NGFA Annual Convention
Open Forum Presentation
Financing and Capital Availability
March 13, 2011

Presentation by:
Robert E. Egerton Jr. , Eastern Division President
CoBank, Regional Agribusiness Banking Division

CoBANK™
COOPERATIVE. CONNECTED. COMMITTED.

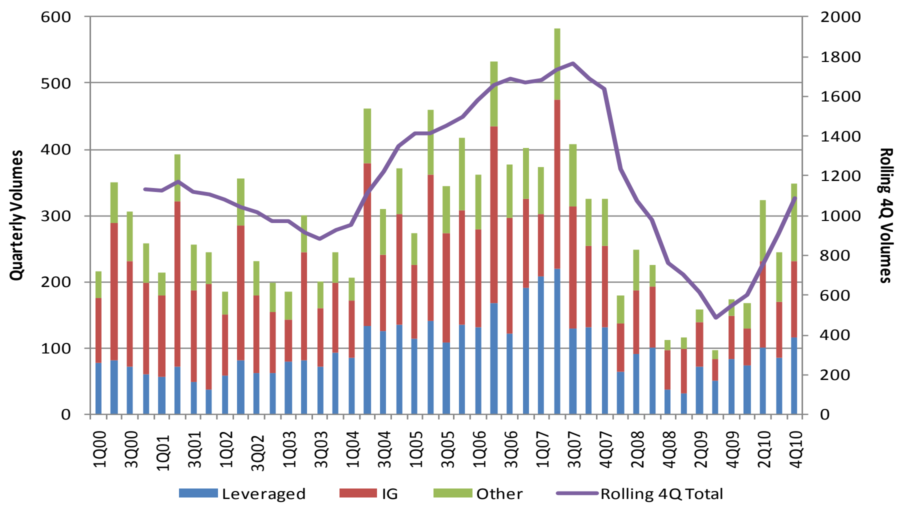
Proud Member of the Farm Credit System

Bank Market Overview

➢ Bank loan volumes have rebounded sharply since the depths of the credit crisis.

- 4Q10 volumes were the highest in 10 quarters.
- 4Q10 volumes were double 4Q09.
- Last twelve month loan volumes exceeded $1 trillion for the first time since 2008.

Bank Loan Volumes ($ in Billions)



Source: Thomson Reuters LPC

Grain 2010-2011

- CoBank's activity with grain merchandisers was particularly busy in 4Q2010 with over $3 billion of syndicated loan volume.

- Overall, new loan pricing was as follows:
  - Strongest borrowers received pricing at LIBOR plus 200-225 bps,
  - The majority of the portfolio received pricing at Libor plus 250-275 bps, and
  - Less profitable, less capitalized borrowers received pricing at Libor plus 300 bps.

- Arrangement fees were 12.5 bps or more (depending on tenor) on syndicated bank facilities and up-fronts fees ranged from 10 and 30 basis points (depending on tenor and credit quality).

COBANK

2011 Bank Market Outlook

- The general economy and corporate profits are growing fast enough to keep default rates declining, yet slow enough to keep domestic inflation in check.
  - The commodity market rally is causing new global inflation concerns.
  - As banks continue to rebuild balance sheets, liquidity should remain strong.
- We believe the major volatility risks remain similar to those in 2010.
  - Political / event risk.
  - European debt crisis.
  - Domestic legislative uncertainty but to a lesser extent (e.g. cap & trade, healthcare, taxes, deficits).
  - Monetary policy.
  - Increased bank capital requirements (Basel rules).
  - Continued uncertainty regarding real estate problems (e.g. foreclosure litigation of late).

