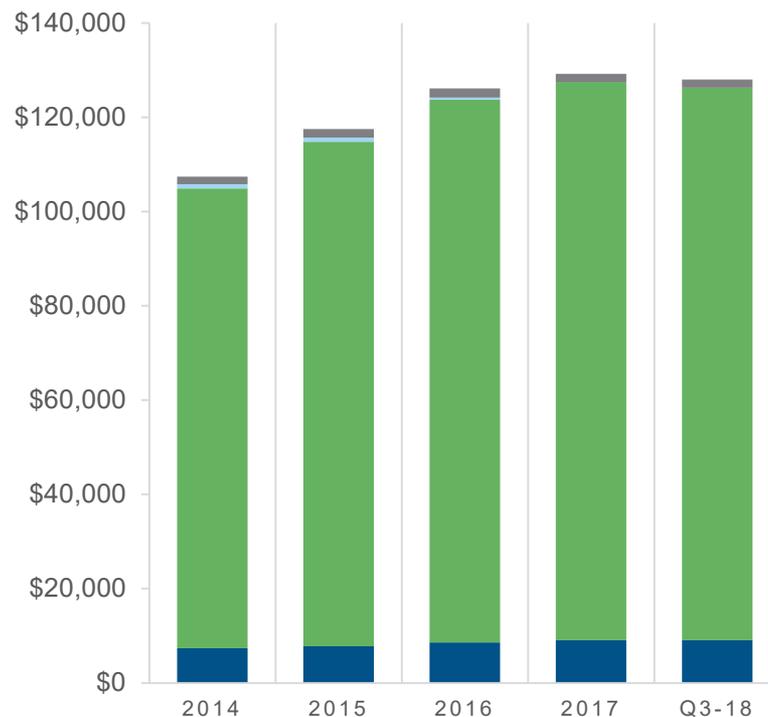


Other	\$ 823	\$ 813	\$ 697	\$ 726	\$ 699
Cash*	\$ 1,856	\$ 3,113	\$ 1,661	\$ 1,314	\$ 220
Investments**	\$ 24,320	\$ 24,504	\$ 28,515	\$ 27,905	\$ 28,750
Gross Loans	\$ 80,382	\$ 89,041	\$ 95,258	\$ 99,266	\$ 98,335

\*Represents Cash and Cash Equivalents

\*\*Includes Investment Securities, Federal Funds Sold and Other Overnight Funds

## Liabilities & Shareholders' Equity (\$ in Millions)

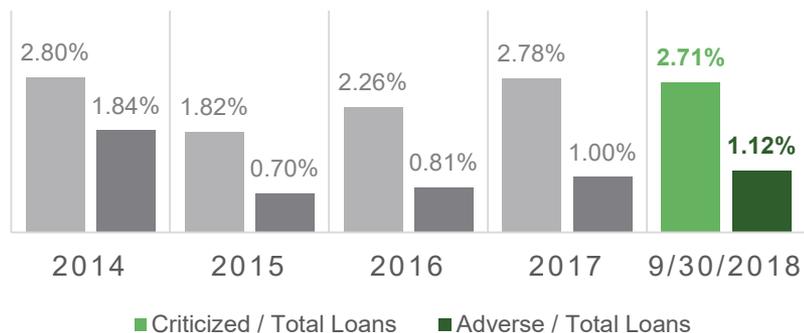


Other	\$ 1,574	\$ 1,788	\$ 1,972	\$ 1,745	\$ 1,774
Subordinated debt	\$ 902	\$ 903	\$ 499	\$ -	\$ -
Bonds & Notes	\$ 97,535	\$ 106,970	\$ 115,086	\$ 118,406	\$ 117,172
Shareholders' equity	\$ 7,370	\$ 7,810	\$ 8,574	\$ 9,060	\$ 9,058

