CoBank Quarterly District Financial Information September 30, 2017

Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations (Associations); and other businesses that serve agriculture and rural communities. The Associations make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of October 1, 2017, we have 22 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in the condensed consolidated quarterly financial statements presented in CoBank’s September 30, 2017 Quarterly Report to Shareholders. However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association quarterly financial information could be meaningful for purposes of additional analysis.

The Financial Highlights, Discussion and Analysis, and the Condensed Combined Statements of Income and Balance Sheets included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the “District.” As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Financial Highlights

($ in Thousands)

	September 30, 2017	December 31, 2016
Total Loans	$ **104,262,453**	$ 104,778,598
Less: Allowance for Loan Losses	**878,127**	855,319
Net Loans	**103,384,326**	103,923,279
Total Assets	**135,328,897**	136,536,716
Total Shareholders' Equity	**18,392,771**	17,339,280

For the Nine Months Ended September 30,	2017	2016
Net Interest Income	$ **2,139,309**	$ 2,051,221
Provision for Loan Losses	**55,431**	88,522
Net Fee Income	**100,937**	102,602
Net Income	**1,369,075**	1,287,449
Net Interest Margin	**2.11 %**	2.14 %
Return on Average Assets	**1.33**	1.32
Return on Average Total Shareholders' Equity	**10.15**	10.05
Average Loans	$ **105,720,781**	$ 100,579,221
Average Earning Assets	**135,134,307**	127,922,941
Average Assets	**136,832,505**	130,451,254

Discussion and Analysis of District Results of Operations and Financial Condition

District average loan volume increased 5 percent to $105.7 billion in the first nine months of 2017, compared to $100.6 billion for the same period of 2016. The increase in average loan volume primarily reflected growth in production and intermediate-term, real estate mortgage, rural power, agribusiness and agricultural export finance loans.

District net income increased $81.6 million to $1,369.1 million for the nine-month period ended September 30, 2017, compared to the same period of 2016. The increase in earnings primarily resulted from an increase in net interest income and lower provisions for loan losses and income taxes. These items were somewhat offset by lower noninterest income and an increase in operating expenses in the 2017 period.

Net interest income increased $88.1 million to $2,139.3 million for the first nine months of 2017 from $2,051.2 million for the same period in 2016. The increase in net interest income was primarily driven by growth in average loan volume. The District's overall net interest margin declined to 2.11 percent for the nine months ended September 30, 2017, from 2.14 percent for the same period in 2016. The reduction of net interest margin included the impact of slightly lower overall loan spreads, reflective of continued strong competition for the business of customers, as well as lower fair value accretion income at CoBank.

The District recorded a provision for loan losses of $55.4 million in the nine-month period ended September 30, 2017, compared to $88.5 million for the same period of 2016. CoBank recorded a provision for loan losses of $38.0 million in the first nine months of 2017 compared to $48.0 million during the 2016 period. The provisions in both periods at CoBank largely reflect growth in overall loan volume and deterioration in credit quality in the agribusiness portfolio. The Associations recorded a net combined provision for loan losses of $17.4 million for the first nine months of 2017, compared to a net combined provision of $40.5 million in the same period of 2016. The net combined 2017 provision for loan losses at the Associations was due to provisions at several Associations resulting from continued slight deterioration in credit quality resulting from commodity price volatility and other concerns causing stress to specific industries.

