Conference Title: **National Rural Utilities Cooperative Finance Corporation**

Date: **Wednesday, 19th October 2022**

Operator: Good morning and welcome to the National Rural Utilities Cooperative Finance Corporation fiscal year 2023 first-quarter investor call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Heesun Choi, Vice President Capital Market Relations.

Heesun Choi: Good morning. I'm Heesun Choi, vice president of Capital Markets Relations at National Rural Utilities Cooperative Finance Corporation. Thanks for joining us in our fiscal year 2023 first quarter investor conference call. Joining our call this morning are Andrew Don, our Chief Executive Officer, and Ling Wang, our Chief Financial Officer. During today's call, Andrew and Ling will review our financial highlights for three months ended August 31, 2022, and also provide an update on our business and operations. Before we begin our discussion, I want to remind you that some information provided and comments made during today's call will contain 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, would[?], project, estimate, anticipate, believe, expect, continue, potential, opportunity, and similar expressions, whether in the negative or affirmative, or 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 our forward-looking statements about our current expectations are included in our annual and quarterly reports filed with the U.S. Securities and Exchange Commission. All the forward-looking statements are made as of today, October 19, 2022, and we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances, or changes in our expectations after the statements are made. Today's discussion will also include certain non-GAAP measures. Please refer to our Form

10-Q, filed on October 13, 2022, with the SEC and also posted on our website for discussion of why we believe our adjusting measures provide useful information in analyzing CFC's financial performance and the reconciliation to the most comparable GAAP measures.

We will open the call for Q&A at the end of the presentation. You can ask your questions via phone or submit your questions online. If you're participating in this event via webcast. We invite you to join the Q&A session to ask questions you may have. Today's presentation slides and financial reports filed with the SEC are available in our Investor Relations page on our website at www.nrucfc.coop. A replay and court transcripts will be also made available in our Investor Relations page after this event. With that, I'll turn the score over to Andrew for his remarks.

Andrew Don: Thank you, Heesun. Good morning. Andrew Don, Chief Executive Officer for CFC. Thank you for joining us today. I'm pleased to review our business and operations for the three months ended August 31, 2022. We've continued to generate solid financial results during our first fiscal quarter of 2023, following a strong finish to our prior fiscal year. Our balance sheet expanded further as we continue to experience robust loan demand from our members. As of August 31, 2022, our total assets exceeded $32 billion with our loans to members totaling 30.7 billion, which represented a net increase of $624 million from the May 31, 2022 level. The $624 million increase in loans to members during the current fiscal quarter reflected net increases in long-term and line of credit loans of $380 million and $244 million respectively. Our long-term loan advances during the current fiscal quarter totaled $815 million, with approximately $773 million or 95% of those advances made for capital expenditure purposes and only $16 million or 2% for the refinancing of loans made by other lenders. For the same prior year quarter, our long-term loan advances totaled $727 million, consisting of $451 million or 62% for capital expenditure purposes and $254 million or 35% for members operating expenses, primarily due to increased power costs and natural gas prices during winter storm URI. Of the total long-term loans advance for the capital expenditures during the current fiscal quarter, approximately $151 million or 20% was to provide funding for our electric distribution members' infrastructure investments in broadband projects. Our aggregate loans outstanding to our distribution members relating to their broadband projects increased to approximately $1.7 billion as of August 31, 2022, compared to approximately $1.6 billion as of May 31, 2022. The overall quality of our loan portfolio continues to be strong, with more than 98% of our loans to rural electric systems that provide essential services.

In our 53-year history, throughout various economic cycles, we have experienced very limited charge offs, loan defaults, loan delinquencies, and non-performing loans in our electric portfolio. We have had no charge-offs in the electric portfolio since 2013. From an operating performance perspective, our financial position remains strong, as shown by consistently solid financial metrics achieved during the current fiscal quarter. Our adjusted tier was 1.26 times during the three months ended August 31, 2022, which was well above our goal of 1.1 times. Our members' equity was over $2 billion at the end of the current fiscal quarter. Our liquidity position remains healthy as we continue to maintain diverse funding sources to minimize the risk of being dependent on any single source or market. Our diverse liquidity sources consist of cash, investments, committed bank lines, the Guaranteed Underwriter program, the Farmer Mac note purchase agreement, and repo facilities.