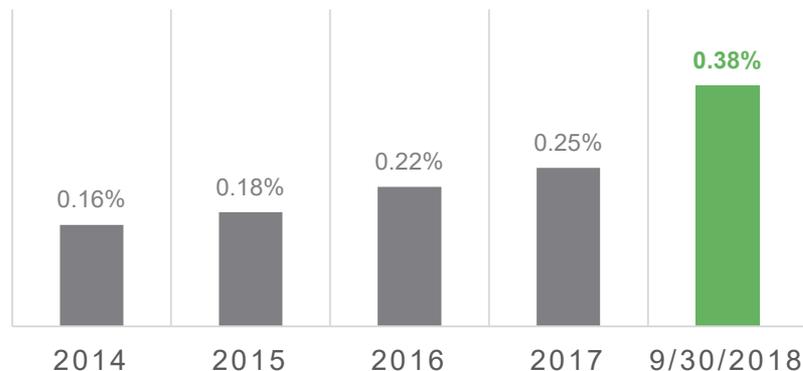


# Loan Quality

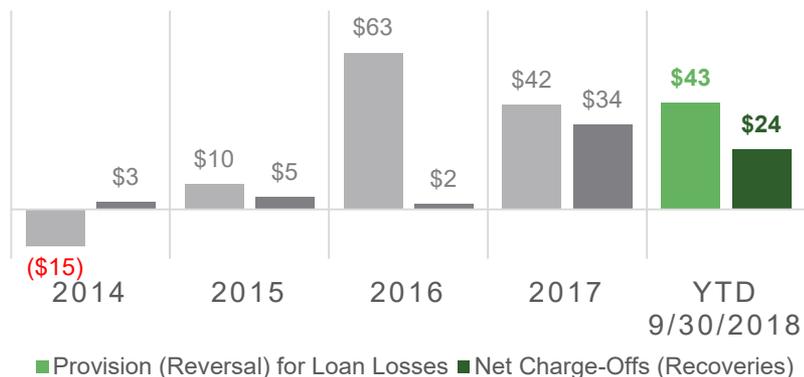
*Criticized / Total Loans & Adverse / Total Loans*



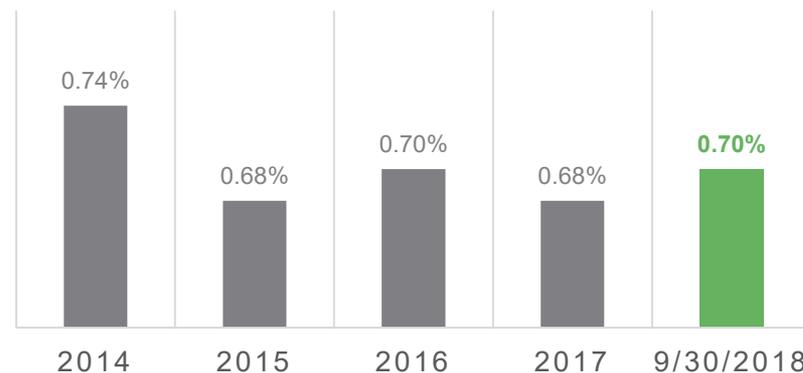
*Nonaccrual Loans / Total Loans*



*Provision (Reversal) for Loan Losses & Net Charge-Offs (Recoveries) (\$ in Millions)*