Noninterest income decreased $31.3 million to $201.8 million for the first nine months of 2017 from $233.1 million for the same period in 2016. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The lower level of noninterest income was driven by a $25.7 million increase in losses on early extinguishments of debt, net of prepayment income, primarily due to activity at CoBank. The Bank extinguishes debt to offset the current and prospective impact of prepayments in loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. In the 2017 period, CoBank took advantage of market opportunities to buy back higher-cost debt, which will reduce interest expense and benefit earnings in future periods. As a result, losses on early extinguishments of debt exceeded prepayment income. Other noninterest income decreased by $16.3 million to $65.5 million during the 2017 period primarily due to lower gains related to derivatives in 2017 and the impact of proceeds received in the third quarter of 2016 related to the disposition of warrants at CoBank which had been obtained in lending transactions. These items were partially offset by an increase in patronage income of $7.5 million during the nine-month period ended September 30, 2017 due to an increase in patronage received from other System institutions on loan participations sold by CoBank. In addition, gains recognized on sales of investment securities increased by $4.8 million. In the 2017 period, CoBank sold investment securities with a combined book value of $1.6 billion for gains totaling $9.4 million. During the nine-month period ended September 30, 2016, sales of investment securities at CoBank with a combined book value of $579.5 million resulted in gains totaling $4.6 million.

District operating expenses increased $16.6 million to $801.2 million in the first nine months of 2017 from $784.6 million for the same period of 2016. Higher operating expenses included an increase in employee compensation expense of $20.8 million to $442.2 million for the nine months ended September 30, 2017. The increase in employee compensation was primarily driven by a higher overall number of employees in the first nine months of 2017 compared to the same period in 2016. Information services expense increased $6.3 million in the nine months ended September 30, 2017 compared to the 2016 period primarily due to greater expenditures at CoBank and certain Associations to enhance service offerings and technology platforms. These items were somewhat offset by a decrease in Farm Credit Insurance Fund (Insurance Fund) premium expense of $7.3 million in the first nine months of 2017 compared to the 2016 period. The decrease is due to lower premium rates, somewhat offset by growth in loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 15 basis points of adjusted insured debt obligations during the first nine months of 2017 compared to 16 basis points in the first half of 2016 and 18 basis points during the three months ended September 30, 2016. The Insurance Corporation has announced that the premium rate will remain 15 basis points of average outstanding adjusted insured debt obligations for the balance of 2017. Purchased services increased by $2.4 million and other operating expenses decreased by $6.2 million primarily due to a change in expense classification at one Association.

Income tax expense decreased $8.3 million for the nine-month period ended September 30, 2017, compared to the same period of 2016. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The decrease was driven by a greater portion of earnings attributed to non-taxable activities and an increase in accrued patronage resulting from growth in average patronage-eligible loan volume.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type

	September 30, 2017	December 31, 2016
Real Estate Mortgage	**$ 31,674,900**	$ 30,616,520
Non-affiliated Associations	**4,818,139**	4,523,774
Production and Intermediate-term	**14,527,295**	14,620,321
Agribusiness:		
Loans to Cooperatives	**11,315,146**	12,791,227
Processing and Marketing Operations	**8,158,019**	8,866,980
Farm-Related Businesses	**1,583,318**	1,599,249
Communications	**4,056,261**	3,837,402
Rural Power	**16,503,048**	16,553,489
Water/Waste Water	**1,764,889**	1,657,205
Agricultural Export Finance	**5,291,069**	5,154,302
Rural Residential Real Estate	**865,706**	906,596
Lease Receivables	**3,596,087**	3,537,075
Other	**108,576**	114,458
Total	**$ 104,262,453**	$ 104,778,598

Overall District loan volume decreased $0.5 billion to $104.3 billion at September 30, 2017, as compared to loan volume as of December 31, 2016. The decrease was primarily due to lower seasonal loan volume in CoBank's agribusiness portfolio, which typically reaches a low in late summer or early fall. This decrease was largely offset by increases in real estate mortgage loans at Associations and wholesale loans to associations outside of the District as well as communications and agricultural export finance loans at CoBank.

Loan Quality

The following table presents loans, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans.

District Loan Quality

	September 30, 2017		December 31, 2016	
Acceptable	**94.53**	%	95.31	%
Special Mention	**3.05**		2.67	
Substandard	**2.41**		2.00	
Doubtful	**0.01**		0.02	
Loss	**-**		-	
Total	**100.00**	%	100.00	%

While our overall loan quality within the District remains favorable, certain entities within the District experienced credit quality deterioration in the first nine months of 2017 resulting from commodity price volatility and other concerns causing stress to specific industries. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") as a percent of total loans was 2.42 percent at September 30, 2017, compared to 2.02 percent at December 31, 2016. This increase was driven by slight deterioration in credit quality primarily impacting real estate mortgage, agribusiness as well as short and intermediate-term loans.

