Good day and welcome to the fiscal year 2018 third quarter investor call. Today’s conference is being recorded. At this time, I would like to turn the conference over to Ling Wang. Please go ahead.

Hi. Good morning. This is Ling Wang, Vice President of Capital Markets, Funding and Relations at National Rural Utilities Cooperative Finance Corporation. Thank you for joining us today to review our third quarter fiscal year 2018 financial results.

Andrew Don, our Senior Vice President and Chief Financial Officer will discuss our third quarter financial results. 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 intend, plan, may, should, will, project, estimate, anticipate, believe, expect, continue, potential, opportunity and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections 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. 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 US 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 questions you may have. In addition, all of the material for this event, including the presentation slides, the financial reports, and co-transcript will be made available on our website at nrucfc.coop. A replay will also be made available on our website after the event. With that, I will turn the call over to Andrew.

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 third quarter fiscal 2018 for the period ended February 28, 2018. We provide our results based on Generally Accepted Accounting Principles, or GAAP, in our Form 10-Q, which we filed on April 11, 2018. 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 include 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.

Total assets increased by $596 million during the current quarter, primarily due to the growth in our loan portfolio of $518 million. For the three months ended February 28, 2018, we had an increase in CFC distribution loans of $457 million, an increase in NCSC loans of $61 million, and an increase in CFC power supply loans of $8 million, with these increases partially offset by a decrease in RTFC loans of $8 million. CFC's long-term loan advances totaled $736 million during the quarter. Approximately 74% of those new advances were for capital expenditures, and 16% were made to refinance other lenders' loans.

For the nine months ended February 28, 2018, total assets increased by $1.27 billion due to the growth in our loan portfolio of $976 million, an increase in our held to maturity investment securities of $248 million, and an increase in our derivative assets of $203 million, partially offset by a decrease in our timed deposits of $225 million. Derivative assets represent unrealized gains on our interest rate swaps due to changes in fair value.

For the nine months ended February 28, 2018, we had an increase in CFC distribution loans of $862 million, an increase in NCSC loans of $187 million, and an increase in RTFC loans of $9 million, with these increases partially offset by a decrease in CFC power supply loans of $82 million.

CFC's long-term loan advances totaled $1.86 billion during the nine-month period. Approximately 64% of those new advances were for capital expenditures and 25% were made to refinance other lenders' loans.

For the three and nine-months ended February 28, 2018, our total debt outstanding increased by $343 million and $969 million respectively, primarily to fund the loan growth. Total equity increased by $219 million, mainly due to net income of $221 million for the three months ended February 20, 2018. For the nine-months ended February 28, 2018, our total equity increased by $360 million, mainly due to net income of $409 million for the nine months ended February 28, 2018, which was partially offset by the retirement of patronage capital of $45 million that was distributed to our members on September 1, 2017.

For the nine-month period, our members' equity, which excludes derivative forward value losses, accumulated other comprehensive income and noncontrolling interests, increased by $58 million due to adjusted net income of $103 million offset by patronage capital retirement of $45 million. Our adjusted debt to equity ratio stood at 6.21:1 at February 28, 2018, with the increase largely due to an increase in debt outstanding to fund the loan growth.

Over the next 12 months, we expect our balance sheet will continue to grow. We also expect we will continue to increase our members' equity through the accumulation and retention of earnings. Due to the anticipated asset growth, we expect our adjusted debt to equity ratio to be slightly above the 6:1 target at our fiscal year end, May 31, 2018, and over the next 12 months.

For the three months ended February 28, 2018, CFC generated an adjusted TIER of 1.16 times, compared with an adjusted TIER of 1.18 times for the same prior year quarter. Our adjusted net income totaled $34 million for the current quarter, compared with $36 million for the same prior year quarter.

For the nine months ended February 28, 2018, CFC generated an adjusted TIER of 1.16
times compared with an adjusted TIER of 1.17 times for the same prior year period. Our adjusted net income totaled $103 million for the current nine-month period which represented a slight increase compared to $102 million for the same prior year period.