*Allowance for Credit Losses / Total Loans*

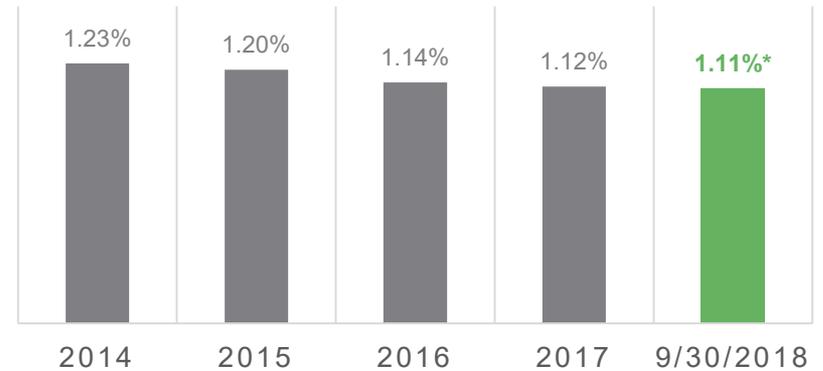


# Profitability and Efficiency

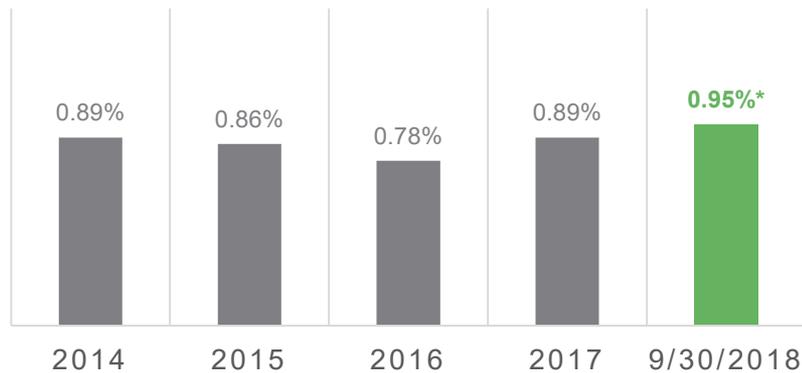
*Return on Average Common Equity*



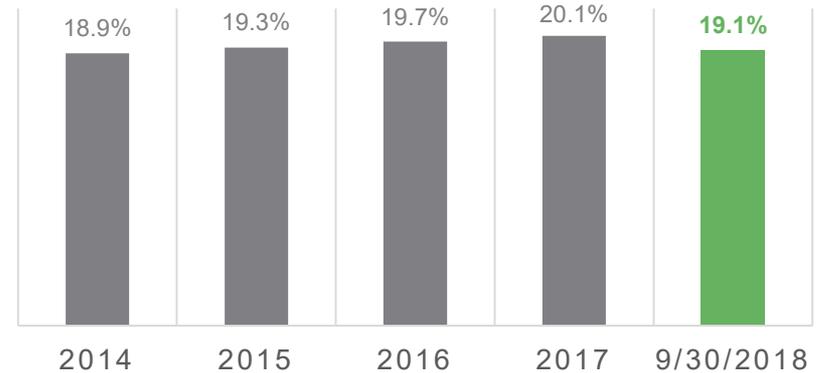
*Net Interest Margin*



*Return on Average Assets*



*Operating Expense Ratio Excluding Insurance Fund Premiums*



\* Annualized

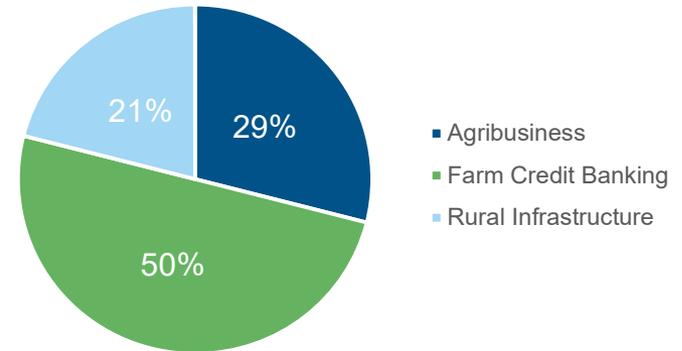
# Operating Segments

## Summary

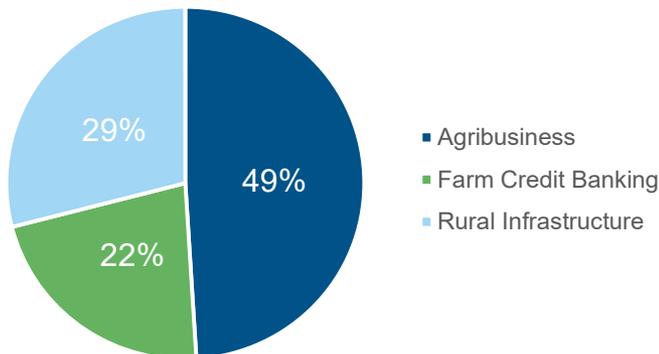
- Three operating segments (Agribusiness, Farm Credit Banking\* and Rural Infrastructure)
- Over \$98 billion in total loan volume
- Lower income in Farm Credit Banking operating segment reflects narrower margins and lower risk profile from wholesale loans

