Ladies and gentlemen, welcome to the National Rural Utilities Cooperative Finance Corporation’s investor conference call for fiscal year 2019, second quarter ended November 30, 2018. Today’s conference is being recorded and at this time I would like to introduce Ling Wang, Vice President, Capital Markets Funding and Relations. Please go ahead.

Hi, this is Ling Wang, Vice President of Capital Markets at the National Rural Utilities Cooperative Finance Corporation. Thank you for joining us today to review our first six months fiscal year 2019 financial results.

Andrew Don, our Senior Vice President and Chief Financial Officer will discuss our financial results for the six-month period from May 31st to November 30, 2018. During today's call, we will make forward-looking statements within the Securities Act of 1933 as amended, and the Exchange Act of 1934 as amended. The forward-looking statements are based on certain assumptions and describe our future plans, strategies and expectations are generally identified by our use of words such as “intent,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” and similar expressions whether in the negative or affirmative.

All statements about our future expectations or projections are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statement are based on reasonable assumptions, actual results, and performance may differ materially from our forward-looking statements. Factors that could cause future results to vary from forward-looking statements about our current expectations are included in our annual and quarterly periodic reports previously filed with the U.S. Securities and Exchange Commission. 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.

We will have a Q&A session at the end of this presentation. You can ask questions via phone or submit your questions online if you are participating in this event via webcast. We encourage you to take this opportunity to ask any questions you may have. In addition, all the material for this event, including the presentation slides and financial reports will be made available on our website at nrucfc.coop. A replay and co-script will be made available on our website after the event.

With that, I'll turn the call over to Andrew.
Andrew Don: Thank you, Ling, and, again, good morning and thank you for joining us today for National Rural Utilities Cooperative Finance Corporation's call to review our financial performance for our first six months of fiscal 2019 for the period ended November 30, 2018.

We provide our results based on generally accepted accounting principles, or GAAP, in our Form 10-Q, which we filed on January 11, 2019. In addition to our GAAP results during parts of this discussion, I will refer to certain financial measures that are calculated based on amounts that include adjustments to amounts determined under GAAP and are therefore referred to as adjusted.

The primary adjusted metrics included adjusted net income, adjusted net interest income, and adjusted net interest yield, adjusted times interest earned ratio or tier, and adjusted debt-to-equity ratio. We provide a reconciliation of our adjusted measures to the most comparable GAAP measures in our recently filed Form 10-Q. It is important to note that we use our adjusted measures to manage our business and evaluate our results of operations. Additionally, the financial covenants in our revolving credit agreements and debt indentures are based on our adjusted measures rather than the comparable GAAP measures.

We, therefore, believe these adjusted measures are useful to investors in evaluating our performance. As reflected in the top left graph, over the six-month period ended November 30, 2018, our total assets increased by $140 million, from the May 31, 2018, fiscal year end date. This increase was primarily due to the growth in our loan portfolio of $115 million as indicated in the top right graph.

For the six months ended November 30, 2018, we had an increase in CFC distribution loans of $261 million, which was partially offset by a $133 million decrease in CFC power supply loans, a $19 million decrease in NCSC loans, and an $8 million decrease in the RTFC loans. CFC's gross long-term loan advances to our members totaled $814 million during the six-month period. Approximately $676 million, or 83% of those new advances were for capital expenditures, and 14% were made to refinance other lenders' loans.

In comparison, during the same prior-year period, our total long-term loan advances to our members was $1.1 billion with approximately $638 million, or 58% of those advances made for capital expenditures, and 31% for refinancing other lenders' loans. The lower loan demand for members during the current six-month period reflects a more limited share of refinancing of other lender debt opportunities.

Our members' equity, which excludes derivative forward value gains and losses, accumulated other comprehensive income and non-controlling interests increased by $33 million at November 30, 2018, from May 31, 2018. The increase was primarily due to an adjusted net income of $73 million for the six-month period partially offset by patronage capital retirement of $48 million.

