NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-Q
October 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-7102

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(Exact name of registrant as specified in its charter)

District of Columbia	52-0891669
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20701 Cooperative Way, Dulles, Virginia, 20166
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (703) 467-1800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)
FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements that are considered “forward-looking statements” within the Securities Act of 1933, as amended, and the Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “ “expect,” “continue,” “potential,” “opportunity” and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the appropriateness of the allowance for loan losses, operating income and expenses, leverage and debt-to-equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance may differ materially from our forward-looking statements due to several factors. Factors that could cause future results to vary from our forward-looking statements include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, nonperformance of counterparties to our derivative agreements, the costs and effects of legal or governmental proceedings involving us or our members and the factors listed and described under “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2017 (“2017 Form 10-K”). Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.
INTRODUCTION

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. As a member-owned cooperative, CFC’s objective is not to maximize profit, but rather to offer its members cost-based financial products and services. CFC funds its activities primarily through a combination of public and private issuances of debt securities, member investments and retained equity. As a Section 501(c)(4) tax-exempt, member-owned cooperative, we cannot issue equity securities.

Our financial statements include the consolidated accounts of CFC, National Cooperative Services Corporation (“NCSC”), Rural Telephone Finance Cooperative (“RTFC”) and subsidiaries created and controlled by CFC to hold foreclosed assets resulting from defaulted loans or bankruptcy. NCSC is a taxable member-owned cooperative that may provide financing to members of CFC, government or quasi-government entities which own electric utility systems that meet the Rural Electrification Act definition of “rural” and for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. RTFC is a taxable Subchapter T cooperative association that provides financing for its rural telecommunications members and their affiliates. CFC did not have any entities that held foreclosed assets as of August 31, 2017 or May 31, 2017. See “Item 1. Business—Overview” of our 2017 Form 10-K for additional information on the business activities of each of these entities. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities. All references to members within this document include members, associates and affiliates of CFC and its consolidated entities.

Management monitors a variety of key indicators to evaluate our business performance. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by discussing the drivers of changes from period to period and the key measures used by management to evaluate performance, such as net interest income, net interest yield, loan growth, debt-to-equity ratio, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes in this Report, our audited consolidated financial statements and related notes in our 2017 Form 10-K and additional information contained in our 2017 Form 10-K, including the risk factors discussed under "Part I—Item 1A. Risk Factors," as well as any risk factors identified under "Part II—Item 1A. Risk Factors" in this Report.

SUMMARY OF SELECTED FINANCIAL DATA

Table 1 provides a summary of consolidated selected financial data for the three months ended August 31, 2017 and 2016, and as of August 31, 2017 and May 31, 2017. In addition to financial measures determined in accordance with generally accepted accounting principles in the United States ("GAAP"), management also evaluates performance based on certain non-GAAP measures and metrics, which we refer to as "adjusted" measures. Certain financial covenant provisions in our credit agreements are also based on non-GAAP financial measures. Our key non-GAAP financial measures include adjusted net income, adjusted net interest income, adjusted interest expense, adjusted net interest yield, adjusted times interest earned ratio ("adjusted TIER"), adjusted debt-to-equity ratio and adjusted leverage ratio. The adjusted leverage ratio is a non-GAAP measure included as a covenant in our committed bank revolving line of credit agreements. The most comparable GAAP measures are net income, net interest income, interest expense, net interest yield, TIER, debt-to-equity ratio and leverage ratio, respectively. The primary adjustments we make to calculate these non-GAAP measures consist of (i) adjusting interest expense and net interest income to include the impact of net periodic derivative cash settlements; (ii) adjusting net income, senior debt and total equity to exclude the non-cash impact of the accounting for derivative financial instruments; (iii) adjusting senior debt to exclude the amount that funds CFC member loans guaranteed by RUS, subordinated deferrable debt and members' subordinated certificates; and (iv) adjusting total equity to include subordinated deferrable debt and members' subordinated certificates and exclude cumulative derivative forward value gains and losses and accumulated other comprehensive income. We believe our non-GAAP adjusted measures, which are not a substitute for GAAP and may not be consistent with similarly titled non-GAAP measures used by other companies, provide meaningful information and are useful to investors because management evaluates performance based on these metrics, and the financial covenants in our committed bank revolving line of credit agreements and debt indentures are based on adjusted TIER and adjusted leverage ratios. See "Non-GAAP Financial Measures" for a detailed reconciliation of these adjusted measures to the most comparable GAAP measures.

