NEWS RELEASE

CoBank Announces Changes To Capital Plans And Patronage Programs For Customer-Owners

DENVER (August 28, 2017) — CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, today announced changes to its capital plans and patronage programs for eligible customer-owners.

The changes, which take effect in 2018 for patronage distributed in 2019, include reductions in targeted patronage levels and the creation of a separate capital plan for rural electric and water customers. The changes are designed to strengthen CoBank’s long-term capacity to serve customers’ borrowing needs, enhance the bank’s ability to capitalize future customer growth, and ensure equitability among different customer segments.

“Our board has been working with executive management for close to a year to conduct a comprehensive analysis of the capital plans and patronage programs currently in place at CoBank,” said Everett Dobrinski, chairman of the board of directors. “We believe strongly that patronage is a key component of the value proposition we offer our customers, and that these changes strike an appropriate balance between delivering strong patronage returns to our member-owners and maintaining financial strength to serve our customers for the long term.”

“This is a necessary and prudent step given overall profitability trends in the banking industry that have impacted our business over the past several years, including lower margins, extremely low interest rates, and increased regulatory costs,” said Thomas Halverson, CoBank’s president and chief executive officer. “Making these changes now will strengthen the sustainability of our patronage and its centrality to CoBank’s value proposition for our customers, while ensuring our ability to fulfill our mission and continue serving as a dependable financial partner for the long term.”

Summary of capital plan and patronage program changes

CoBank maintains several capital plans and patronage programs for its various customers and commercial partners. Under CoBank’s current capital plans for cooperative and other eligible direct borrowers, the targeted patronage rate is 100 basis points of current year average loan volume, of which 75 percent is paid in cash and 25 percent is paid in common stock. The target is neither a minimum nor maximum expected patronage dividend but rather the bank’s estimate as to what it expects to be able to distribute consistent with its bylaw obligation to distribute net savings to eligible patrons while maintaining reasonable reserves for CoBank’s future needs. Separate plans maintained by CoBank’s Farm Credit Bank subsidiary govern patronage on wholesale loans to affiliated Farm Credit associations, loans purchased from Farm Credit institutions, and transactions with non-affiliated Farm Credit institutions and other financing institutions.

Pursuant to the changes approved by the board, CoBank will create two separate capital plans for cooperative and other eligible direct borrowers under which targeted patronage levels and cash/equity
splits will be more equitably balanced between the earnings generated by different customer portfolios and the use of the bank by its patronage-eligible members. Agribusiness, communications and project finance customers will be in one pool; rural electric and water customers will be in another. In addition, target patronage levels for all customers and partners will be reduced.

Capital plans and patronage programs for each customer or loan type are summarized in the following table:

<table>
<thead>
<tr>
<th>Customer or loan type</th>
<th>Equity requirement</th>
<th>Target patronage level – former plan</th>
<th>Target patronage level – new plan</th>
<th>Cash/equity split – former plan</th>
<th>Cash/equity split – new plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness, communications &amp; project finance</td>
<td>8%</td>
<td>100 bps</td>
<td>95 bps</td>
<td>75% / 25%</td>
<td>75% / 25%</td>
</tr>
<tr>
<td>Rural electric &amp; water</td>
<td>8%</td>
<td>100 bps</td>
<td>80 bps</td>
<td>75% / 25%</td>
<td>60% / 40%</td>
</tr>
<tr>
<td>Loans purchased from other Farm Credit institutions</td>
<td>8%</td>
<td>100 bps</td>
<td>95 bps</td>
<td>75% / 25%</td>
<td>75% / 25%</td>
</tr>
<tr>
<td>Farm Credit affiliates</td>
<td>4%</td>
<td>45 bps</td>
<td>36 bps</td>
<td>100% / 0%</td>
<td>100% / 0%</td>
</tr>
<tr>
<td>Non-affiliated Farm Credit and other financing institutions</td>
<td>4%</td>
<td>45 bps</td>
<td>26 bps</td>
<td>20% / 80%</td>
<td>20% / 80%</td>
</tr>
</tbody>
</table>

1 Cooperatives and other eligible direct borrowers fulfill their equity requirement over time through the equity portion of their annual patronage distributions, as do loans purchased from other Farm Credit institutions, and non-affiliated Farm Credit and other financing institutions. Affiliated Farm Credit associations capitalize their wholesale loans from the bank in full on an annual basis.

2 Target patronage is defined as the number of basis points (bps) of current-year average loan volume for eligible borrowers.

3 Once borrowers reach their target equity requirement, they effectively receive 100 percent of their patronage distribution in cash.

For cooperatives and other eligible direct borrowers as well as for loans purchased from other Farm Credit institutions, the new target patronage levels take effect in the 2018 calendar year and will be reflected in patronage distributions made in March 2019. Meanwhile, affiliated associations and non-affiliated Farm Credit and other financing institutions will transition to their new targeted patronage levels over a multi-year period ending in 2020. As always, any patronage distributions are subject to approval by CoBank’s board of directors.

No changes are being made to target equity requirements for any borrower or commercial partner.

**Business rationale for capital plan and patronage program changes**

Dobrinski and Halverson noted that the capital and patronage changes approved by the board are designed to position CoBank for long-term success and address a number of marketplace challenges. Those challenges include:

- Higher minimum regulatory capital requirements under Farm Credit Administration regulations that took effect in 2017, in addition to other increased regulatory costs in recent years.
- A prolonged low interest rate environment that has impacted CoBank’s returns on invested capital.
- Decreased returns on equity and assets driven by low interest rates and low credit spreads. The bank’s return on common equity has declined from 15.16 percent in 2012 to 12.40 percent in 2016, and its return on average assets has declined from 0.94 percent to 0.78 percent over the same period.
- Declining spreads and net interest margin driven by intense competition in the banking industry. CoBank’s net interest margin has declined from 1.41 percent in 2012 to 1.14 percent in 2016.
- Low and declining spreads in the rural utilities sector, particularly for rural electric and water loans.

“Virtually every financial institution in the country has been dealing with declining margins and increased regulatory costs in recent years,” Halverson said. “CoBank’s financial performance has been consistently strong, and we have been successful in continuing to fulfill our mission while maintaining solid levels of
capitalization. Looking forward, however, it’s clear we must continue to generate sufficient retained earnings to ensure we have the capital in place to support our customers’ growth and fulfill our mission in rural America.”

“Our customers’ foremost concern is that we remain a dependable source of credit, in good times and bad and regardless of conditions in the market.” Dobrinski said. “We hope our customers will understand that this decision has been made with their long-term interests in mind, and that they will support this change which will safeguard the future financial strength and mission service capabilities of CoBank.”

Webinar on capital plan and patronage program changes for customer-owners

CoBank will hold a one-hour webinar about the capital plan and patronage program changes for all active borrowers on Wednesday, August 30, 2017, at 2 p.m. Mountain Time. Dobrinski, Halverson and Chief Financial Officer David Burlage will provide further detail about the changes and also answer questions from customers.

To join via phone, call 833-659-7625 and use passcode 71556320. To join via the Internet, click here or visit the “Newsroom & Financials” section of the CoBank web site.

About CoBank

CoBank is a $125 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 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 web site at www.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. We undertake no obligation to revise or publicly update our forward-looking statements for any reason.
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