

KEY FINANCIAL DATA

(\$ in millions)

INCOME STATEMENT	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Net interest income	\$ 352	\$ 347	\$ 1,399	\$ 1,431
Provision for loan losses	31	23	57	66
Noninterest income	52	56	221	290
Operating expenses	112	103	404	364
Income tax (benefit) provision	(29)	23	68	100
Net income	290	254	1,091	1,191

BALANCE SHEET (period-end)	December 31, 2019		December 31, 2018	
Total loans	\$ 108,854	\$ 104,494	\$ 104,494	\$ 104,494
Total assets	145,004	139,016	139,016	139,016
Shareholders' equity	10,567	9,535	9,535	9,535

PROFITABILITY METRICS	Year ended December 31,	
	2019	2018
Net interest margin	1.02%	1.09%
Return on average common equity	11.63%	14.60%
Return on average assets	0.79%	0.90%
Operating expense ratio	23.27%	20.27%

HIGHLIGHTS

- Average loan volume rose 4% in 2019, and our loans outstanding totaled \$108.9 billion
 - Loan volume increased in our Farm Credit Banking (affiliated Associations) and Agribusiness operating segments
 - Loan volume in our Rural Infrastructure operating segment remained consistent with the prior year period
- Net income for Q4 was \$290.3 million, compared to \$253.6 million during Q4 2018. Net income for 2019 was \$1,091.2 million, compared to \$1,190.8 million for 2018
 - Q4 net income included a \$29.4 million favorable income tax benefit and higher net interest income
 - YTD net income decreased due to significant non-recurring items in 2018 including the return of excess insurance funds from the Farm Credit System Insurance Corporation and gains from the sale of investment securities; lower net interest income and higher operating expenses
- Earnings were also impacted by marketplace trends including spread compression and the shape of the yield curve
- Net interest income for Q4 increased 2% to \$352.3 million due to higher average loan volume. Net interest income YTD decreased 2% to \$1,398.6 million, driven by lower earnings on balance sheet positioning and lower loan and investment spreads, partially offset by higher average loan volume and an increase in returns on invested capital
- Net interest margin YTD declined to 1.02%, which includes the impact of lower earnings on balance sheet positioning and lower spreads in our loan portfolio
- Provision for loan losses YTD was \$57.0 million which reflects deterioration in credit quality in our Agribusiness operating segment in addition to

OPERATING SEGMENTS

(\$ in millions)

Three months ended Dec. 31,	Agribusiness		Rural Infrastructure		Farm Credit Banking	
	2019	2018	2019	2018	2019	2018
Average loan volume	\$ 31,251	\$ 31,029	\$ 20,884	\$ 20,932	\$ 53,000	\$ 49,752
Net income	126	120	106	74	58	60

Year ended Dec. 31,	2019		2018	
	2019	2018	2019	2018
Average loan volume	\$ 32,119	\$ 31,604	\$ 20,919	\$ 20,919
Net income	530	575	338	347

Period-end loan volume	Dec. 31, 2019 and Dec. 31, 2018	
	2019	2018
Average loan volume	\$ 33,168	\$ 32,432
Net income	21,227	21,367
Period-end loan volume	\$ 54,459	\$ 50,695

CEO COMMENTARY

“CoBank recorded another year of strong business performance in 2019 on behalf of our customer-owners and other stakeholders. The bank generated nearly \$1.1 billion in net income – the third-highest level of earnings in the history of the business – and will distribute more than \$640 million to stockholders in cash and equity patronage, including \$39.8 million of all-cash special patronage. Loan volume reached all-time highs. Credit quality in our loan portfolio remained solid, as did our levels of liquidity and capital. We ended the year in exceptionally sound financial condition and well positioned to continue fulfilling our mission in rural America.

“We recorded significant income from non-recurring events in 2018, including the refund of excess insurance premiums from the Farm Credit System Insurance Corporation (FCSIC) as well as proceeds from the sale of investment securities acquired through our merger with U.S. AgBank in 2012. These non-recurring items gave a substantial boost to net income in 2018, though they also exacerbated the year-over-year decline in net income in 2019.”

– Thomas Halverson, President and CEO, CoBank

growth in average loan volume; however, credit quality remained strong

- Operating expenses in Q4 and YTD increased, primarily driven by an increase in employee compensation, information services and purchased services expenses to support planned business initiatives and maintain high levels of customer service
 - As of Dec. 31, 2019 and 2018, the bank had 1,115 and 1,050 employees, respectively
- Capital and liquidity levels were in excess of regulatory minimums established by the Farm Credit Administration, the bank's independent regulator, as of Dec. 31, 2019
 - Total capital ratio was 15.86%, compared with the 8.0% (10.5% inclusive of the capital conservation buffer) minimum
 - 176 days of liquidity, compared with the 90 days minimum

NET INTEREST MARGIN AND NET INTEREST INCOME

Net interest income decreased \$32.7 million, or 2%, to \$1,399 million in 2019, compared to \$1,431 million in 2018. The decrease in net interest income was primarily driven by lower earnings on balance sheet positioning and lower overall spreads in our loan and investment portfolios, partially offset by higher average loan volume and an increase in earnings on invested capital. Average loan volume increased \$3.8 billion, or 4%, to \$104.4 billion in 2019 primarily as a result of growth in lending to Associations in our Farm Credit Banking operating segment and to customers in our Agribusiness operating segment. Average investment securities, federal funds sold and other overnight funds increased to \$32.7 billion in 2019 from \$30.1 billion in 2018.