Table 1: Summary of Selected Financial Data

	Three Months Ended August 31,		Increase/
(Dollars in thousands)	2017	2016	(Decrease)
Statement of operations			
Interest income	$265,915	$256,835	4%
Interest expense	(192,731)	(181,080)	6
Net interest income	73,184	75,755	(3)
Fee and other income	3,945	4,530	(13)
Total net revenue	77,129	80,285	(4)
Benefit (provision) for loan losses	298	(1,928)	**
Derivative losses[1]	(46,198)	(188,293)	(75)
Results of operations of foreclosed assets	(24)	(1,112)	(98)
Operating expenses[2]	(21,636)	(20,859)	4
Other non-interest expense	(522)	(443)	18

Income (loss) before income taxes	9,047	(132,350)	**
Income tax expense	(32)	89	**
Net income (loss)	$9,015	$(132,261)	**

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	Three Months Ended August 31, 2017	2016	Increase/ (Decrease)
Adjusted operational financial measures			
Adjusted interest expense[3]	$(212,953)	$(204,470)	4%
Adjusted net interest income[3]	52,962	52,365	1
Adjusted net income[3]	34,991	32,642	7
Selected ratios[4]			
Fixed-charge coverage ratio/TIER [5]	1.05	0.27	78 bps
Adjusted TIER[3]	1.16	1.16	—
Net interest yield[6]	1.16 %	1.26 %	(10)
Adjusted net interest yield[7][3]	0.84 %	0.86 %	(2)
Net charge-off rate[8]	—	0.04	(4)

	August 31, 2017	May 31, 2017	Increase/ (Decrease)
Balance sheet			
Cash, investments and time deposits	$487,375	$485,169	—%
Loans to members[9]	24,642,077	24,367,044	1
Allowance for loan losses	(37,078)	(37,376)	(1)
Loans to members, net	24,604,999	24,329,668	1
Total assets	25,480,526	25,205,692	1
Short-term borrowings	3,074,660	3,342,900	(8)
Long-term debt	18,428,819	17,955,594	3
Subordinated deferrable debt	742,307	742,274	—
Members' subordinated certificates	1,418,207	1,419,025	—
Total debt outstanding	23,663,993	23,459,793	1
Total liabilities	24,418,946	24,106,887	1
Total equity	1,061,580	1,098,805	(3)
Guarantees [10]	824,264	889,617	(7)
Selected ratios period end[4]			
Allowance coverage ratio[11]	0.15 %	0.15 %	—
Debt-to-equity ratio[12]	23.00	21.94	106
Leverage ratio[13]	23.78	22.75	103
Adjusted debt-to-equity ratio[3]	6.05	5.95	10
Adjusted leverage ratio[3]	6.28	6.19	9

** Change is not meaningful.

[1]Consists of derivative cash settlements and derivative forward value gains (losses). Derivative cash settlement amounts represent net periodic contractual interest accruals related to derivatives not designated for hedge accounting. Derivative forward value gains (losses) represent changes in fair value during the period, excluding net periodic contractual interest accruals, related to derivatives not designated for hedge accounting and expense amounts reclassified into income related to the cumulative transition loss recorded in accumulated other comprehensive income as of June 1, 2001, as a result of the adoption of the derivative accounting guidance that required derivatives to be reported at fair value on the balance sheet.

[2]Consists of salaries and employee benefits and the other general and administrative expenses components of non-interest expense, each of which are presented separately on our consolidated statements of operations.

(3)See "Non-GAAP Financial Measures" for details on the calculation of these non-GAAP adjusted measures and the reconciliation to the most comparable GAAP measures.
(4)Selected metrics and ratios represent percentage amounts.
(5)Calculated based on net income (loss) plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same during each period presented because we did not have any capitalized interest during these periods.
(6)Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
(7)Calculated based on annualized adjusted net interest income for the period divided by average interest-earning assets for the period.
(8)Calculated based on annualized net charge-offs (recoveries) for the period divided by average total outstanding loans for the period.