The increase in Special Mention loans during the first nine months of 2017 was primarily driven by the downgrade in the credit quality classification of CoBank's participation in a wholesale loan made by Farm Credit Bank of Texas to one of its affiliated Associations. Pursuant to regulatory requirements, wholesale loans are classified using the same credit rating methodology as is used with commercial loans. Our loans to Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. While the downgrade reflects a potential internal control weakness at that Association, as a result of the collateralization and other mitigants described above, no losses are anticipated related to that wholesale loan. As of September 30, 2017, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any wholesale loans.

Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's commercial loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $627.8 million as of September 30, 2017, compared to $637.7 million at December 31, 2016. Nonaccrual loans increased by a net $37.0 million during the first nine months of 2017. Nonaccrual loans at CoBank increased by $61.0 million primarily resulting from credit quality deterioration impacting a small number of food and agribusiness customers. Nonaccrual loans at Associations decreased by a net $24.0 million primarily due to payoff activity related to two nursery loans and a cattle loan. Accruing restructured loans decreased by $55.2 million to $41.1 million in the nine-month period ended September 30, 2017 primarily due to a communications loan at CoBank which was restructured at market terms and no longer considered an impaired loan. Total accruing loans 90 days or more past due increased by $7.6 million during the first nine months of 2017. Nonperforming assets represented 0.60 percent of total District loan volume and other property owned at September 30, 2017, compared to 0.61 percent at December 31, 2016. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.54 percent of total loans at September 30, 2017, compared to 0.50 percent of total loans at December 31, 2016.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets

	September 30, 2017	December 31, 2016
Nonaccrual Loans:		
Real Estate Mortgage	**$ 208,035**	$ 246,832
Production and Intermediate-term	**99,027**	89,060
Agribusiness	**190,237**	138,356
Communications	**10,913**	-
Agricultural Export Finance	**4,183**	-
Rural Residential Real Estate	**2,810**	3,531
Lease Receivables	**43,893**	44,329
Total Nonaccrual Loans	**559,098**	522,108
Accruing Restructured Loans:		
Real Estate Mortgage	**20,166**	27,886
Production and Intermediate-term	**18,696**	20,883
Agribusiness	**42**	-
Communications	**-**	45,144
Rural Residential Real Estate	**2,195**	2,351
Total Accruing Restructured Loans	**41,099**	96,264
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	**8,173**	5,185
Production and Intermediate-term	**6,319**	1,778
Agribusiness	**319**	210
Communications	**64**	-
Rural Residential Real Estate	**145**	-
Lease Receivables	**540**	804
Total Accruing Loans 90 Days or More Past Due	**15,560**	7,977
Total Nonperforming Loans	**615,757**	626,349
Other Property Owned	**12,014**	11,332
Total Nonperforming Assets	**$ 627,771**	$ 637,681
Nonaccrual Loans as a Percentage of Total Loans	**0.54 %**	0.50 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.60**	0.61
Nonperforming Assets as a Percentage of Capital	**3.41**	3.68

The following tables present an aging of past due loans in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	September 30, 2017					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 53,118	$ 90,132	$ 143,250	$ 32,005,645	$ 32,148,895	$ 8,173
Production and Intermediate-term	68,774	58,608	127,382	14,533,721	14,661,103	6,319
Agribusiness	18,292	12,014	30,306	21,103,691	21,133,997	319
Communications	-	64	64	4,067,816	4,067,880	64
Rural Power	-	-	-	16,580,454	16,580,454	-
Water/Waste Water	-	-	-	1,774,170	1,774,170	-
Agricultural Export Finance	-	-	-	5,305,731	5,305,731	-
Rural Residential Real Estate	7,964	802	8,766	860,110	868,876	145
Lease Receivables	17,599	7,965	25,564	3,571,277	3,596,841	540
Non-affiliated Associations	-	-	-	4,825,771	4,825,771	-
Other	-	-	-	108,848	108,848	-
Total	$ 165,747	$ 169,585	$ 335,332	$ 104,737,234	$ 105,072,566	$ 15,560