Our adjusted debt-to-equity ratio decreased slightly to 6.1 to 1 at November 30, 2018, from 6.1 to 1 at May 31, 2018, due to the increase in retained earnings. Based on our current financial forecast, we anticipate that our adjusted debt-to-equity ratio will be close to the current level over the next 12 months.

For the six months ended November 30, 2018, CFC generated an adjusted TIER of 1.17 times compared with an adjusted TIER of 1.16 times for the same prior-year period. Adjusted net income totaled $73 million for the first six months compared with $68 million for the same prior year period. The $5 million increase in adjusted net income was primarily driven by an increase in adjusted net interest income of $17 million, which
was partially offset by the loss on the early extinguishment of debt of $7 million that occurred during the first quarter of the fiscal year and an increase in operating expenses of $4 million.

For the six months ended November 30, 2018, our adjusted net interest income, totaled $121 million, an increase of $17 million over the adjusted interest income of $104 million for the same prior year period. The increase in adjusted net interest income was driven by a 10 basis point increase in the adjusted net interest yield to a 93 basis points level and a 4% increase in average interest-earning assets.

The increase in adjusted net interest yield reflected the combined impact of an increase in the average yield on our interest-earning assets primarily loans to our members, of 6 basis points to 4.29% and a decline in our overall funding cost of 3 basis points to 3.57%.

During the current fiscal year, we paid off $1 billion of 10.375% coupon collateral trust bonds and replaced this debt with much lower coupon debt, which resulted in a meaningful reduction on our overall interest expense during the current reporting period. We also expect the benefit from the payoff of this high-cost debt will continue to have a positive impact on adjusted net interest yield, adjusted net interest income, and adjusted tier over the remainder of the fiscal year.

The overall composition of our loan portfolio at quarter-end November 30, 2018, remained largely unchanged from May 31, 2018, with $25 billion, or 99% of our portfolio consisting of loans to rural electric systems and $355 million, or 1% to the telecommunications sector. The percentage of CFC's long-term fixed-rate loans was at 90% as of November 30, 2018, unchanged from May 31, 2018.

We typically lend to our members on a senior secured basis with 93% of our loans being senior secured at both November 30, 2018, and May 31, 2018.

The credit quality of our loan portfolio remains strong with our members continuing to demonstrate solid financial and operational performance. We had no loan defaults or charge-offs during the current fiscal year and during the prior fiscal year. In addition, we have had no delinquent or non-performing loans in our portfolio for over two years; that is since June 1, 2016.

For the six months ended November 30, 2018, our total debt outstanding increased by $64 million from the May 31, 2018, fiscal year end date to fund loan growth that occurred during this time period.

CFC continues to maintain diverse funding sources so as to minimize the risk of being dependent on any single source or market. Our overall funding mix has been very stable over the past several years. At November 30, 2018, $4.8 billion, or 19% of CFC's funding came from our members in the form of short-term and long-term investments.

The strong member investment level and modest loan demand reduced our funding needs from other sources during the first six months of the fiscal year.

Specifically, at November 30, 2018, the total outstanding balance under the Guaranteed Underwriter Program and notes payable with Farmer Mac decreased slightly by $58 million from the prior fiscal year end, primarily driven by a $128 million decrease in notes payable with Farmer Mac.

In addition, our capital markets related funding sources, which represented nearly 50% of our funding, decreased by $287 million at November 30, 2018, from the May 31, 2018, fiscal year end date.
This slide presents CFC’s long-term debt maturities and amortization during the calendar year 2019. As indicated, our total long-term debt maturities over this period are expected to be $2.3 billion with collateral trust bonds and dealer medium-term notes accounting for approximately $1.6 billion, or 70% of the scheduled debt maturities, which we believe is very manageable.

We have two collateral trust bonds totaling $650 million maturing in February 2019, which we will look to refinance in the near future.