\* In the third quarter of 2018, the Strategic Relationships operating segment was renamed the Farm Credit Banking operating segment

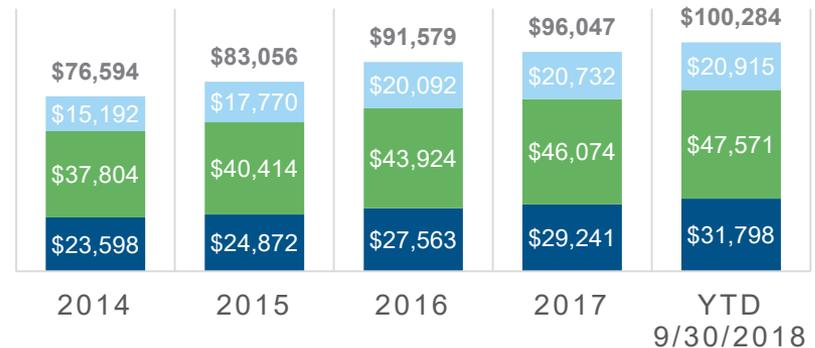
## Loan Volume – \$98.3 Billion at September 30, 2018



## Net Income – \$937 Million



## Average Loan Volume (\$ in Millions)



# Agribusiness Portfolio

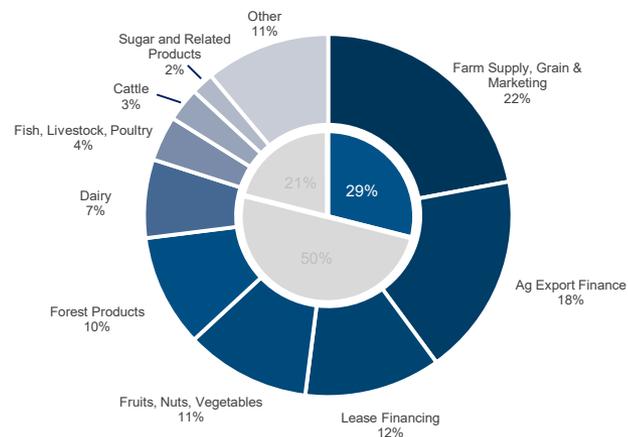
## Portfolio Highlights

- \$28.4 billion retail loan portfolio at September 30, 2018
- Grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing
- Integrated production agriculture in forest products, fruits, nuts, vegetables and dairy
- Portfolio diversification enhanced by loan participations and syndications
- Includes \$5.2 billion in agricultural export loans; 20% are U.S. government-guaranteed
- Includes \$3.3 billion leasing portfolio

## Financial Summary

(\$ in millions)	9/30/2018	2017	2016	2015
Period-End Loans	<b>\$ 28,370</b>	\$ 30,304	\$ 28,660	\$ 26,131
Average Loans	<b>\$ 31,798</b>	\$ 29,241	\$ 27,563	\$ 24,872
Net Income	<b>\$ 457</b>	\$ 630	\$ 403	\$ 449
Nonaccrual Loans	<b>\$ 339</b>	\$ 213	\$ 207	\$ 88