COBANK™

Investor Overview

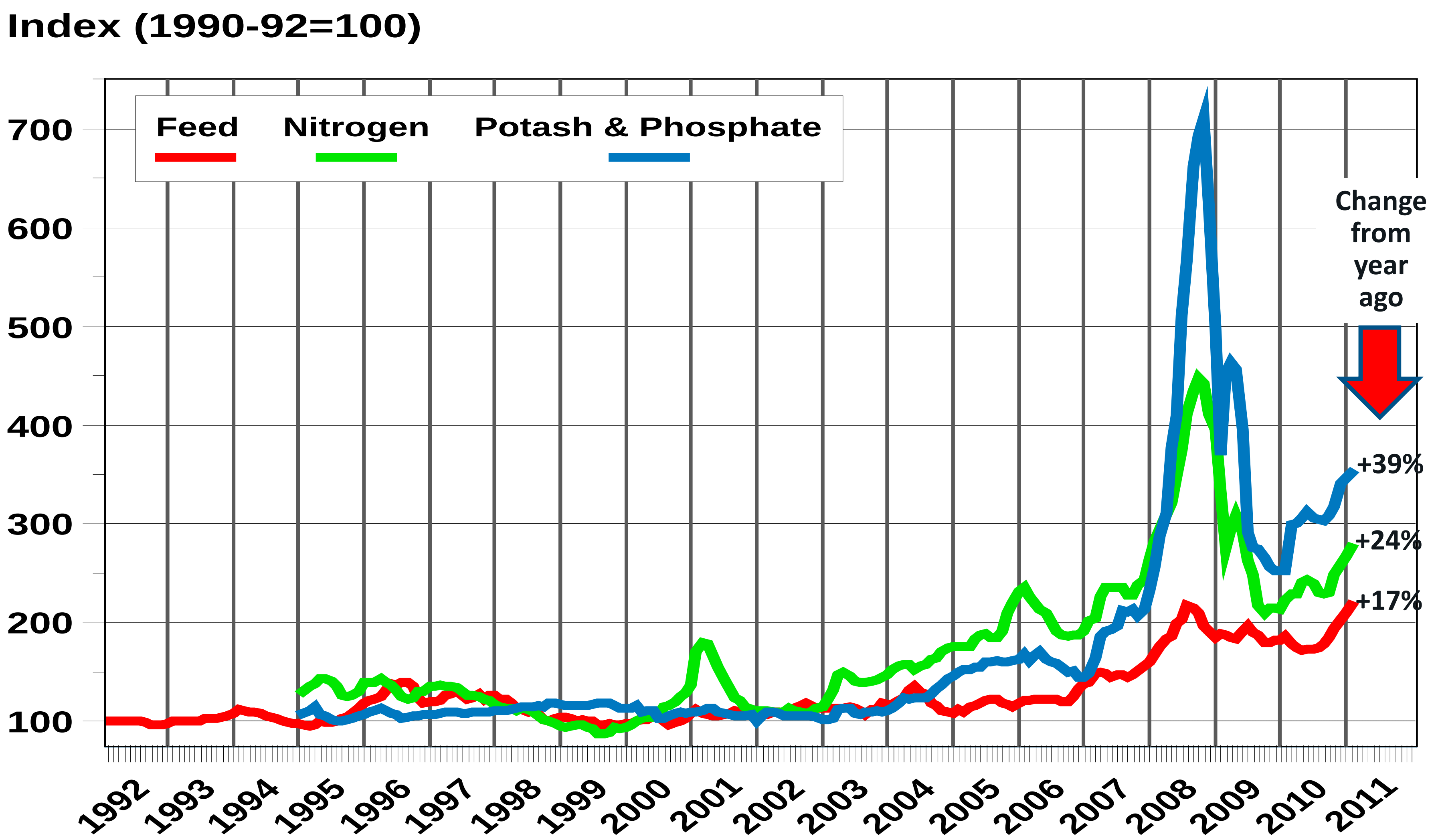
- Farm Credit System
  - The loan portfolios of FCS institutions are characterized by good and improving credit quality.
  - Well capitalized, these lenders retain ample lending capacity for commodity-based financing opportunities.
  - Associations and banks have annual asset growth objectives of mid- to upper single digits.
  - FCS institutions have strong interest in adding loans, particularly funded assets.