Recently, the U.S. Inflation Reduction Act was signed into law, and it includes opportunities for electric cooperatives to fund clean energy projects such as solar, wind, standalone energy storage, carbon capture, and nuclear energy by allowing electric cooperatives to treat certain credits as direct payment rather than as a credit against their federal income tax liabilities. The Inflation Reduction Act also provides nearly $10 billion in grants and loans, specifically for electric cooperatives to invest in clean energy projects and related infrastructure. We believe this may present opportunities for electric cooperatives to invest additional capital in clean energy-related infrastructure in the future. With that, I would now like to turn the call over to Ling, who will review our financial results in greater detail. Thank you.

Ling Wang: Good morning. This is Ling Wang, the Chief Financial Officer of CFC, and I am going to move on to slide seven and review the financial results during our first fiscal quarter of 2023. Our total assets at the quarter ended August 31, 2022, were approximately $32.1 billion, an increase of $831 million or 3% from the fiscal year ended May 31, 2022. The increase in our total assets during the current quarter was primarily driven by increasing loans to members. As mentioned earlier, our loans to members total $30.7 billion as of August 31, 2022, an increase of $624 million or nearly 2% from the May 31, 2022, level, which was our prior fiscal year end. The $624 million increasing loans to members were attributable to an increase in loans to all member classes. $400 million increase for CFC distribution loans, $200 million increase in CFC power supply loans, and a total of $24 million increase of NCSC, RTFC, and other members' loans.

Our members' equity, which excludes cumulative derivative forward value, gains, and accumulated other comprehensive income decreased slightly by $1 million from the fiscal year ended May 31, 2022, due to the authorized retirement of patronage capital of $59 million in July 2022. Our adjusted debt to equity ratio, which was 6.4 times to 1 at August 31, 2022, an increase of 6.24 to 1 at May 31, 2022. This increase is typical in the first of each fiscal year due to the retirement of patronage capital. While our goal is to maintain an adjusted debt to equity ratio of approximately 6 to 1, we expect that our adjusted debt to equity ratio will remain elevated above our target of 6 to 1 due to strong loan growth outweighing earnings growth. We currently anticipate approximately $1.3 billion in net loss in net long-term loan growth over the next 12 months.

For the current quarter ended August 31, 2022, CFC generated and adjusted net income of $58 million and adjusted year of 1.26 times, compared with adjusted net income of $54 million and adjusted tier of 1.27 times for the same prior year quarter. The $4 million increase in adjusted net income in the current quarter was driven by an increase in the adjusted net interest income of $6 million or 7% to $87 million for the current quarter, partially offset by an increase in operating expenses of $1 million and an increase in loss on our investment securities of $1 million, primarily due to period-to-period market fluctuation in fair value. The $6 million or 7% increase in adjusted net interest income to $87 million during the current quarter was driven by increasing average interest earning assets of $1.8 billion or 6%, primarily due to growth in average loans outstanding and a slight increase in the adjusted net interest yield of one basis points or 1% to 110 basis points.

The slight increase in the adjusted net interest yield reflected the combined impact of an increasing average yield on interest earning assets of seven basis points to 3.9% and the increase in the benefit from non-interest-bearing funding of two basis points to .20%, partially offset by an increase in our adjusted average cost of borrowing of eight basis points to 3%, which were attributable to the increase in the short-term interest rate. Increases in the average yield on our line of credit and variable rate loans drove the increase to the average yield on interest-earning assets, where increases in the interest rates on our short-term and variable rate borrowing drove the increase in our adjusted average cost of borrowings. We currently expect that our adjusted net income and adjusted tier will decrease slightly over the next 12 months based on the consensus market outlook for rising interest rate and inverted yield curve forecast.

The overall composition of our loan portfolio at August 31, 2022, remains similar to the composition at May 31, 2022, with $30 billion or 98% of our loan portfolio consisting of loans to rural electric systems and $470 million or 2% to the telecommunications sector. The percentage of CFC's long-term fixed rate loans was at 89% of total loans outstanding as of August 31, 2022, compared to 90% as of May 31, 2022. We typically lend to our members on the senior secure basis with 93% of our loans being senior secure as of August 31, 2022. This is unchanged from the May 31, 2022, level.