## Portfolio Sectors



## Loan Quality

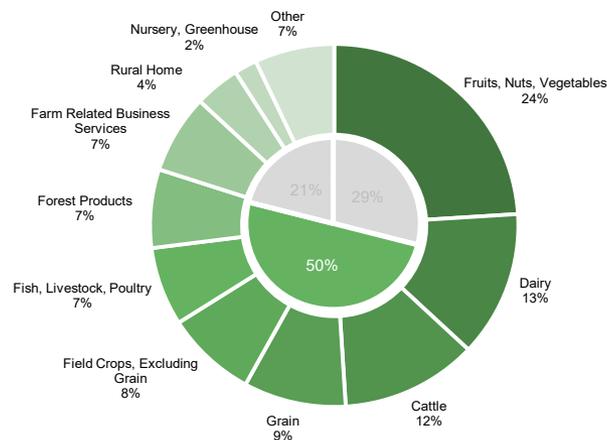
	9/30/2018	2017	2016	2015
Acceptable	<b>93.84%</b>	93.56%	94.08%	95.44%
Special Mention	<b>3.21</b>	3.54	3.51	2.86
Substandard	<b>2.91</b>	2.89	2.39	1.70
Doubtful	<b>0.04</b>	0.01	0.02	-
Loss	<b>-</b>	-	-	-

# Farm Credit Banking Portfolio

## Portfolio Highlights

- \$49.2 billion wholesale loan portfolio at September 30, 2018
- Lending to 22 affiliated Farm Credit associations serving a diversified agricultural customer base in the Northwest, West, Southwest, Rocky Mountain, Mid-Plains, and Northeast regions of the United States
- Affiliates serve over 70,000 farmers, ranchers and other rural borrowers
- Includes \$4.9 billion of participations in other Farm Credit Banks wholesale loans to their affiliated associations, primarily with Farm Credit Bank of Texas

## Portfolio Sectors



## Financial Summary

(\$ in millions)	9/30/2018	2017	2016	2015
Period-End Loans	\$ 49,179	\$ 47,948	\$ 45,994	\$ 43,358
Average Loans	\$ 47,571	\$ 46,074	\$ 43,924	\$ 40,414
Net Income	\$ 209	\$ 262	\$ 245	\$ 242
Nonaccrual Loans	\$ -	\$ -	\$ -	\$ -

## Loan Quality

	9/30/2018	2017	2016	2015
Acceptable	98.92%	99.02%	100%	100%
Special Mention	0.96	0.98	-	-
Substandard	0.12	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-

# Rural Infrastructure Portfolio

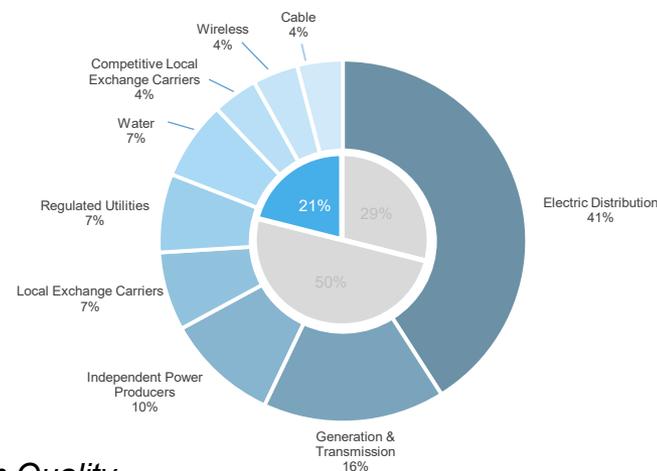
## Portfolio Highlights

- \$20.8 billion retail loan portfolio at September 30, 2018
- Broad geographic dispersion of rural infrastructure customers
- Customers provide vital rural services and include: rural electric generation and transmission cooperatives, electric distribution cooperatives, power supply companies, project finance companies, rural communications companies, water companies and rural community facilities

## Financial Summary

(\$ in millions)	9/30/2018	2017	2016	2015
Period-End Loans	\$ 20,786	\$ 21,014	\$ 20,604	\$ 19,552
Average Loans	\$ 20,915	\$ 20,732	\$ 20,092	\$ 17,770
Net Income	\$ 273	\$ 241	\$ 308	\$ 255
Nonaccrual Loans	\$ 39	\$ 34	\$ -	\$ 69

## Portfolio Sectors



## Loan Quality

	9/30/2018	2017	2016	2015
Acceptable	98.15%	98.40%	97.79%	97.79%
Special Mention	0.86	1.05	1.84	1.29
Substandard	0.99	0.55	0.37	0.92
Doubtful	-	-	-	-
Loss	-	-	-	-