- Domestic Commercial Lenders
  - Executing plans for desired business lines and relationships.
  - Portfolio growth objectives and improving capitalizations are fueling the next wave of aggressively priced and structured loan assets.

How did CoBank respond to volatility in grain oilseed prices in 2008 & 2010 & fertilizer volatility in 2009?

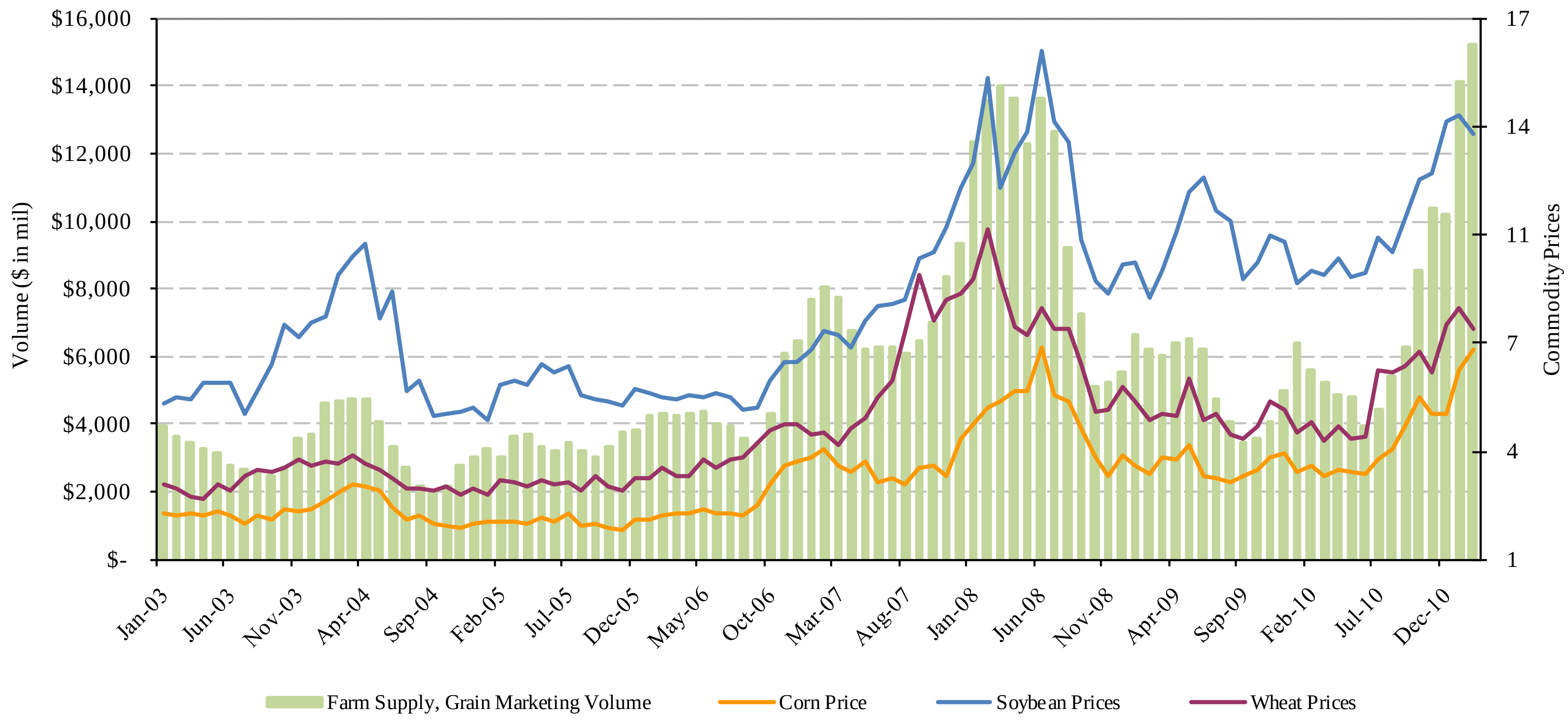
- CoBank loan volume increased.
  - $5.6 B in first two months of 2008 and $5.2 B first two months of 2011.
- Not a one size fits all strategy.
- Significant difference between well capitalized, profitable companies, & highly leveraged break even companies.