With respect to the $457 million member medium-term notes due over this period, historically, our members have chosen to roll over their investments at maturity.

We believe we have ample sources of liquidity to meet each of the maturities as will be highlighted in the next slide.

This slide depicts the various non-capital market-dependent sources of liquidity that CFC had in place at November 30, 2018, compared with our fiscal year end of May 31, 2018. The amount of sources in liquidity CFC had at November 30, 2018, increased by approximately $500 million compared to May 31, 2018, primarily due to a $650 million net increase in the commitments available under the Guaranteed Underwriter Program offset by $110 million decrease in the commitments available under our bank revolving credit facilities.

During the current quarter, we closed on a new $750 million committed loan facility from the Federal Financing Bank under the Guaranteed Underwriter Program of the U.S. Department of Agriculture. Under the agreement, we can borrow under this facility until July 15, 2023, which equates to a draw period of approximately 4.5 years. Also during the quarter, we closed an amend and extend transaction for our three-year and five-year bank revolving credit facilities. We extended the maturity dates for our bank revolving credit facilities to November 2021 and November 2023 and reduced the commitments available under these credit facilities by $110 million.

Also included in our liquidity sources is approximately $1.3 billion of scheduled loan amortization and repayments that we expect to receive over the next 12 months from November 30, 2018.

As of November 30, 2018, we had an aggregate of $6.2 billion of member and non-member debt maturities over the next 12 months compared to $6.6 billion as of May 31, 2018.

At November 30, 2018, we had access to $3.9 billion, or 1.6 times of liquidity greater than the combined member and non-member debt maturity needs. The $6.2 billion of debt maturities over the next 12 months includes $3.3 billion of short-term investments that our members have with CFC. We consider our member investments to be a very stable and reliable source of funding for CFC.

If we excluded the $3.3 billion debt maturities related to our member investments, we would have access to $7.2 billion, or 3.5 times of liquidity in excess of dealer commercial paper and current portion of non-member long-term debt maturities during the next 12 months from November 30, 2018.

This slide presents CFC’s projected sources and uses of cash over the next 18 months from November 30, 2018. As indicated, our total projected cash needs over this time period are approximately $6.3 billion with 53% of this amount expected to satisfy projected new loan advances and 47% to meet maturities of long-term debt. Although
our loan growth has been modest during the first six months of this fiscal year, we experienced heavy loan volumes in terms of line of credit advances from our electric borrowers in December 2018.

We expect that a good portion of the line of credit advances will be termed out and converted to long-term debt with us either during the February 28, 2019 quarter or in subsequent quarters. These advances are primarily related to refinancing existing debt with the government.

Overall, we expect our loan growth for the next 18 months to be manageable. For future potential funding needs, we will continue to look to balance capital market and non-capital market secured and unsecured financings while always looking to access the most attractive cost of funds from our member-borrowers.

This table highlights certain financing activities we completed during the first six months fiscal year 2019. Our funding needs are primarily driven by loan growth and debt maturity schedule. As mentioned earlier, during the second quarter, we closed a new committed loan facility in the Guaranteed Underwriter Program and an amend and extend transaction for our bank revolving facilities.

In terms of long-term funding during the second quarter, we issued $625 million of collateral trust bonds in October 2018, which had a weighted average coupon of 4.14% to pay off the $880 million collateral trust bonds maturing on November 1, 2018, with a weighted average coupon of 9.6%. We also advanced $100 million under the Guaranteed Underwriter Program in November 2018.

To conclude our call, I'd like to leave you a few key takeaways when you consider CFC as an investment opportunity. These items are areas that CFC has consistently focused on and represent key credit strengths when viewing CFC as an investment.

As indicated CFC’s ratings remain strong and stable. Moody’s reaffirmed our ratings and outlook on November 30, 2018. Our ratings and outlook from all three rating agencies were reaffirmed within the last four months.