# Capital Position

## Summary

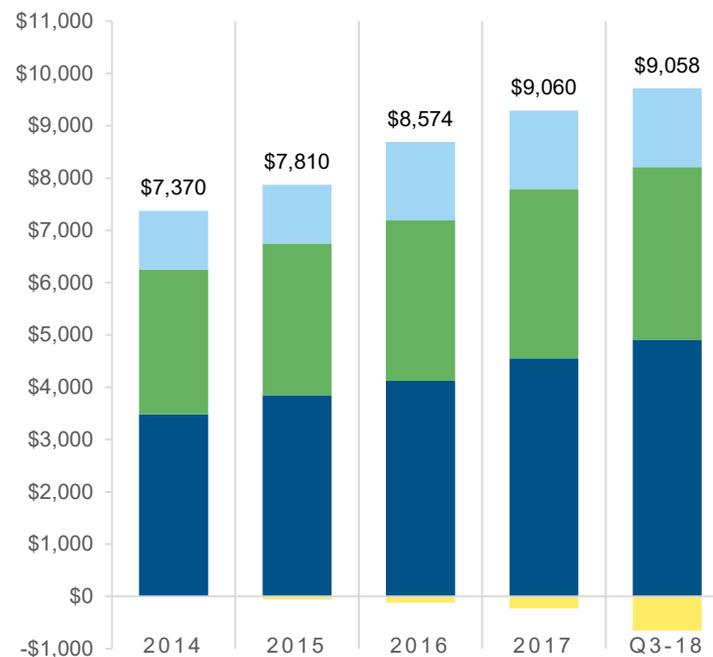
- Capital ratios exceed required regulatory minimums
- Assures continued viability and capacity to meet our customers' borrowing needs
- Preferred stock provides additional layer of risk-bearing capacity

## Capital Ratios

	September 30, 2018			
	Regulatory Minimum	Actual	Actual Buffer	Required Buffer
Common Equity Tier 1 (CET1) Capital Ratio	4.5 %	12.60 %	8.10 %	2.5 % *
Tier 1 Capital Ratio	6.0	14.86	8.86	2.5 *
Total Capital Ratio	8.0	15.92	7.92	2.5 *
Tier 1 Leverage Ratio	4.0	7.65	3.65	1.0
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5	3.25	n/a	n/a
Permanent Capital Ratio	7.0	14.99	n/a	n/a

\* Reflects fully-phased in buffer

## Shareholders' Equity (\$ in Millions)



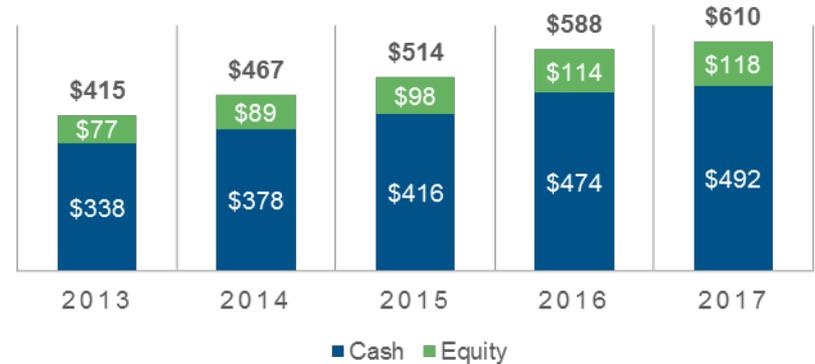
Preferred Stock	\$ 1,125	\$ 1,125	\$ 1,500	\$ 1,500	\$ 1,500
Common Stock	\$ 2,769	\$ 2,900	\$ 3,072	\$ 3,240	\$ 3,304
Retained Earnings	\$ 3,482	\$ 3,846	\$ 4,121	\$ 4,552	\$ 4,909
Other Comprehensive Loss	\$ (6)	\$ (61)	\$ (119)	\$ (232)	\$ (655)