Key Crop Input Prices Set Globally and Likely to Remain Volatile



COBANK

ABG Loan Volume and Commodity Prices



COBANK

Lending Limits

- Most frequent question we get in commodity markets like 2008 & 2010 is how much will you lend – What is last $ I can borrow?

- The answer is unique to each customer and depends on their capacity to borrow.

- For those customers where a Borrowing Base Report is required, there are different advance rates for various assets – higher the closer to cash; lower the less liquid.
  - Grain in inventory supported by warehouse receipts - 90% advance; A/R over 90 days – 0 advance

Asset Based Lending Approach

More of an Asset Based Lending approach:

- We require a board approved risk management policy to set limits for management to operate within.
- If balance sheet and earnings statement will support, we provide term debt to build working capital.
- Require independent appraisals to support asset values.
- Increased reporting:
  - Monthly vs. quarterly
  - Grain position reports & brokerage statements
  - Detailed crop input inventory reports marked to market
  - Accounts receivable aging
  - Cash flow forecasts
  - Budgets

Asset Based Lending Approach

- Increased reporting (cont.):
  - Marketing plan
  - Borrowing Base position reports
    - Usually monthly, but sometimes to support each advance
  - Review of contracts and questions about counter parties

- As credit needs increase, we sell loan participations or syndicate loans to spread risk.

CoBank Participation Business

CoBank Loans Sold:

1100 loans for $15.6 B to 48 Farm Credit institutions

180 loan participations for $ 5.7 B to 89 Commercial Banks

$21.3 B to 137 institutions

CoBank Loans Purchased:

500 loans for $ 5.0 B from 38 Farm Credit institutions

300 loans for $ 7.2 B from 71 Commercial Banks

$12.2 B from 109 institutions

COBANK

Owner Vs. Lender Risk

- Our business is similar to yours in many respects.
  - Both dealing with an undifferentiated commodity
  - Intelligent assessment of risk including who you are doing business with
  - The greater the uncertainty the higher the risk
- Current year contracts are advanced against but at a lower rate than grain in inventory.
- Contracts for first year new crop have an even lower advance rate and second year new crop is generally zero.

  We are not saying you can't or shouldn't enter into these contracts – that is a management decision. What we are saying is this represents owner vs. lender risk – need to have enough capital & liquidity to carry and fund margin calls.

- Likewise, hybrid type contracts - where price and delivery dates are not known, looks more like equity risk to us.