(9)Consists of the outstanding principal balance of member loans plus unamortized deferred loan origination costs, which totaled $11 million as of both August 31, 2017 and May 31, 2017.
(10)Reflects the total amount of member obligations for which CFC has guaranteed payment to a third party as of the end of each period. This amount represents our maximum exposure to loss, which significantly exceeds the guarantee liability recorded on our consolidated balance sheets. See “Note 10—Guarantees” for additional information.
(11)Calculated based on the allowance for loan losses at period end divided by total outstanding loans at period end.
(12)Calculated based on total liabilities at period end divided by total equity at period end.
(13)Calculated based on total liabilities and guarantees at period end divided by total equity at period end.

EXECUTIVE SUMMARY

Our primary objective as a member-owned cooperative lender is to provide cost-based financial products to our rural electric members while maintaining a sound financial position required for investment-grade credit ratings on our debt instruments. Our objective is not to maximize net income; therefore, the rates we charge our member-borrowers reflect our adjusted interest expense plus a spread to cover our operating expenses, a provision for loan losses and earnings sufficient to achieve interest coverage to meet our financial objectives. Our goal is to earn an annual minimum adjusted TIER of 1.10 and to maintain an adjusted debt-to-equity ratio at approximately or below 6.00-to-1.

We are subject to period-to-period volatility in our reported GAAP results due to changes in market conditions and differences in the way our financial assets and liabilities are accounted for under GAAP. Our financial assets and liabilities expose us to interest-rate risk. We use derivatives, primarily interest rate swaps, as part of our strategy in managing this risk. Our derivatives are intended to economically hedge and manage the interest-rate sensitivity mismatch between our financial assets and liabilities. We are required under GAAP to carry derivatives at fair value on our consolidated balance sheet; however, the financial assets and liabilities for which we use derivatives to economically hedge are carried at amortized cost. Changes in interest rates and spreads result in periodic fluctuations in the fair value of our derivatives, which may cause volatility in our earnings because we do not apply hedge accounting. As a result, the mark-to-market changes in our derivatives are recorded in earnings. Based on the composition of our derivatives, we generally record derivative losses in earnings when interest rates decline and derivative gains when interest rates rise. This earnings volatility generally is not indicative of the underlying economics of our business, as the derivative forward fair value gains or losses recorded each period may or may not be realized over time, depending on the terms of our derivative instruments and future changes in market conditions that impact actual derivative cash settlement amounts. As such, management uses our adjusted non- GAAP results, which include realized net periodic derivative settlements but exclude the impact of unrealized derivative forward fair value gains and losses, to evaluate our operating performance. Because derivative forward fair value gains and losses do not impact our cash flows, liquidity or ability to service our debt costs, our financial debt covenants are also based on our non-GAAP adjusted results.

Financial Performance

Reported Results

We reported net income of $9 million and a TIER of 1.05 for the quarter ended August 31, 2017 (“current quarter”), compared with a net loss of $132 million and a TIER of 0.27 for the same prior-year quarter. Our debt-to-equity ratio increased to 23.00-to-1 as of August 31, 2017, from 21.94-to-1 as of May 31, 2017, primarily due to an increase in debt outstanding to fund loan growth and a decrease in equity resulting from the CFC Board of Directors authorization in the current quarter to retire patronage capital of $45 million.

The variance of $141 million between our reported net income of $9 million for the current quarter and our net loss of $132 million for the same prior-year quarter was driven primarily by mark-to-market changes in the fair value of our derivatives. We recognized derivative losses of $46 million in the current quarter, which were largely due to a modest flattening of the yield curve as interest rates on the shorter end of the curve rose while medium and longer-term interest rates declined slightly. In comparison we recognized derivative losses of $188 million in the same prior-year quarter, attributable to more pronounced flattening of the yield curve during the period. In addition, we experienced a decrease in net interest income of $3 million and an increase in operating expenses of $1 million, which were largely offset by a favorable shift in the provision for loan losses of $2 million and a decrease in charges related to foreclosed assets of $1 million.

Adjusted Non-GAAP Results

Adjusted net income totaled $35 million and adjusted TIER was 1.16 for the current quarter, compared with adjusted net income of $33 million and adjusted TIER of 1.16 for the same prior-year quarter. Our adjusted debt-to-equity ratio increased to 6.05-to-1 as of August 31, 2017, from 5.95-to-1 as of May 31, 2017, due to the combined impact of the increase in debt outstanding to fund loan growth and the decrease in equity resulting from the CFC Board of Directors authorization in the current quarter to retire patronage capital.