We offer long-term loans to our members for up to 35 years on the senior secure basis. The majority of our long-term loans are amortizing loans. The average remaining maturity of our long-term loans were — which accounted for 92% of our total loans outstanding as of August 31, 2022, with 18 years. We expect $1.5 billion of scheduled long-term loan amortization and repayment over the next 12 months. As of August 31st, 2022, our balance sheet exposure to LIBOR-Indexed Financial Instrument with a contractual maturity date after June 30 of 2023, totaled approximately $2.1 billion, comprising of $375 million in loans to members, $56 million in investment securities, and $1.6 billion in debt obligations. In addition, at August 31, 2022, we have outstanding LIBOR-Index interest rate swaps with aggregate notional amount of $7.1 billion and a total of $2.3 billion advance loan commitments that have a contractual maturity date after June 30, 2023. We also have a total commitment amount of $2.6 billion at August 31, 2022, under our two committed bank revolving line of credit facilities that are LIBOR-Indexed and have a contractual maturity date after June 30, 2023.

We have made substantial efforts to remediate our LIBOR exposures that have a contractual maturity date after June 30, 2023, including incorporating hardwired fallback language agreements to transition instruments to SOFR following the cessation of LIBOR or amending agreements to replace LIBOR with new benchmark index. During the current quarter, we do not have any loan charge-offs, additional loan defaults, or non-performing loans. We had loans to the same three power supply borrowers totaling $118 million or 0.71% of total loans outstanding classified as non-performing as of August 31, 2022, compared to 228 million or 0.76% of total loans outstanding classified as non-performing as of May 31, 2022. The $10 million decrease in non-performing loans during the current quarter was attributable to the continued payments received on one of the non-performing loans.

Loans outstanding to Brazos Electric Power Cooperative and Brazos Sandy Creek Electric Cooperative accounted for $114 million of our total non-performing loans as of both August 31, 2022, and May 31, 2022, of which $65 million was unsecured and $49 million was secured as of each respective date. On September 1, 2022, Brazos filed its plan of reorganization with the bankruptcy court. The reorganization plan. The reorganization plan confirmation hearings are scheduled to begin on November 14, 2022. The loans outstanding to Brazos Sandy Creek is secured by Brazos Sandy Creek's 25% tenant in common ownership interest in Brazos Sandy Creek's Energy Station and its[?] right under the Brazos purchase agreement with Brazos for the output of this plant attributable to the tenant in common interest. Brazos' rejection of the power purchase agreement in its bankruptcy case gave rise to an unsecured claim for rejection damages against Brazos. On September 14, 2020, the Bankruptcy Court approved a settlement of the rejections damages claim, which was agreed by the Brazos Sandy Creek's Chapter 7 Trustee, the collateral trustee for the noteholders and Brazos.

These settlement terms are contingent upon Bankruptcy Court's approval of Brazos Reorganization Plan. The Chapter 7 Trustee, which was approved and appointed by the Bankruptcy Court to operate Brazos Sandy Creek as a going concern, is conducting a sale process for the Brazos Sandy Creek's 25% pending common ownership interest in the Brazos Sandy Creek Energy Station.

Our allowance for credit losses increased by $3 million or 4% to $71 million as of August 31, 2022, from $68 million at the prior fiscal year end, reflecting an increase in the collective and asset specific allowance of $1 million and $2 million respectively. The $1 million increase in the collected allowance was attributable to an increase in loans outstanding. The 2 million increase in the asset specific allowance was attributable to the combined impact of an increase in the asset specific allowance for Brazos Sandy Creek. This is as a result of the rejection claims settlement that I mentioned earlier, partially offset by a reduction in the asset-specific allowance for Brazos related to its reorganization plan, as well as a reduction in the asset-specific allowance for other nonperforming loans due to principal paydowns. Our allowance coverage ratio was at 23 basis points at August 31, 2022, compared with 22 basis points at May 31, 2022. We believe the overall quality of our loan portfolio remains strong as of August 31, 2022, as historically proven by limited track records of defaults and losses on loans in our electric utility portfolio.

