Conference Title: FY2023 Second-Quarter Investor Call

Date: January 18th 2023

Operator: Good morning and welcome to the National Rural Utilities Cooperative Finance Corporation fiscal year 2023 second-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 of Capital Market Relations.

Heesun Choi: Hello, I'm Heesun Choi, vice president of Capital Markets Relations at National Rural Utilities Cooperative Finance Corporation. Thanks for joining us on our fiscal year 2023 second-quarter investor conference call. On today's call, Andrew Don, our chief executive officer, and Ling Wang, our chief financial officer, will discuss our financial results during the six months ended November 30, 2022. 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,” “will,” “project,” “estimates,” “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 considerably from our forward-looking statements. Factors that could cause future results to vary from our forward-looking statements and our current expectations are included in our annual and quarterly reports filed with the U.S. Securities and Exchange Commission. All of our forward-looking statement are made as of today, January 18, 2023, 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 January 13, 2023, with the SEC, and also posted on our website, for discussion of why we believe our adjusted measures provide useful information in analyzing CFC's financial performance and the reconciliations to the most comparable GAAP measures. We will open the call for Q&A at the end of the presentation. You can ask questions via phone or submit your questions online if you are participating in this event via webcast. We invite you to join our training session to ask questions you may have. Today's presentation, slides and financial reports filed with the SEC are available on our Investor Relations page on our website at www.NRUCFC.coop. A replay and course transcript will also be available on our Investor Relations page after this event. Now, I'm turning this call over to Andrew.

Andrew Don: Thank you, Heesun. Good morning. It's Andrew Don, chief executive officer for CFC. Thank you for joining us today. I'm pleased to review our business and operations during our second fiscal quarter of 2023, which was the three-month period ended November 30, 2022. We've continued to generate solid financial results during the second fiscal quarter and for the first six months of our 2023 fiscal year. As of November 30, 2022, our total assets exceeded $33 billion, with our loans to members being the largest component on the balance sheet at $31.6 billion. This level represents a net increase of $1.5 billion from the May 31, 2022, fiscal year-end level. The $1.5 billion increase in loans to members during the six months ended November 30, 2022, reflected net increases in long-term and line of credit loans of $825 million and $688 million, respectively. The $688 million increase in line of credit loans outstanding was primarily attributable to funding provided for higher operating costs that our members have experienced due to inflationary pressures, as well as broadband investments in the form of bridge loan financing. Our long-term loan advances during the current year-to-date period totalled $1.7 billion, with approximately $1.6 billion, or 95%, of those advances made for capital expenditure purposes and only $40 million, or 2%, for the refinancing of loans made by other lenders. For the same prior year-to-date period, our long-term loan advances totalled $1.5 billion, consisting of $1 billion, or 69%, for capital expenditure purposes and $437 million, or 29%, for members’ operating expenses, primarily due to increased power costs and natural gas prices during the March 2021 winter storm Uri. Of the total long-term loans advanced for capital expenditures during the current year-to-date period, approximately $397 million, or 24%, 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 $2 billion as of November 30, 2022, compared to approximately $1.6 billion as of May 31, 2022. From an operating performance perspective, our financial position remains strong, as shown by consistently solid financial metrics achieved during the current year-to-date period. Our adjusted TIER was 1.23 times during the six months ended November 30, 2022, which was well above our goal of 1.1 times. Our members' equity exceeded $2 billion at the end of the second fiscal quarter.

As we've previously discussed, we've had non-performing loans outstanding to Brazos Electric Power Cooperative and its wholly owned subsidiary, Brazos Sandy Creek Electric Cooperative, due to their bankruptcy filings. On November 14, 2022, the bankruptcy court confirmed Brazos' plan of reorganization, and as a result, we had a total of $15 million in charge-offs related to the Brazos and Brazos of Sandy Creek non-performing loans during the current quarter. In December 2022, we received payments for a total of $56 million from Brazos in accordance with the provision of its plan of reorganization, which included the full $21 million of the secured portion of the loans. We also expect to receive payments on the remaining amount of the Brazos and Brazos Sandy Creek outstanding non-performing loans. Ling will discuss in further detail our loans to Brazos and Brazos Sandy Creek during her review. 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, Guaranteed Underwriter Program, the Farmer Mac note purchase agreement as well as repo facilities. With that, I would like to now turn this call over to Ling, who will review our financial results in greater detail. Thank you.