# Patronage

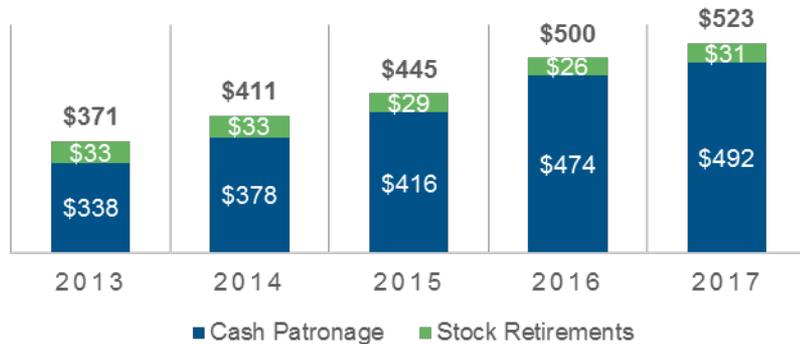
## Summary

- Patronage is a key part of the value proposition we provide our eligible customer-owners
- Cooperatives and other directly eligible borrowers earned 100 basis points of patronage based on average qualifying loan volume for 2017 paid in 2018
- Affiliated associations earned 45 basis points of cash patronage for 2017 paid in 2018 under a separate capital plan
- In August 2017, we announced changes to our capital plans and patronage programs. These changes began to take effect in 2018 for patronage to be paid in 2019
- In September 2018, we made a special all-cash patronage distribution of \$96.2 million to customer-owners

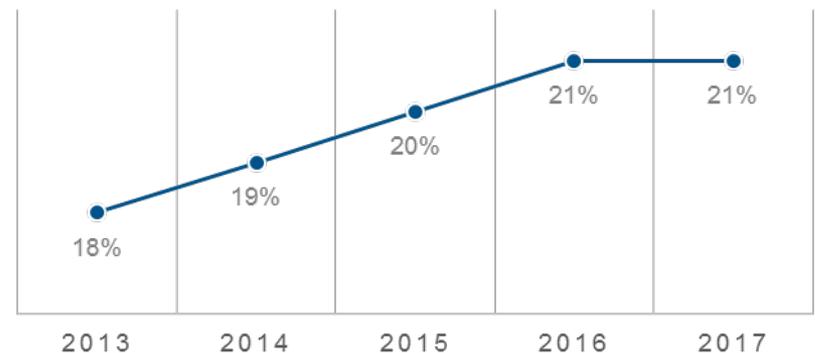
## Patronage (\$ in Millions)



## Total Cash Payouts (\$ in Millions)



## Return on Active Patron Investment



# Funding

## Summary

- CoBank is not authorized to accept deposits and sources its funding largely through senior unsecured Farm Credit System debt securities
- Broad, consistent access to capital markets through business and economic cycles due to Farm Credit's GSE status
  - Rated Aaa/P-1 (Moody's), AAA/F1+ (Fitch) & AA+/A-1+ (S&P)
  - Includes bonds and discount notes
  - Joint and several liability of all System banks
- Favorable spreads relative to U.S. Treasuries

## Equity (\$ in Millions)<sup>(1)</sup>

Type	Amount	% of Equity
Preferred Stock:		
Series E	\$225	2.5%
Series F	400	4.4%
Series G	200	2.2%
Series H	300	3.3%
Series I	375	4.1%
Common Stock	3,304	36.5%
Unallocated Retained Earnings	4,909	54.2%
Accumulated Other Comprehensive Loss	(655)	-7.2%
	<b>\$9,058</b>	<b>100.0%</b>