($ in Thousands)

Aging of Past Due Loans

	December 31, 2016					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 87,240	$ 134,852	$ 222,092	$ 30,706,743	$ 30,928,835	$ 5,185
Production and Intermediate-term	55,008	- 54,510	109,518	14,610,072	14,719,590	1,778
Agribusiness	8,308	15,635	23,943	23,309,496	23,333,439	210
Communications	-	-	-	3,848,157	3,848,157	-
Rural Power	-	-	-	16,624,010	16,624,010	-
Water/Waste Water	-	-	-	1,666,042	1,666,042	-
Agricultural Export Finance	-	-	-	5,168,136	5,168,136	-
Rural Residential Real Estate	6,623	1,168	7,791	901,741	909,532	-
Lease Receivables	18,922	8,452	27,374	3,510,200	3,537,574	804
Non-affiliated Associations	-	-	-	4,528,507	4,528,507	-
Other	-	-	-	114,696	114,696	-
Total	$ 176,101	$ 214,617	$ 390,718	$ 104,987,800	$ 105,378,518	$ 7,977

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $165.4 million at September 30, 2017.

Although aggregated in the District's condensed combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at September 30, 2017 totaled $878.1 million compared to $855.3 million at December 31, 2016. Changes in the allowance during the first nine months of 2017 included an overall provision for loan losses of $55.4 million, which is described on page 3, a $24.2 million net transfer to the reserve for unfunded commitments, loan charge-offs of $9.5 million, loan recoveries of $4.3 million and a $3.3 million reduction due to an Association merger.

The following tables present detailed changes in the allowance for loan losses in the District for the periods presented.

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to)/from Reserve for Unfunded Commitments	Association Merger Impact	Balance at September 30, 2017
Real Estate Mortgage	$ 125,268	$ (743)	$ 270	$ 7,174	$ (5,811)	$ (1,156)	$ 125,002
Production and Intermediate-term	156,333	(5,182)	2,442	27,874	(2,669)	(1,731)	177,067
Agribusiness	336,588	(1,565)	849	13,928	(14,915)	(242)	334,643
Communications	40,564	-	45	(318)	1,035	(25)	41,301
Rural Power	124,026	-	170	567	(1,695)	(85)	122,983
Water/Waste Water	11,724	-	-	1,135	(176)	(4)	12,679
Agricultural Export Finance	14,216	-	420	1,035	30	(8)	15,693
Rural Residential Real Estate	4,497	(219)	35	(658)	-	(2)	3,653
Lease Receivables and Other	42,103	(1,795)	104	4,694	-	-	45,106
Total	$ 855,319	$ (9,504)	$ 4,335	$ 55,431	$ (24,201)	$ (3,253)	$ 878,127

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to)/from Reserve for Unfunded Commitments	Association Merger Impact	Balance at September 30, 2016
Real Estate Mortgage	$ 105,155	$ (1,267)	$ 525	$ 21,735	$ (790)	$ (562)	$ 124,796
Production and Intermediate-term	129,219	(9,926)	2,343	26,033	(1,251)	(344)	146,074
Agribusiness	271,873	(2,984)	1,478	40,943	(9,287)	(2)	302,021
Communications	53,345	(324)	1,135	(8,823)	(1,229)	-	44,104
Rural Power	121,405	-	715	1,950	554	-	124,624
Water/Waste Water	10,646	-	-	(122)	48	-	10,572
Agricultural Export Finance	11,293	-	54	965	(33)	-	12,279
Rural Residential Real Estate	5,666	(264)	1	(876)	-	-	4,527
Lease Receivables and Other	36,920	(1,636)	276	6,717	-	-	42,277
Total	$ 745,522	$ (16,401)	$ 6,527	$ 88,522	$ (11,988)	$ (908)	$ 811,274