Ling Wang: Good morning. This is Ling Wang, chief financial officer of CFC, and I am going to move on to slide seven and review the financial results during our second fiscal quarter of 2023. Our total assets at the quarter ended November 30, 2022, were approximately $33.2 billion, an increase of $1.9 billion, or 6%, from the fiscal year ended May 31, 2022, primarily due to the growth in our loan portfolio. Our loans to members totalled $31.6 billion as of November 30, 2022, an increase of $1.5 billion, or nearly 5%, from the May 31, 2022, level, and an increase of $890 million, or 3%, from the prior fiscal quarter end. During the current fiscal year, we experienced increases in all of our business segments. Specifically, our distribution loan portfolio increased by $1 billion and our power supply loan portfolio increased by $292 million. We also experienced increases in NCSC and RTFC loans of $201 million and $9 million, respectively. Our total liabilities increased by $1.6 billion, or 6%, to $30.8 billion as of November 30, 2022, compared to $29.1 billion as of May 31, 2022, largely due to the issuance of debt to fund the growth in our loan portfolio. Our members' equity, which excludes cumulative derivative forward-value losses and accumulated other comprehensive income, increased by $47 million, or 2%, to $2.1 billion as of November 30, 2022, compared to the May 31, 2022, level. Our adjusted debt-to-equity ratio was at 6.54 times-to-1 at November 30, 2022, an increase from 6.24 to one at May 31, 2022.

The increase of the adjusted debt-to-equity ratio at November 30, 2022, was largely due to an increase of additional borrowings to support the loan growth and CFC Board of Directors' authorized patronage capital retirement of $59 million, which was paid in July 2022, partially offset by the six-month adjusted net income. While our goal is to maintain an adjusted debt-to-equity ratio of approximately 6 times-to-1, we expect that our adjusted debt-to-equity ratio will remain elevated above our target of 6 times-to-1 due to the strong loan growth we had. We currently anticipate approximately $1.3 billion in net long-term loan growth over the next 12 months. For the current quarter ended November 30, 2022, CFC generated an adjusted net income of $48 million and an adjusted TIER of 1.2 times, compared with an adjusted net income of $64 million and an adjusted TIER of 1.32 times for the same prior-year quarter. The $16 million decrease in adjusted net income in the current quarter from the same prior-year quarter was primarily attributable to an increase in the provision for credit losses of $15 million and an increase in operating expenses of $4 million, partially offset by a $4 million decrease in losses recorded in our investment securities.

For the six months ended November 30, 2022, CFC generated adjusted net income of $105 million and an adjusted TIER of 1.23 times, compared with adjusted net income of $118 million and an adjusted TIER of 1.29 times for the same prior-year period. The $13 million, or 11%, decrease in adjusted net income was primarily due to an increase in the provision of credit losses of $15 million and the increase in operating expenses of $5 million, partially offset by increasing adjusted net interest income of $6 million and a decrease in losses recorded on our investment securities of $2 million. Our adjusted net interest income was flat at $84 million during the current quarter compared to the same prior-year quarter as the increase in the average interest-earning assets of $2.2 billion, or 7%, was offset by the decrease in the adjusted net interest yield of 8 basis points, or 7%, to 105 basis points. The decrease in the adjusted net interest yield was largely due to the combined impact of an increase in our average cost of borrowing of 36 basis points to 3.25%, partially offset by an increase in average yield on our interest-earning assets of 25 basis points to 4.09%. Our adjusted net interest income increased by $6 million, or 3%, during the current six-month period compared to the same prior-year period. The increase was primarily attributable to an increase in average interest-earning assets of $2 billion, or 7%, partially offset by the decrease in the adjusted net interest yield of 3 basis points, or 3%, to 1.08%.