The increase of $2 million in adjusted net income in the current quarter from the same prior-year quarter was primarily driven by the favorable shift in the provision for loan losses of $2 million and decrease in charges related to foreclosed assets of $1 million, which were partially offset by the increase in operating expenses of $1 million.

Lending Activity

Loans to members totaled $24,642 million as of August 31, 2017, an increase of $275 million, or 1%, from May 31, 2017. The increase was primarily due an increase in CFC distribution loans of $244 million and an increase in NCSC loans of $45 million, which were partially offset by a decrease in CFC power supply loans of $14 million. The net increase in loans outstanding was largely attributable to member advances for capital investments and members refinancing with us loans made by other lenders.

CFC had long-term fixed-rate loans totaling $150 million that were scheduled to reprice during the current quarter. Of this total, $128 million repriced to a new long-term fixed rate, $21 million repriced to a long-term variable rate and $1 million were repaid in full.

Financing Activity

Our outstanding debt volume generally increases and decreases in response to member loan demand. As total outstanding loans increased during the current quarter, our debt volume also increased. Total debt outstanding was $23,664 million as of August 31, 2017, an increase of $204 million, or 1%, from May 31, 2017. The increase was primarily attributable to a net increase in dealer medium-term notes of $396 million, a net increase in our member investments of $217 million and a net increase in notes payable to the Federal Financing Bank under the Guaranteed Underwriter Program of the USDA ("Guaranteed Underwriter Program") of $88 million. These increases were partially offset by a net decrease in dealer commercial paper outstanding of $490 million.

We issued $350 million principal amount of dealer medium-term notes and received advances of $100 million under the Guaranteed Underwriter Program during the three months ended August 31, 2017.

We provide additional information on our financing activities below under "Consolidated Balance Sheet Analysis—Debt" and "Liquidity Risk."

Outlook for the Next 12 Months

We currently expect the amount of long-term loan advances to exceed anticipated loan repayments over the next 12 months. We expect net interest income and adjusted net interest income to be relatively flat over the next 12 months, reflecting a projected slight increase in average total loans and a relatively stable net interest yield and adjusted net interest yield.

Long-term debt scheduled to mature over the next 12 months totaled $1,453 million as of August 31, 2017. We believe we have sufficient liquidity from the combination of existing cash and time deposits, member loan repayments, committed bank revolving lines of credit and our ability to issue debt in the capital markets, to our members and in private placements, to meet the demand for member loan advances and satisfy our obligations to repay long-term debt maturing over the next 12 months. As of August 31, 2017, we had access to liquidity reserves totaling $6,483 million, which consisted of (i) $396 million in cash and cash equivalents and time deposits, (ii) up to $625 million available under committed loan facilities under the Guaranteed Underwriter Program, (iii) up to $3,164 million available under committed bank revolving line of credit agreements, (iv) up to $300 million available under a committed revolving note purchase agreement with Farmer Mac, and (v) up to $1,998 million available under a revolving note purchase agreement with Farmer Mac, subject to market conditions. On August 14, 2017, we received a commitment from RUS for the guarantee of a $750 million loan facility from the Federal Financing Bank under the Guaranteed Underwriter Program. The amount available for access under the Guaranteed Underwriter Program, based on amounts advanced to us as of August 31, 2017, will increase to $1,375 million upon closing of the facility.

We believe we can continue to roll over outstanding member short-term debt of $2,565 million as of August 31, 2017, based on our expectation that our members will continue to reinvest their excess cash in our commercial paper, daily liquidity fund, select notes and medium-term notes. Although we expect to continue accessing the dealer commercial paper market to help meet our liquidity needs, we intend to manage our short-term wholesale funding risk by maintaining outstanding dealer commercial paper at an amount below $1,250 million for the foreseeable future. We expect to continue to be in compliance with the covenants under our committed bank revolving line of credit agreements, which will allow us to mitigate our roll-over risk as we can draw on these facilities to repay dealer or member commercial paper that cannot be
rolled over.