CoBANK

Borrowing Base Report Submission

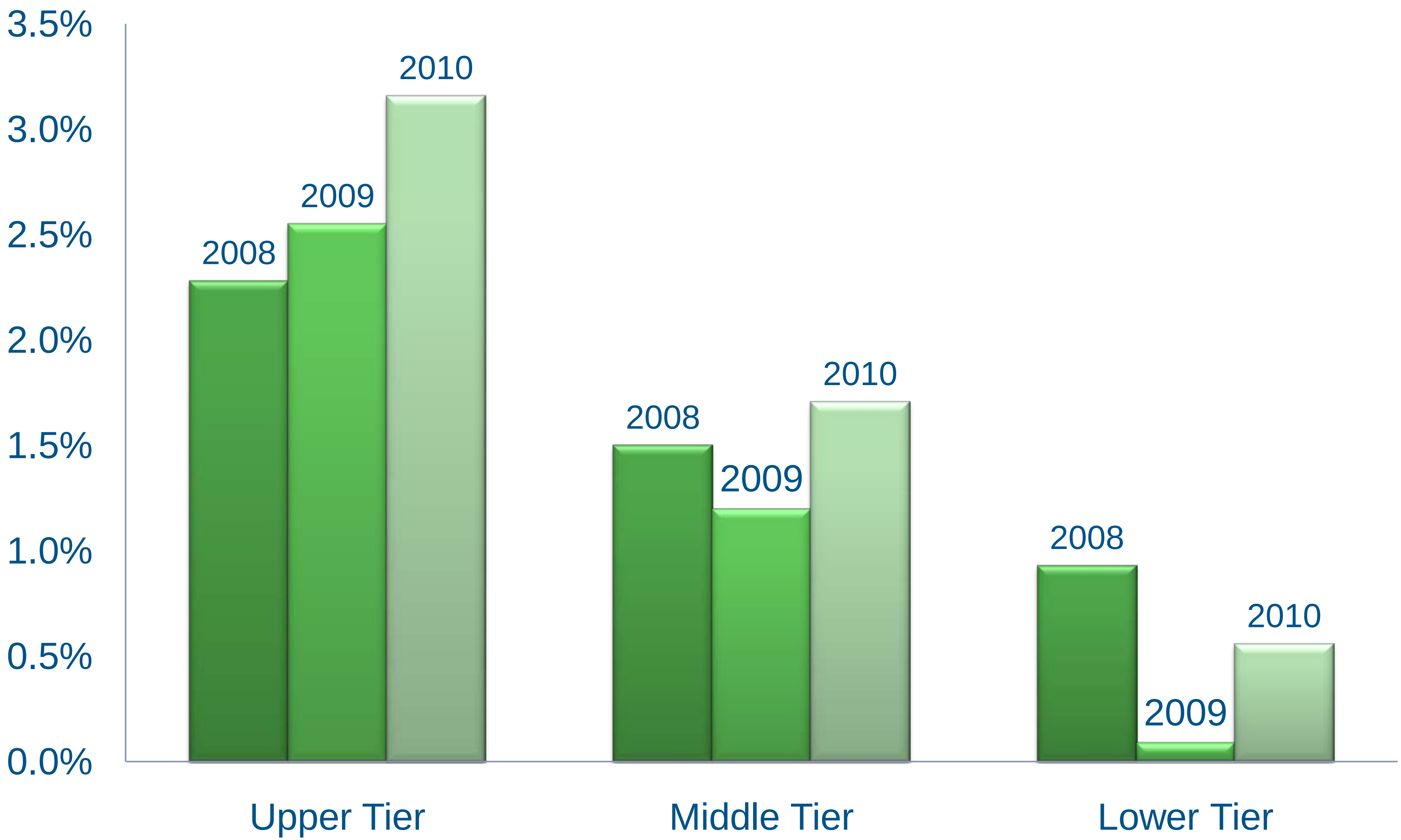
- Half of CoBank grain and farm supply customers are not required to submit at all; depends on working capital of company.

- You are competing against these companies and low liquidity, excessive leverage or weak earnings puts you at distinct disadvantage.