Our adjusted net interest income for the quarter totaled $54 million, approximately $647 thousand increase from the same prior year quarter. For the nine-month period, our adjusted net interest income totaled $158 million, approximately $347 thousand increase from the same prior year period. The slight increase for the quarter and for the nine months ended February 28, 2018 was driven by an increase in average interest earning assets of 3% for both periods, which was partially offset by a decrease in adjusted net interest yield. Specifically, our adjusted net interest yield decreased by 1 basis point to 86 basis points for the quarter and 2 basis points to 84 basis points for the nine-month period.

We expect our adjusted net interest yield to improve over the next 12 months as we replace some of our higher cost debt with lower cost funding.

For both the three months and nine months ended February 28, 2018, CFC recorded a provision for loan losses of $1 million, compared with a provision for loan losses of $2 million and $5 million respectively in the same prior year periods. We had no charge-offs during the current quarter and during the nine-month periods. In comparison, during the nine months ended February 28, 2017, we did record a net charge-off of $2 million.

CFC recorded $187 million and $306 million of derivative forward value gains during the three and nine months ended February 28, 2018 respectively, compared with $62 million and $259 million of gains respectively in the same prior year periods.

The derivative forward value gains were attributable to an increase in the fair value of our pay fixed interest rate swaps as interest rates continued to increase across the yield curve over those periods. The increase in interest rates, however, was more pronounced during the current quarter and nine months ended February 28, 2018 which resulted in the significantly higher derivative gains relative to the same prior year periods.

As we have consistently disclosed, the derivative forward value gains or losses reflect the changes in estimated fair value of our interest rate swaps at February 28, 2018 based on the projected movement in interest rates through the maturity of the swap agreements in place at February 28, 2018. As such, these amounts do not represent current period realized cash gains or losses. As noted previously, in managing our operating performance and for purposes of compliance with our financial debt covenants, we exclude derivative forward value gains and losses from our adjusted net income and adjusted equity calculations.

The overall composition of our loan portfolio at third fiscal quarter-end February 28, 2018 remained largely unchanged from the levels at fiscal year end May 31, 2017, with $25 billion or 99% of our portfolio consisting of loans to rural electric systems and $363 million or 1%, to the telecommunications sector.

The percentage of CFC's long-term fixed-rate loans was at 90% as of February 28, 2018, compared with 91% as of May 31, 2017 level. We typically lend to our members on a senior secured basis, with 91% of our loans being senior secured at February 28, 2018 compared with 92% at May 31, 2017.

At February 28, 2018, we had no non-performing loans in our loan portfolio. We had no charge-offs during the three and nine months ended February 28, 2018 and the credit quality of our loan portfolio remains strong with our members continuing to demonstrate solid financial and operational performance.
CFC continues to maintain diverse funding sources so as never to be dependent on any one source. At February 28, 2018, $4.2 billion or 17% of CFC’s funding came from our members in the form of short-term and long-term investments, compared with 18% at May 31, 2017. Generally speaking, our total member investments average around $4 billion. Our member investments are stable and reliable, offering CFC funding with little reinvestment risk as our members have historically and consistently invested a large portion of their excess funds with CFC.

At February 28, 2018, the outstanding balance under the Guaranteed Underwriter Program, which is our federal government-based funding source, decreased by $113 million from the prior fiscal year period. To reduce a debt maturity tower in January, 2018, we did a prepayment of $325 million of notes payable with an original maturity date of April 15, 2026 under the Guaranteed Underwriter Program. Separately, in February, 2018, we advanced a total of $150 million of new amortizing notes with a 20-year final maturity under the same program.

Our notes payable with the Federal Agricultural Mortgage Corporation also known as Farmer Mac, increased by $292 million at February 28, 2018 from the prior fiscal year end period. In February, 2018, we advanced $325 million under the long-term note purchase agreement we have with Farmer Mac.

Our capital markets related funding sources, which represented 51% of our funding, increased by $749 million at February 28, 2018 from the May 31, 2017 year end date to fund the asset growth. The increase was driven by an increase in dealer medium-term notes outstanding.