The decrease in the adjusted net interest yield was largely due to the combined impact of an increase in our adjusted average cost of borrowing of 21 basis points to 3.12%, partially offset by an increase in the average yield on interest-earning assets of 16 basis points to 4%. We expect our adjusted net income will remain flat over the next 12 months. However, we believe that our adjusted TIER will decrease slightly over the next 12 months, primarily attributable to our projected decrease in adjusted net interest yield based on our assumption that short-term interest rates will continue to increase in the near future and the yield curve will remain inverted. The overall composition of our loan portfolio at November 30, 2022, remained similar as compared with May 31, 2022, with $31 billion, or 98%, of our portfolio consisting of loans to rural electric systems and $477 million, or 2%, to the telecommunications sector. The percentage of CFC's long-term fixed-rate loans was at 88% of total loans outstanding as of November 30, 2022, compared to 90% as of May 31, 2022. The line of credit loans accounted for 9% of total loans outstanding as of November 30, 2022, compared to 8% as of May 31, 2022. We typically lend to our members on a senior secured basis, with 92% of our loans being senior secured as of November 30, 2022, compared with 93% as of May 31, 2022, level.

We offer long-term loans to our members for up to 35 years on a senior secured basis. The majority of our long-term loans are amortizing loans and the average remaining maturity of our long-term loans, which accounted for 91% of all total loans outstanding as of November 30, 2022, was 19 years. We expect $1.5 billion of scheduled long-term loan amortization and repayment over the next 12 months. We had loans to the same three CFC power supply borrowers totalling $203 million, or 0.64%, of total loans outstanding classified as non-performing as of November 30, 2022, compared to $228 million, or 0.76%, of total loans outstanding classified as non-performing as of May 31, 2022. Non-performing loans include loans to Brazos Electric Power Cooperative and its wholly owned subsidiary of Brazos Sandy Creek Electric Cooperative, totaling $99 million at November 30, 2022, compared to $114 million as of May 31, 2022. The reduction in non-performing loans of $25 million during the current quarter was due to a combination of the charge-offs related to the non-performing loans to Brazos and Brazos Sandy Creek and the receipt of loan principal payment on another non-performing loan. Loans to Brazos accounted for $78 million, of which $57 million was unsecured and $21 million was secured as of November 30, 2022, compared to $86 million, of which $65 million was unsecured and $21 million was secured, as of May 31, 2022.

Loans to Brazos Sandy Creek accounted for $21 million and $28 million as of November 30, 2022 and as of May 31, 2022, respectively. The charge-offs that we recorded during the current quarter totalled $15 million, $7 million for Brazos and $8 million for Brazos Sandy Creek. As a result, we recorded a net charge-off rate of 0.19% and 0.10%, annualized for the three months and the six months ended November 30, 2022, respectively. In comparison, we had no loan charge-offs during the same prior-year period. Prior to Brazos and Brazos Sandy Creek's bankruptcy filings, we had not experienced any default or charge-offs in our electric utility and telecommunication loan portfolio since fiscal year 2013 and 2017, respectively. As Andrew mentioned earlier, we received payment of $56 million from Brazos in December 2022 subsequent to our current quarter end. These payments reduced our loans outstanding to Brazos to $22 million from $78 million as of November 30, 2022, the entirety of which is unsecured. We expect to receive the remaining unsecured portion of the loans for Brazos over the next 6 to 12 months. We also expect to receive payments for the Brazos Sandy Creek outstanding non-performing loans in accordance with the provisions of Brazos' plan of reorganization from cash available for distribution by Brazos Sandy Creek, and the sale of Brazos Sandy Creek's 25% tenant-in-common ownership interest in the Brazos Sandy Creek Energy Station.