CFC has a long-term incentive compensation plan, which is tied to our credit ratings. Our goal is to maintain strong long-term credit fundamentals. The overall quality of our loan portfolios is pristine with 99% of our loans to rural electric systems and 93% of our loans being on a senior secured basis. We have not had any delinquent and non-performing loans in our portfolio for over two years; that is since June 1, 2016, and we have not had any loan charge-offs during the past nine quarters.

On November 30, 2018, our allowance for loan losses, which is an estimate of probable losses inherent in our loan portfolio, was 0.07%, or 7 basis points of our total loan portfolio, the same allowance covered ratio as of May 31, 2018.

CFC continues to receive strong support from our members both in terms of new lending business and as a valuable funding source. Our member investment stood at $4.8 billion at November 30, 2018, representing 19% of our total funding.

As a member-owned cooperative organization, CFC cannot issue common or preferred equity. However, we are committed to grow our equity through retained earnings. Our members’ equity has grown by 50% to $1.5 billion from $998 million since 2013.

We continue to maintain diversified funding sources and demonstrate a strong liquidity profile. Our funding sources are very well established and have remained stable.
From a liquidity perspective, at November 30, 2018, we had $3 billion committed revolving credit facilities from our relationship banks, $1.9 billion committed availability in the Guaranteed Underwriter Program, and $2.7 billion revolving credit capacity via the Farmer Mac secured note purchase agreements.

In addition, and as a supplemental source of liquidity, on November 30, 2018, we had $558 million of held-to-maturity investment securities consisting primarily of high-quality, liquid short-to-intermediate term corporate bonds.

These sources, together with cash and scheduled loan amortization and other repayments from our members result in the CFC having $10.1 billion of liquidity available at November 30, 2018, to meet the $6.2 billion of debt maturities over the next 12 months, a 1.6 times liquidity coverage ratio. Excluding debt maturities related to our member investments, which historically have had a high reinvestment rate, our liquidity coverage ratio would be 3.5 times.

Thank you, once again, for joining us today to review our results for our fiscal year quarter ended November 30, 2018. We appreciate your interest in CFC and look forward to discussing our financial performance and funding plans in the future. I'd like to ask the operator to open the lines for any questions and also suggest that you submit other questions via the Web service so that we may respond to those as well. Thank you.

Operator: And if you would like to ask a question over the phone please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, it is star 1 to ask a question, and we will pause for a moment so everyone has an opportunity to signal.

Andrew Don: We did get one comment or question, related to the economic outlook, and I'm not sure if that's the economic outlook for our members or for the broader economy. In terms of for our members, they continue to have a very strong operating performance. I mean, a lot of their performance is driven by GDP growth as well as weather. So we're not seeing any issues in terms of constraints on their cash flows or their ability to access funding.

In terms of maybe the broader market, we don't see any issues as it potentially affects CFC in terms of accessing funding. We believe there's very strong liquidity in the debt capital markets right now, so we're not really having the issues related to liquidity in terms of CFC.

Andrew Don: Okay, we have another question by the Web. The question is “Will you do one big deal for the 2019 debt or will you do two separate deals based on market conditions?”

We typically, if you look at our issuance schedule, access the market in the first calendar quarter and the fourth quarter of every year. That's when our maturities have been and our issuance calendar is really driven by two factors, which is loan advances as well as maturity. So if you look at where our maturity schedule is, it's primarily in the first quarter and the fourth quarter. So we would typically look at doing that in two separate deals.

We're comfortable with market conditions at the current time and, again, we have significant other sources of liquidity both through the Farmer Mac note purchase agreement as well as through the Guaranteed Underwriter Program. So we feel we're relatively protected from market conditions in terms of issuance.
Operator, I think those are the only two questions that were submitted electronically, so it doesn't sound like we have any live questions. So, with that, I think we'll conclude the call today. Thank you.

Operator: And this concludes today's conference. Thank you for your participation, and you may now disconnect.