Our total debt outstanding was $29.4 billion as of August 31, 2022, an increase of $614 million or 2% from May 31, 2022, primarily to fund the growth in our loan portfolio. We maintain diverse funding sources, including funding from our members as well as capital markets and non-capital markets funding to minimize the risk of being dependent on any single source of markets. As of August 31, 2020, $5.5 billion of CFC's funding came from our members in the form of short-term and long-term investments, an increase of $48 million from $5.4 billion at May 31, 2022. Our member investments represent 19% of our total debt outstanding at both August 31, 2022, and May 31, 2022. At August 31, 2022, our funding under the guarantee underwriter program and notes payable with Farmer Mac totaled $9.2 billion or 31% of our total debt outstanding, a decrease of 17 million from May 31, 2022, due to a net decrease of $74 million in the borrowings under Farmer Mac no purchase program, partially offset by a net increase of $56 million in borrowings under the guarantee underwriter program. Our capital markets-related funding sources total $14.7 billion at August 31, 2022, an increase of $583 million from May 31, 2022. The increase was primarily due to a net increase of $400 million in collateral trust bonds that we issued in August 2020 to a net increase of $254 million in dealer commercial paper, partially offset by a net decrease of $71 million in dealer commercial in dealer medium-term terminals outstanding. At August 31, 2022, capital markets-related funding source accounted for 50% of our total funding, compared with 49% at May 31, 2020.

August 31, 2022, 56% of our total debt was secured and 44% was unsecured, same as May 31, 2022. Our short-term borrowings increased by $290 million to $5.3 billion, accounting for 18% of our total debt outstanding at August 31, 2022, compared with 5 billion or 17% of total debt outstanding at May 31, 2022. The increase in our short-term borrowings was primarily due to an increase in dealer commercial paper. Our intent is to manage our short-term wholesale funding risk by maintaining dealer commercial paper outstanding at each quarter and within the range of $1 billion to $1.5 billion. A total of 4 billion or 76% of our short-term borrowings came from members short-term investment at May 31, 2022, compared with $4 billion or 79% at May 31, 2022. As we have consistently stated, the investments for our members are a very reliable funding source. As our members consistently invest a large portion of their excess funds with CFC. Over the last 12 fiscal quarters, our members' short-term investments have averaged $3.7 billion calculated based on the outstanding member investment as of the end of each fiscal quarter during the period.

This slide presents CFC's long-term debt maturities and amortization over the next 12 months for October 2020. Our upcoming non-member debt maturities and amortization consists of $355 million in collateral trust bonds, $725 million in dealer medium term notes, $63 million in retail, medium-term notes, $95 million in foreign bank notes payable, and 178 million in guarantee underwriter program. During the current quarter, we issued $400 million ten-year sustainability collateral trust bond. We also borrowed $200 million with a seven-year term under the former make no purchase agreement and $100 million with a 30-year amortizing structure under the guaranteed underwriter program.

Excluding our member media internal maturities of $463 million, which have traditionally been reinvested with us, we have approximately $1.4 billion of refinancing needs over the next 12 months to fund the upcoming maturities from October 2022 to September 2023. As we have consistently stated, we will look to utilize both capital and non-capital markets funding sources to refinance upcoming maturities in due course. This slide shows the various sources of liquidity that CFC had in place at August 31, 2020, to our available liquidity from various sources included cash and investments, committed bank lines, guarantee underwriter program, and Farmer Mac revolving note purchase agreements totally $7.3 billion at August 31, 2022.

During the current quarter, we enhanced our liquidity position by increasing the Farmer Mac revolving note purchase agreement by $500 million to $5.5 billion to $6 billion. Subsequent to our quarter end on September 9, we received a commitment letter from the RUS for an additional $750 million funding under the guarantee underwriter program. As indicated in the table at August 31, 2022, short-term investments from our members totaled $4 billion. Because of our members, because our members have traditionally rolled over a large portion of their short-term investments with us at maturity, we consider our member investments to be a very stable and reliable source of funding for CFC. Excluding our member short-term debt maturities, we had approximately $3.3 billion of debt maturities over the next 12 months as of August 31, 2022. These debt maturities consist of outstanding dealer commercial paper of $1.3 billion and a long-term subordinated debt obligation of $2 billion. Excluding the 4 billion debt maturities related to our members' short-term investments, we have a total liquidity equal to 2.2 times or $4.1 billion of liquidity in excess of all our debt maturities during the next 12 months subsequent to August 31, 2022. This does not include that $1.5 billion scheduled repayment and amortization on long-term loans that we expect to receive from our members over the next 12 months.