District Capital Resources and Other

Combined District shareholders' equity at September 30, 2017 totaled $18.4 billion, a net increase of $1,053.5 million as compared to December 31, 2016. The increase primarily resulted from District net income of $1,369.1 million, a decrease in accumulated other comprehensive loss of $61.0 million and net increases in preferred stock of $47.2 million at Associations. These items were partially offset by accrued patronage of $404.0 million and preferred stock dividends of $70.5 million.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

	September 30, 2017	December 31, 2016
Unrealized Gains (Losses) on Investment Securities	**$ 41,223**	$ (13,054)
Net Pension Adjustment	**(352,664)**	(369,209)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(47,533)**	(37,707)
Accumulated Other Comprehensive Loss	**$ (358,974)**	$ (419,970)

The decrease in the District's total accumulated other comprehensive loss during the first nine months of 2017 is primarily due to changes in unrealized gains/losses on investment securities at CoBank driven by market interest rate changes.

The following table presents regulatory capital and leverage ratios for CoBank and the range of ratios at the affiliated Associations.

Regulatory Capital and Leverage Ratios

As of September 30, 2017

	Common Equity Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Leverage Ratio	Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	Permanent Capital Ratio
CoBank	11.75%	14.10%	15.37%	7.25%	2.96%	14.43%
Calculated Buffer	7.25%	8.10%	7.37%	3.25%	n/a	n/a
Associations	12.94 - 30.96%	12.94 - 30.96%	13.52 - 32.22%	14.03 - 28.92%	15.67 - 28.51%	13.70 - 34.89%
Calculated Buffers	8.44 - 26.46%	6.94 - 24.96%	5.52 - 24.22%	10.03 - 24.92%	n/a	n/a
Regulatory Minimum	4.5%	6.0%	8.0%	4.0%	1.5%	7.0%
Required Buffer	2.5% (1)	2.5% (1)	2.5% (1)	1.0%	n/a	n/a

(1) The capital conservation buffer will be phased in over three years, reaching its full value of 2.5 percent

The FCA adopted final rules relating to regulatory capital requirements for the System in 2016, which became effective January 1, 2017. The ratios in the table above include those prescribed in the new regulations. As depicted in the table above, at September 30, 2017, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios and any required buffers. Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers and Other Matters

In June 2016, a lawsuit was commenced by the filing of a complaint in the United States District Court Southern District of New York against CoBank by a number of investors (the "Plaintiffs") who had held CoBank's 7.875 percent Subordinated Notes due in 2018 (the "Notes"). The Notes were redeemed at par plus accrued interest by CoBank in April 2016 due to the occurrence of a "Regulatory Event" (as defined under the terms of the Notes). The Plaintiffs have asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that CoBank impermissibly redeemed the Notes. The Plaintiffs have requested damages in an amount to be determined at trial, reasonable attorneys' fees and any other such relief as the court may deem just and proper. CoBank filed its answer in September 2016 and discovery is ongoing. CoBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

Effective January 1, 2017, two of our affiliated Associations, Farm Credit of Southwest Kansas, ACA, and American AgCredit, ACA, merged and are doing business as American AgCredit, ACA. During 2016, these two entities operated under a joint management agreement pursuant to which the President and Chief Executive Officer (CEO) of American AgCredit, ACA, served as the CEO of both Associations.

Effective October 1, 2017, one of our affiliated Associations, Farm Credit of Ness City, FLCA (Ness City), merged into another of our affiliated Associations, High Plains Farm Credit, ACA (High Plains). Prior to the merger, the two entities were operating under a joint management agreement pursuant to which the CEO, Chief Financial Officer and Chief Credit Officer of High Plains were jointly serving in these positions for Ness City.

On June 15, 2017, CoBank redeemed all of its outstanding floating-rate subordinated notes due 2022 (the Notes) totaling $500.0 million. The redemption price was 100 percent of the principal amount, together with accrued and unpaid interest up to, but excluding, the date of redemption.