Net Interest Margin and Net Interest Income

Year ended <i>(\$ in millions)</i>	December 31, 2019			December 31, 2018		
	Average Balance	Average Rate	Interest Income/Expense	Average Balance	Average Rate	Interest Income/Expense
Interest earning assets						
Loans	\$ 104,351	3.53%	\$ 3,688	100,644	3.33%	\$ 3,349
Investments	32,690	2.39%	780	30,081	2.27%	682
Total	137,041	3.26%	4,468	130,725	3.08%	4,031
Interest bearing liabilities	126,286	2.43%	3,069	120,976	2.15%	2,600
Interest rate spread		0.83%			0.93%	
Impact of equity financing	\$ 10,135	0.19%		\$ 9,068	0.16%	
Net interest margin & net interest income		1.02%	\$ 1,399		1.09%	\$ 1,431

CREDIT QUALITY

While our overall loan quality measures remain strong at Dec. 31, 2019, we experienced deterioration in certain credit quality metrics in 2019. Special Mention loans and accrued interest, excluding wholesale loans to Associations, increased to 2.67% of total loans and accrued interest at Dec. 31, 2019, from 1.88% at Dec. 31, 2018. The level of adversely classified loans (“Substandard,” “Doubtful” and “Loss”) and related accrued interest as a percent of total loans and accrued interest increased to 1.30% at Dec. 31, 2019, compared to 1.21% at Dec. 31, 2018. These increases primarily resulted from deterioration in credit quality in our Agribusiness and Rural Infrastructure operating segments.

Loan Quality Ratios

	December 31, 2019			December 31, 2018		
	Wholesale Loans	Commercial Loans	Total	Wholesale Loans	Commercial Loans	Total
Acceptable	94.50%	94.73%	94.61%	98.95%	95.86%	97.37%
Special Mention	5.50%	2.67%	4.09%	0.93%	1.88%	1.42%
Substandard	-	2.56%	1.28%	0.12%	2.25%	1.20%
Doubtful	-	0.04%	0.02%	-	0.01%	0.01%
Loss	-	-	-	-	-	-
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

BALANCE SHEET INFORMATION

(period-end)

	December 31, 2019		December 31, 2018	
	(Unaudited)			
(\$ in millions)				
Loans	\$	108,854	\$	104,494
Less: Allowance for loan losses		655		622
Net loans		108,199		103,872
Cash		949		1,368
Federal funds sold and other overnight funds		1,810		1,300
Investment securities		32,426		31,292
Accrued interest receivable		453		455
Interest rate swaps and other financial instruments		381		256
Other assets		786		473
Total assets	\$	145,004	\$	139,016
Bonds and notes	\$	132,230	\$	127,632
Accrued interest payable		426		433
Interest rate swaps and other financial instruments		263		155
Reserve for unfunded commitments		92		82
Other liabilities		1,426		1,179
Total liabilities		134,437		129,481
Shareholders' equity		10,567		9,535
Total liabilities and shareholders' equity	\$	145,004	\$	139,016

STATEMENT OF INCOME INFORMATION

	Three months ended December 31,		Year ended December 31,					
	2019	2018	2019	2018				
(\$ in millions)	(Unaudited)		(Unaudited)					
Interest income	\$	1,043	\$	1,084	\$	4,468	\$	4,031
Interest expense		691		737		3,069		2,600
Net interest income		352		347		1,399		1,431
Provision for loan losses		31		23		57		66
Net interest income after provision for loan losses		321		324		1,342		1,365
Noninterest income		52		56		221		290
Operating expenses		112		103		404		364
(Income tax benefit) provision for income taxes		(29)		23		68		100
Net income	\$	290	\$	254	\$	1,091	\$	1,191

2019 EARNINGS WEBCAST AND CONFERENCE CALL

The bank will hold its annual year-end earnings conference call and webcast at 12:00 p.m. Mountain Time on Tuesday, February 25. The 60-minute call will feature a presentation of 2019 financial highlights and remarks from CoBank President and Chief Executive Officer Thomas Halverson, Chief Financial Officer David Burlage, and Board Chair Kevin Riel. Customer-owners and other participants will be able to submit questions during the call.

To join via phone, call 833-659-7625 and use passcode 5355599. To join via the Internet, visit <https://edge.media-server.com/mmc/p/kh6jct5g>.

CUSTOMER MEETINGS

CoBank will provide more information about its 2019 financial results at its annual series of regional customer meetings, which will take place in multiple cities around the country through April 2020. Managers and directors of any CoBank borrower are invited to attend these meetings, as are representatives of Farm Credit institutions.

For complete details about the meeting program, please visit the bank's events page at www.cobank.com/events.

ABOUT COBANK

CoBank is a \$145 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.

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 are subject to various 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.

For more information about CoBank, visit www.cobank.com.

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