While we are not subject to bank regulatory capital rules, we generally aim to maintain an adjusted debt-to-equity ratio at approximately or below 6.00-to-1. Our adjusted debt-to-equity ratio was 6.05 as of August 31, 2017, slightly above our targeted threshold due to the combined impact of the increase in debt outstanding to fund loan growth and the decrease in adjusted equity resulting from the CFC Board of Directors authorization in the current quarter to retire patronage capital of $45 million. We expect to maintain our adjusted debt-to-equity ratio at approximately 6.00-to-1 over the next 12 months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management's judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a discussion of our significant accounting policies under "Note 1—Summary of Significant Accounting Policies" in our 2017 Form 10-K.

We have identified certain accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our results of operations or financial condition. Our most critical accounting policies and estimates involve the determination of the allowance for loan losses and fair value. We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. There were no material changes in the assumptions used in our critical accounting policies and estimates during the current quarter. Management has discussed significant judgments and assumptions in applying our critical accounting policies with the Audit Committee of our board of directors. We provide information on the methodologies and key assumptions used in our critical accounting policies and estimates under "MD&A—Critical Accounting Policies and Estimates" in our 2017 Form 10-K. See "Item 1A. Risk Factors" in our 2017 Form 10-K for a discussion of the risks associated with management's judgments and estimates in applying our accounting policies and methods.

ACCOUNTING CHANGES AND DEVELOPMENTS

See "Note 1—Summary of Significant Accounting Policies" for information on accounting standards adopted during the current quarter, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our results of operations, financial condition or liquidity, we discuss the impact in the applicable section(s) of this MD&A.

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CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our condensed consolidated results of operations between the three months ended August 31, 2017 and August 31, 2016. Following this section, we provide a comparative analysis of our condensed consolidated balance sheets as of August 31, 2017 and May 31, 2017. You should read these sections together with our “Executive Summary—Outlook for the Next 12 Months” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities plus the impact from non-interest bearing funding. We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. We do not fund each individual loan with specific debt. Rather, we attempt to minimize costs and maximize efficiency by funding large aggregated amounts of loans.

Table 2 presents our average balance sheets for the three months ended August 31, 2017 and 2016, and for each major category of our interest-earning assets and interest-bearing liabilities, the interest income earned or interest expense incurred, and the average yield or cost. Table 2 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net accrued periodic derivative cash settlements in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under “Non-GAAP Financial Measures.”

Table 2: Average Balances, Interest Income/Interest Expense and Average Yield/Cost

	Three Months Ended August 31,							
(Dollars in thousands)	2017				2016			
Assets:	Average Balance	Interest Income/Expense	Average Yield/Cost		Average Balance	Interest Income/Expense	Average Yield/Cost	
Long-term fixed-rate loans(1)	$22,371,291	$ 249,364	4.42	%	$21,625,527	$ 244,128	4.48	%
Long-term variable-rate loans	842,968	5,863	2.76		729,846	4,527	2.46	
Line of credit loans	1,353,349	8,707	2.55		1,043,797	5,966	2.27	
TDR loans(2)	13,122	226	6.83		17,223	218	5.02	
Other income, net(3)	—	(232)	—		—	(284)	—	
Total loans	24,580,730	263,928	4.26		23,416,393	254,555	4.31	
Cash, investments and time deposits	363,645	1,987	2.17		614,598	2,280	1.47	
Total interest-earning assets	$24,944,375	$ 265,915	4.23	%	$24,030,991	$ 256,835	4.24	%
Other assets, less allowance for loan losses	560,169				662,248			
Total assets	$25,504,544				$24,693,239			
Liabilities:								
Short-term borrowings	$3,223,476	$ 10,539	1.30	%	$2,924,285	$ 4,882	0.66	%
Medium-term notes	3,010,730	25,116	3.31		3,282,862	23,585	2.85	
Collateral trust bonds	7,635,433	85,277	4.43		7,254,420	85,049	4.65	
Long-term notes payable	7,538,511	47,482	2.50		7,113,046	43,129	2.41	
Subordinated deferrable debt	742,285	9,416	5.03		742,155	9,426	5.04	
Subordinated certificates	1,417,872	14,901	4.17		1,442,636	15,009	4.13	
Total interest-bearing liabilities	$23,568,307	$ 192,731	3.24	%	$22,759,404	$ 181,080	3.16	%
Other liabilities	853,196				1,153,537			
Total liabilities	24,421,503							