This slide presents CFC’s long-term debt maturities from April 2018 through April 2019. As indicated, our total long-term debt maturities over this period are expected to be $3.2 billion with collateral trust bonds accounting for approximately $1.8 billion or 57% of the scheduled debt maturities. The $1.8 billion of the maturing collateral trust bonds have a weighted average coupon of 6.98%. We expect to replace these bonds with debt at lower interest rates which will reduce our overall funding costs.

For the dealer medium-term note maturities on April 16, 2018, we paid off $200 million of maturing dealer medium-term notes with proceeds from commercial paper issuances. Our next significant dealer medium-term note maturity will be $350 million in April 2019.

In addition to the collateral trust bond and medium-term note maturities, we also have $250 million in bullet note with Farmer Mac maturing in September 2018. With respect to the $455 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 these maturities as we have highlighted in the next slide.

This slide depicts the various non-capital market dependent sources of liquidity that CFC had in place at February 28, 2018, compared with the fiscal year ended May 31, 2017. The types of liquidity reserve that CFC has in place have remained largely unchanged. At February 28, 2018, the aggregate amount of liquidity reserves CFC had totaled $9.1 billion compared with $7.9 billion at May 31, 2017. The $1.2 billion increase was driven by a $500 million increase in availability under the Guaranteed Underwriter Program, a $408 million increase under the revolving Farmer Mac note purchase agreement, a $319 million increase in anticipated loan repayments, and a $248 million increase in held to maturity investment securities offset by an $81 million decrease in bank revolving line of
credit facilities.

For the period ended February 28, 2018, CFC had an aggregate of $6.1 billion of member and non-member short-term debt maturities over the next 12 months compared with $4.6 billion at May 31, 2017. The $1.5 billion difference was primarily due to a larger maturity amount of current portion of long term debt.

At February 28, 2018, CFC has access to $3 billion, or 1.5 times of defined liquidity greater than the combined member and non-member short-term debt maturity needs. The $6.1 billion of debt maturities over the next 12 months include $2.6 billion of short-term investments that our members have with CFC.

As mentioned earlier, our member investments are a very stable and reliable funding source. If we were to exclude short-term debt maturities related to our member investments, we would have access to $5.7 billion or 2.6 times of defined liquidity greater than our non-member short-term debt maturities, with these representing both dealer commercial paper maturities and the current portion of long-term debt maturing during the next 12 months from February 28, 2018.

This slide presents CFC's projected sources and uses of cash over the next 18 months from February 28, 2018. As indicated, our total projected cash needs over this time period are approximately $6 billion with 44% of this amount expected to satisfy projected new loan advances and 56% to meet maturities of long-term debt. Overall we expect growth in our loan portfolio of $881 million over the next 18 months. We also expect to increase our holdings of held to maturity of fixed-income securities, which is presented in the other sources or uses of liquidity category in this chart. Our sources of cash are expected to be generated from the ongoing amortization of the loans extended to our members with the balance to be provided by the variety of funding vehicles CFC has established.

As indicated on this table, we have a significant refinancing requirement during the latter half of calendar year 2018. That said, we believe we have multiple funding sources we can utilize. The timing, size and tenor of issuance will be dependent on the timing of our loan advances and the maturity of the loans we extend to our members, as well as the most attractive cost of funds.

We had limited long-term funding activities during the first two quarters of this fiscal year due to relatively modest loan growth and minimal scheduled debt maturities. During the third quarter, that is from December 1, 2017 to February 28, 2018, we experienced strong loan growth from our members. We also made a decision to pay off early $325 million of notes payable under the Guaranteed Underwriter Program in January 2018. In addition, we had a $700 million scheduled collateral trust bond maturity on February 1, 2018. Because of these funding needs, we completed several debt transactions during February 2018. Specifically, for bullet maturities, we issued a $700 million 10-year collateral trust bond at 3.40% and $300 million of 3-year medium-term notes at 2.90%. For amortizing debt, we advanced $150 million under the Guaranteed Underwriter Program at 3.43% with a 20-year final maturity, and $325 million with Farmer Mac at 3.76% with a 30-year final maturity.

In addition to the funding activities, in February, 2018 we amended one of our note purchase agreements with Farmer Mac to extend the draw period by two years to January 2022. At the same time, we also increased the total aggregate amount of the two Farmer Mac revolving note purchase agreements by $700 million to $5.5 billion.