Quarterly District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

	September 30, 2017	December 31, 2016
Assets		
Total Loans	**$ 104,262,453**	$ 104,778,598
Less: Allowance for Loan Losses	**878,127**	855,319
Net Loans	**103,384,326**	103,923,279
Cash and Cash Equivalents	**236,819**	1,877,756
Federal Funds Sold and Other Overnight Funds	**628,000**	750,000
Investment Securities	**28,474,751**	27,903,362
Interest Rate Swaps and Other Financial Instruments	**168,882**	204,434
Accrued Interest Receivable and Other Assets	**2,436,119**	1,877,885
Total Assets	**$ 135,328,897**	$ 136,536,716
Liabilities		
Bonds and Notes	**$ 114,844,012**	$ 116,071,661
Subordinated Debt	**-**	498,820
Interest Rate Swaps and Other Financial Instruments	**77,293**	162,413
Reserve for Unfunded Commitments	**165,441**	141,539
Accrued Interest Payable and Other Liabilities	**1,849,380**	2,323,003
Total Liabilities	**116,936,126**	119,197,436
Shareholders' Equity		
Preferred Stock Issued by Bank	**1,500,000**	1,500,000
Preferred Stock Issued by Associations	**565,283**	518,113
Common Stock	**1,514,623**	1,458,138
Paid In Capital	**1,249,852**	1,083,693
Unallocated Retained Earnings	**13,921,987**	13,199,306
Accumulated Other Comprehensive Loss	**(358,974)**	(419,970)
Total Shareholders' Equity	**18,392,771**	17,339,280
Total Liabilities and Shareholders' Equity	**$ 135,328,897**	$ 136,536,716

Quarterly District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income
(unaudited)

($ in Thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Interest Income				
Loans	**$ 1,034,212**	$ 888,335	**$ 3,005,725**	$ 2,637,777
Investment Securities, Federal Funds Sold and Other Overnight Funds	**140,319**	109,645	**401,901**	329,609
Total Interest Income	**1,174,531**	997,980	**3,407,626**	2,967,386
Interest Expense	**461,524**	315,671	**1,268,317**	916,165
Net Interest Income	**713,007**	682,309	**2,139,309**	2,051,221
Provision for Loan Losses	**28,105**	33,947	**55,431**	88,522
Net Interest Income After Provision for Loan Losses	**684,902**	648,362	**2,083,878**	1,962,699
Noninterest Income/ Expense				
Net Fee Income	**32,090**	32,944	**100,937**	102,602
Patronage Income	**14,653**	14,021	**50,430**	42,916
Prepayment Income	**6,646**	6,099	**13,473**	18,035
Losses on Early Extinguishments of Debt	**(31,615)**	(8,141)	**(37,981)**	(16,888)
Gains on the Sale of Investment Securities	**-**	3,341	**9,387**	4,615
Other, Net	**19,313**	26,697	**65,520**	81,801
Total Noninterest Income	**41,087**	74,961	**201,767**	233,081
Operating Expenses				
Employee Compensation	**148,603**	148,967	**442,213**	421,435
Insurance Fund Premium	**34,900**	39,140	**106,220**	113,549
Information Services	**17,462**	15,353	**50,763**	44,479
General and Administrative	**16,257**	17,520	**52,431**	53,831
Occupancy and Equipment	**17,404**	15,675	**47,682**	47,752
Farm Credit System Related	**6,903**	6,896	**23,102**	20,936
Purchased Services	**13,727**	14,597	**41,786**	39,417
Other	**12,101**	12,597	**37,000**	43,219
Total Operating Expenses	**267,357**	270,745	**801,197**	784,618
Income Before Income Taxes	**458,632**	452,578	**1,484,448**	1,411,162
Provision for Income Taxes	**29,402**	38,975	**115,373**	123,713
Net Income	**$ 429,230**	$ 413,603	**$ 1,369,075**	$ 1,287,449