This slide presents CFC's projected long-term debt issuance needs over the next 18 months subsequent to August 31, 2022. Our cash needs are derived from two primary areas refinancing existing debt maturities and funding loan growth, partially offset by the amortization and repayments of loans from our members. Our funding needs are also driven by our member investment levels. We expect our net long-term loan growth over the next 18-month period to be approximately $1.8 billion US indicated in the last column. Our expected long-term debt issuance over this period are approximately $4.7 billion, mainly to refinance existing long-term debt. Maturities. To meet our funding needs, we will continue to look to balance capital markets and non-capital markets' secure and unsecured financings, while always look 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 CFC is consistently focused on and present key credit strengths when viewing CFC as an investment. CFC's credit ratings from Fitch, Moody's, and S&P remained strong and stable at A+, A1 and A- on the senior secure basis, and A, A2, A- on a senior unsecured basis respectively. On September 7, Fitch reaffirmed CFC's credit rating and stable outlook. CFC's secure offering in the capital markets in the form of collateral trust bond. As a reminder, our collateral trust bonds are secured by the Pledge of Electric Distribution Cooperative Senior Secured Mortgage Notes. The overall quality of our loan portfolios continues to be strong, with a 79% of our loans to electric distribution borrowers and 17% to power supply borrowers. In addition, 93% of our loans are made on a senior secure basis. We have not had any charge-offs in any of our loan portfolios since fiscal year 2017. CFC continues to receive strong support from our members, both in terms of new lending business and as a valuable funding source. Our short-term and long-term member investments totaled $5.5 billion at the end of the current quarter, compared with $4.2 billion at our fiscal year 2017. Our members' equity has grown by 45% to over $2 billion from $1.4 billion at May 31, 2017. As we are committed to grow our equity through retained earnings, we continue to maintain diverse funding sources and demonstrate a healthy liquidity profile. Our funding sources are very well established and have remained stable. Thank you once again for joining us today to review our results for our fiscal quarter ended August 31, 2022. 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 I also suggest that you submit your 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 phone question, please press star one on your touchtone telephone. If you're joining us today using speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one. If you would like to signal with phone questions. Star one. And we do have a question from Trent Black.

Trent Black: Good morning and thanks for the call. Just a couple quick questions. Just with the recent hurricane and stuff, it seemed in terms of co-ops, the big one that was hit was Lee County Electric Cooperative, which is a member of yours. Correct?

Andrew Don: That's correct.

Trent Black: How much is lent to them?

Andrew Don: How much is lent to them?

Trent Black: Yes.

Andrew Don: So, I mean, we don't typically, you know, disclose individual amounts. I mean, I think, we obviously had a lot of close communication with them and are working closely with them to meet their needs. We do provide what's called emergency line of credit facilities, and that is typically for cooperatives that have some kind of serious storm damage where they're typically eligible for FEMA reimbursement. So they have applied for a line of credit there. We have not actually seen any advances under that line of credit. That takes time for those kind of expenditures to come through. But, you know, we think they're quite well positioned both from their own liquidity position as well as credit lines in place and obviously the ability to get reimbursement through the FEMA program.

Trent Black: Okay. And given that the total can't be given, let me ask it from this way, from a worst-case scenario standpoint, it would not be an issue for National Rural if that worst-case scenario.

Andrew Don: Yes, that's right. We've — I believe we have seen, there have been other examples of cooperatives that have had comparable amounts of damage. I'm sure you read some of the releases where I think it was, what, 85, 90% of their service was down type of thing. We've seen comparable situations in other parts of the country related to hurricanes. And there is a process for obviously funding that on a short-term basis. We typically, as I said, fund those under what's called emergency lines of credit so that they can have access to funds so they can pay. And again, those are typically reimbursed with funds through the FEMA, the program, the FEMA reimbursement program. And the reason for that is, you know, it obviously takes time for those expenditures to roll through. There's a process. There's obviously an audit process for getting expenditures approved. So, that typically can take, you know, a year or two for the time that they might advance under some kind of emergency line of credit to when they actually get reimbursement through the federal government.

Trent Black: Okay, great. Thank you very much.

Andrew Don: Sure.

Operator: Once again, if you would like to signal with phone questions, please press star one on your touchtone telephone. Again, that is star one. If you would like to signal, we'll pause for just a moment. There are no further phone questions at this time.

Ling Wang: Okay, great. Thank you. And if you have any questions, feel free to contact me or Heesun Choi. And we look forward to speaking with each of you.

Andrew Don: Thank you. Have a good day.

Operator: Thank you. And that does conclude today's conference. We do thank you for your participation. Have an excellent day.