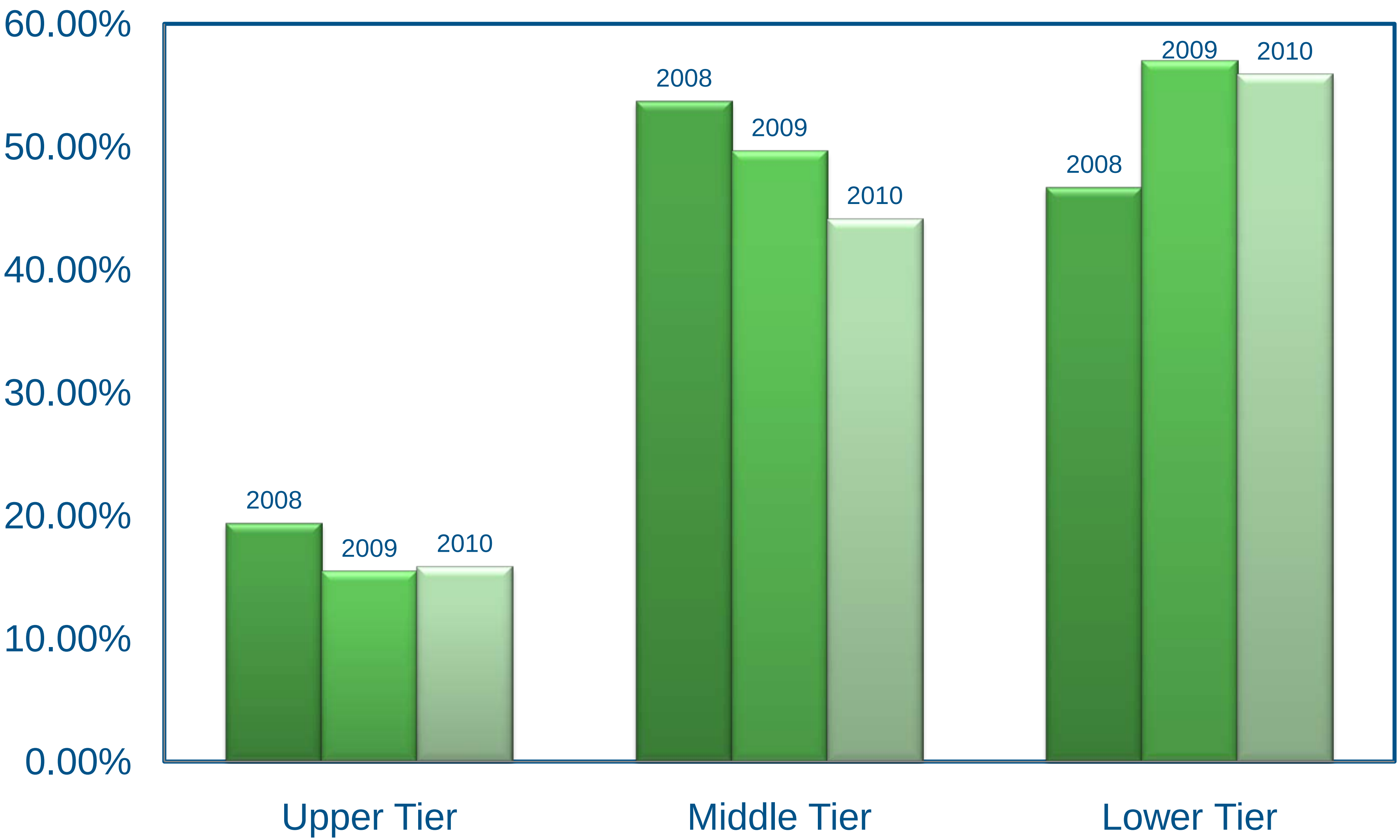
Peer Comparison Financial Results

- 660 Grain & Farm Supply customers throughout the U.S. with average sales of $78 million.
- Sales across the three groups are similar in size however the Upper Tier reported a higher concentration of grain sales.
- ROE for the Upper Tier averaged 21% vs. 11-16% for other groups.
- ROA for the Upper Tier averaged 8.5% vs. 4-6% for other groups.
- Inventory & Receivable Turns are similar across the groups.
- The Upper Tier reported stronger Operating Efficiencies.
  - Operating Expenses to Sales-averaged 7.8% vs. 9.5%
  - Labor to Gross Income Ratio-averaged 32% vs. 36%
    - Personnel Expenses increased an average of 18% in 2010 for all groups