Subsequent to the February 28, 2018 quarter end, we reopened the $300 million dealer medium-term notes that we issued in February 2018 and issued an additional amount of
$150 million of dealer medium-term notes.

For future potential funding needs, CFC will continue to look to balance capital market and non-capital markets' secured and unsecured financings while always looking to access the most attractive cost of funds for our member borrowers.

To conclude our call, I'd like to leave you with a few key takeaways when you consider CFC as an investment opportunity. These items are areas that CFC is consistently focused on and represent key credit strengths when viewing CFC as an investment. As indicated, CFC's ratings remain robust. During the second quarter, both Moody's and Standard & Poor reaffirmed CFC's credit ratings and outlook. As discussed on prior calls, CFC's management and all staff has a certain amount of its annual compensation tied to the levels of CFC's credit ratings. CFC's Board of Directors strongly believes that this incentive structure will align investor interest and management interest to maintaining strong credit fundamentals.

The mainstay of CFC's financial strength is in the quality of our portfolio. The credit quality and performance statistics of our loan portfolio continue to remain strong. 99% of our loans are to rural electric systems that have limited rate regulation and are geographically disbursed across the United States, and 91% of our loans are on a senior secured basis with the collateral being utility assets and our members' revenue.

CFC has a long history of low non-performing loans in our portfolio. At February 28, 2018, our loan loss allowance, which is an estimate of probable losses inherent in our loan portfolio, was only 0.15% of our loan portfolio. We currently have no non-performing loans in our loan portfolio.

CFC continues to receive strong support from our members, both in terms of new lending business and as a valuable funding source. Our members have made significant investments in CFC, in the form of short-term investments as well as long-term capital. We view these investments to have limited reinvestment risk, thus providing a stable funding source for CFC. Our member investments stood at $4.2 billion at February 28, 2018, representing 17% of our funding.

As a member-owned cooperative organization, CFC cannot issue common or preferred equity. However, CFC is committed to grow our equity through retained earnings. Our members' equity has grown 78% to $1.4 billion from $815 million since 2012.

CFC will continue to utilize different funding vehicles that we have established over the years. For short-term funding, our plan is to maintain our dealer commercial paper balance below a level of $1.25 billion for the foreseeable future.

With respect to long-term funding, we will continue to target index-eligible and manageable tranches for public debt capital market offerings while looking to maintain flexibility and availability in our private funding sources, namely the Guaranteed Underwriter Program and Farmer Mac.

CFC will continue to maintain a more than adequate liquidity reserve from a variety of sources to meet our members' borrowing needs as well as service all of our debt obligations.

At February 28, 2018, CFC had $3.1 billion committed revolving credit facilities from our relationship banks, $1.2 billion committed availability in the Guaranteed Underwriter Program, and the $2.7 billion revolving credit capacity via the Farmer Mac secured note placement program. In addition to these liquidity sources that CFC has had over the years, during the second quarter of fiscal year 2018, CFC began expanding on balance
sheet liquidity sources to include an investment portfolio consisting of short to
intermediate-term liquid fixed-income securities. At February 28, 2018, we had $248
million held to maturity investment securities. We anticipate growing this portfolio to
approximately $550 million by May 31, 2018.

These sources, together with cash, other investments, and scheduled loan amortization
and other repayments from our members resulted in CFC having $9.1 billion of liquidity
available at February 28, 2018 to meet the next 12 months of all of the debt maturities of
$6.1 billion, a 1.5 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 2.6 times.

Thank you once again for joining us today to review our results for our fiscal quarter
ended February 28, 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 questions and suggest that you submit any other questions
via the web service so that we may respond to those, as well. Thank you.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your
television keypad. If you are using a speakerphone, please make sure your mute function
is turned off to allow your signal to reach our equipment. Again, press star one to ask a
question at this time. We'll pause for a moment to allow everyone the opportunity to
signal for questions. We currently have no questions over the phone.

Andrew Don: Yep, we've ascertained that. So thank you, Operator, and thank you all again for joining
us today and we look forward to talking to you in the future. Have a good day.

Operator: This will conclude today's call. Thank you for your participation. You may now
disconnect.