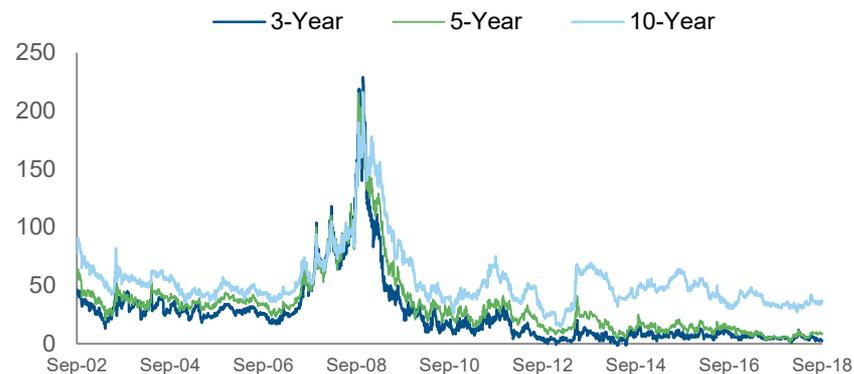
(1) As of September 30, 2018

(2) Weighted average interest rates include the effect of related derivatives.

## Debt (\$ in Millions)<sup>(1)</sup>

Type	Amount	% of Debt	Avg. Maturity (in years)	Weighted Avg. Rate <sup>(2)</sup>
Discount Notes	\$9,579	8.2%	0.2	2.06%
Bonds – Noncallable	96,899	82.7%	2.9	2.22%
Bonds – Callable, Other	9,529	8.1%	4.2	2.10%
S/T Customer Investments and Other	1,165	1.0%	0.1	0.69%
	<b>\$117,172</b>	<b>100.0%</b>	<b>2.8</b>	<b>2.18%</b>

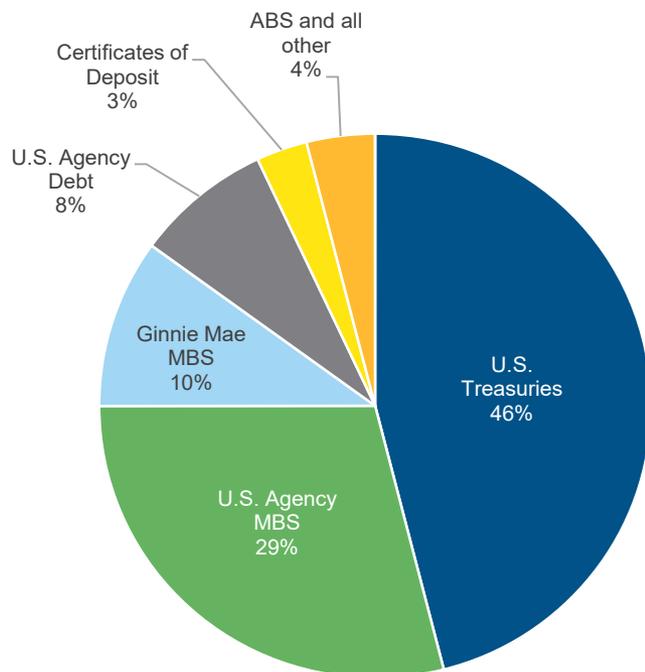
## Farm Credit System Spreads to U.S. Treasuries (Basis Points)



# Investment Portfolio

## Total Investment Securities of \$28.3 Billion

(as of September 30, 2018)



## Summary

- \$28.3 billion market-diversified portfolio plus \$0.2 billion of cash and cash equivalents and \$0.4 billion in Federal Funds Sold and Other Overnight Funds as of September 30, 2018
- Largely composed of securities issued or guaranteed by GSEs or U.S. government
- Cash flow average life of 3.4 years and duration of 2.5 years
- Earns average spread of approximately 16 basis points
- Liquidity position = days into the future we could meet maturing debt obligations by using cash and eligible investments
  - Bank-established minimum is 150 days
  - Actual liquidity was 165 days at September 30, 2018
  - CoBank's long-term debt to loans was approximately 66% as of September 30, 2018

(\$ in Millions)

Type	Fair Value
U.S. Treasuries	\$13,141
U.S. Agency MBS	8,106
U.S. Agency Debt	2,311
Ginnie Mae MBS	2,973
Certificates of Deposit	790
ABS and all other	1,003
<b>Total</b>	<b>\$28,324</b>