#### Edgar Filing: NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/ - Form 10-Q

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/ Form 10-O

April 11, 2018

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

FORM 10-O

OUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2018

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

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 Edgar Filing: NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/ - Form 10-Q 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

### TABLE OF CONTENTS

		Page
	<u>– FINANCIAL INFORMATIO</u> N	<u>1</u>
Item 1.	<u>Financial Statements</u>	<u>44</u>
	Condensed Consolidated Statements of Operations	<u>45</u>
	Condensed Consolidated Statements of Comprehensive Income	<u>46</u>
	Condensed Consolidated Balance Sheets	<u>47</u>
	Condensed Consolidated Statements of Changes in Equity	<u>48</u>
	Condensed Consolidated Statements of Cash Flows	<u>49</u>
	Notes to Condensed Consolidated Financial Statements	<u>49</u> <u>50</u> <u>50</u>
	Note 1 — Summary of Significant Accounting Policies	50
	Note 2 — Variable Interest Entities	<u>54</u>
	Note 3 — Investment Securities	54 55 58 67
	Note 4 — Loans and Commitments	58
	Note 5 — Short-Term Borrowings	<del>67</del>
	Note 6 — Long-Term Debt	<u>69</u>
	Note 7 — Subordinated Deferrable Debt	<del>70</del>
	Note 8 — Derivative Instruments and Hedging Activities	71
	Note 9 — Equity	74
	Note 10 — Guarantees	71 74 77 78
	Note 11 — Fair Value Measurement	<del>78</del>
	Note 12 — Business Segments	<u>81</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A	
Item 2.	Forward-Looking Statements	
	Introduction	1 2 4 6 7
	Summary of Selected Financial Data	2
	Executive Summary	<u>2</u> 4
	Critical Accounting Policies and Estimates	<u> </u>
	Accounting Changes and Other Developments	<u>0</u> 7
	Consolidated Results of Operations	7
	Consolidated Balance Sheet Analysis	<u>16</u>
	Off-Balance Sheet Arrangements	<u>10</u> <u>23</u>
	Risk Management	<u>25</u> <u>26</u>
	Credit Risk	<u>26</u>
		<u>20</u> <u>33</u>
	Liquidity Risk Moderat Risk	
	Market Risk Non-GAAR Financial Massaures	<u>40</u>
T4 2	Non-GAAP Financial Measures Operative in a Continuous about Made Pictor	41
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	<u>86</u>
<u>Item 4.</u>	Controls and Procedures	<u>86</u>
DADTII	OTHER INCORMATION	06
	<u>—OTHER INFORMATIO</u> N	<u>86</u>
Item 1.	Legal Proceedings  Diela Franken	<u>86</u>
Item 1A.	Risk Factors	<u>86</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>86</u>
Item 3.	Defaults Upon Senior Securities	<u>86</u>
Item 4.	Mine Safety Disclosures	<u>86</u>
Item 5.	Other Information	<u>86</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>87</u>

SIGNATURES 88

i

### INDEX OF MD&A TABLES

Table	Description	Page
—	MD&A Tables:	
1	Summary of Selected Financial Data	2
2	Average Balances, Interest Income/Interest Expense and Average Yield/Cost	8
3	Rate/Volume Analysis of Changes in Interest Income/Interest Expense	11
4	Non-Interest Income	13
5	Derivative Average Notional Amounts and Average Interest Rates	13
6	Derivative Gains (Losses)	15
7	Non-Interest Expense	16
8	Loans Outstanding by Type and Member Class	17
9	Historical Retention Rate and Repricing Selection	18
10	Total Debt Outstanding	19
11	Member Investments	20
12	Collateral Pledged	21
13	Unencumbered Loans	22
14	Guarantees Outstanding	23
15	Maturities of Guarantee Obligations	24
16	Unadvanced Loan Commitments	24
17	Notional Maturities of Unadvanced Loan Commitments	25
18	Maturities of Notional Amount of Unconditional Committed Lines of Credit	26
19	Loan Portfolio Security Profile	27
20	Credit Exposure to 20 Largest Borrowers	29
21	TDR Loans	30
22	Net Charge-Offs (Recoveries)	30
23	Allowance for Loan Losses	31
24	Rating Triggers for Derivatives	32
25	Liquidity Reserve	33
26	Committed Bank Revolving Line of Credit Agreements	34
27	Short-Term Borrowings	36
28	Issuances and Maturities of Long-Term and Subordinated Debt	37
29	Principal Maturity of Long-Term and Subordinated Debt	37
30	Projected Sources and Uses of Liquidity	38
31	Credit Ratings	39
32	Interest Rate Gap Analysis	41
33	Adjusted Financial Measures — Income Statement	42
34	TIER and Adjusted TIER	42
35	Adjusted Financial Measures — Balance Sheet	43
36	Debt-to-Equity Ratio	43
ii		

# Edgar Filing: NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/ - Form 10-Q

## PART I—FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("M