Local Savings to Sales Percentage

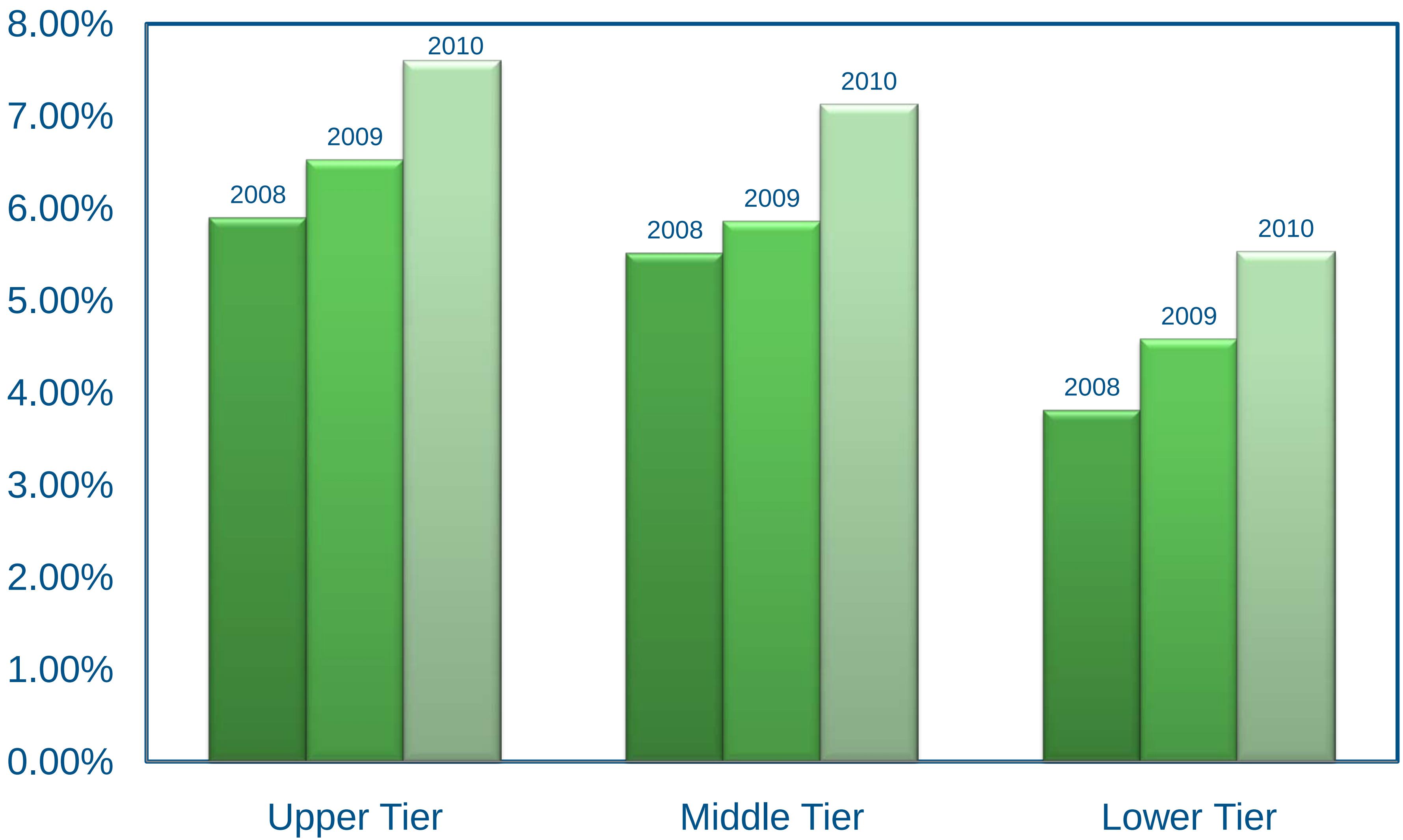


Local Leverage Percentage



CoBANK

Working Capital to Sales Percentage

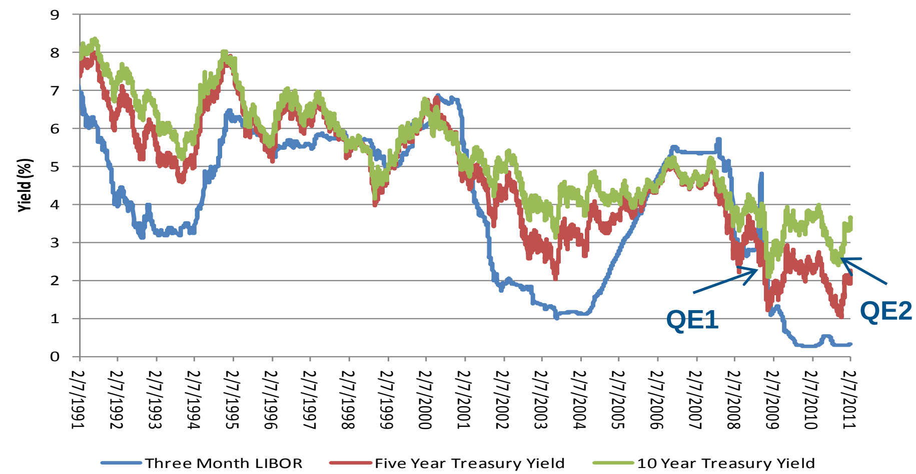


Interest Rates

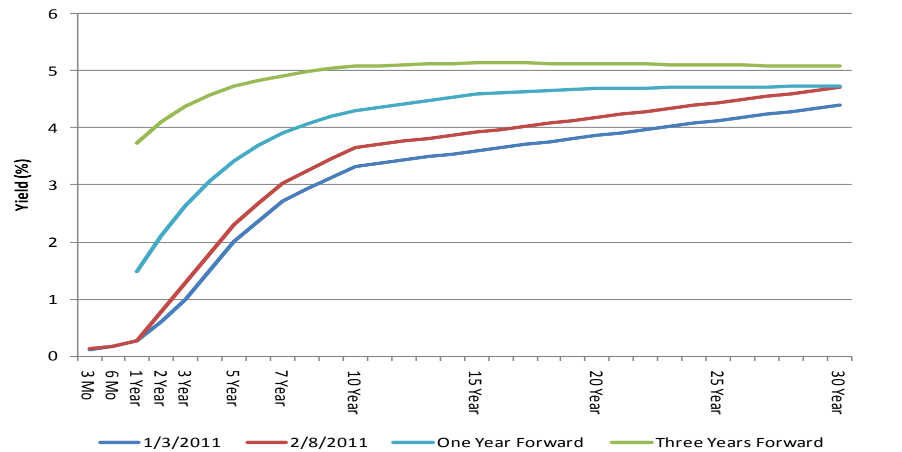
- Rates remain near historic lows. Over the past 20 years:
  - Three Month LIBOR has exceeded its current level nearly 95% of the time.
  - The Five Year Treasury Yield has exceeded its current level 92% of the time.
  - The 10 Year Treasury Yield has exceeded its current level 89% of the time.

- The steepness of the yield curve points to higher future rates.
  - The 10 Year Treasury Yield has risen ~30 bps from the beginning of the year to 3.66%.
  - The One Year Forward Curve projects a 10 year yield above 4.25%.
  - The Three Year Forward Curve projects a 10 year yield above 5.00%

Historic Interest Rates



Yield Curve: Historical, Current and Forward



COBANK

What Should You Look For in A Financial Partner

1. **Expertise** and long term commitment to your industry.

   - do they understand margin requirements on financial contracts and will they (can they?) fund

2. **Responsiveness**, Can they consistently make decisions on your time line?

   - are they distracted with other priorities such as troubled loans

3. **Capacity** – Do they have balance sheet or access to participants to meet future financing needs?

4. **Competitive Rates and Terms**