On December 20, 2022, Brazos Sandy Creek's 25% tenant-in-common ownership interest in the Brazos Sandy Creek Station was sold for a credit bid of $105 million to Riesel HoldCo, which is referred as HoldCo from now on. That is an entity formed by the Brazos Sandy Creek note holders, including CFC. We were allocated ownership interest in HoldCo based on our 7.41% share in the $105 million credit bid, which totalled $8 million. HoldCo intends to manage its ownership interest in the asset directly and potentially sell it at a future date. We currently do not have a timeline for the disposition. Our allowance for credit losses was $68 million as of both November 30, 2022, and May 31, 2022, while the allowance coverage ratio decreased slightly to 0.21% as of November 30, 2022, from 0.22% as of May 31, 2022. The allowance for credit losses reflected an increase in the collective allowance of $2 million, offset by a decrease in the asset specific allowance of $2 million. The collective allowance increase of $2 million was due to an increase in total loans outstanding and a decrease in the historical recovery rate assumption used in determining the collective allowance for our electric power supply loan portfolio.

The asset specific allowance decrease of $2 million was attributable primarily to charge-offs totalling $15 million related to Brazos and Brazos Sandy Creek non-performing loans, partially offset by an increase in the asset specific allowance for another non-performing loan to a CFC power supply borrower due to a decrease in the expected payment on this loan. We continue to believe that the overall quality of our portfolio remains strong as of November 30, 2022, as historically proven by a limited track record of defaults and losses on loans in our electric utility portfolio. Our total debt outstanding was $30.4 billion as of November 30, 2022, an increase of $1.6 billion, or 6%, from May 31, 2022, primarily to fund the growth in our loan portfolio. We maintain our diverse funding sources, including funding from our members as well as capital markets and non-capital markets funding to minimize our risk of being dependent on any single source or market. As of both November 30 and May 31, 2022, $5.4 billion of CFC's funding came from our members in the form of short-term and long-term investments. Our member investments represented 18% of our total debt outstanding as of November 30, 2022, compared to 19% at May 31, 2022. At November 30, 2022, our funding under the Guaranteed Underwriter Program and notes payable with Farmer Mac totalled $9.4 billion, or 31%, of our total debt outstanding, an increase of $164 million from May 31, 2022, due to a net increase of $212 million in borrowings under the Guarantee Underwriter Program, partially offset by a net decrease of $47 million in the borrowings under the Farmer Mac note purchase program.

Our capital markets related funding sources totalled $15.6 billion at November 30, 2022, an increase of $1.5 billion from May 31, 2022. The increase was primarily due to a net increase of $747 million in collateral trust bonds due to our issuance in August and October 2022, a net increase of $390 million in borrowings under repurchase agreements, a net increase of $326 million in dealer commercial paper and a net increase of $49 million in dealer medium-term notes outstanding. At November 30, 2022, capital markets related funding sources accounted for 51% of our total funding, compared with 49% at May 31, 2022. At November 30, 2022, 57% of our total debt outstanding was secured and 43% was unsecured, compared to 56% secure and 44%

unsecured at May 31, 2022. Our short-term borrowings increased by $613 million to $5.6 billion, accounting for 18% of our total debt outstanding at November 30, 2022, compared with $5 billion, or 17%, of total debt outstanding at May 31, 2022. The increase in our short-term borrowing was primarily due to an increase in dealer commercial paper and borrowings under repurchase agreements. A total of $3.9 billion, or 69%, of our total short-term borrowings came from our member short-term investments at November 30, 2022, compared with $4 billion, or 79%, on May 31, 2022. Our member investments have been a stable and reliable funding source for us over the last 12 fiscal quarters. Our member short-term investments have averaged around $3.7 billion. Our intent is to manage our short-term wholesale funding risk by maintaining dealer commercial paper outstanding at each quarter-end with a range of $1 billion to $1.5 billion.

This slide presents CFC's long-term debt maturities and amortization over the next 12 months from January 2023. Our upcoming non-member debt maturities and amortization consists of $755 million in collateral trust bonds, $725 million in dealer medium-term notes, $47 million in retail medium terminals, $96 million in Farmer Mac notes payable and $185 million in Guaranteed Underwriter Program. During the current quarter, we issued $350 million of 10-year collateral trust bonds and $500 million three-year dealer medium-term notes. We borrowed $200 million with a seven-year term under the Farmer Mac note purchase agreement and $200 million with a 30-year amortizing structure under the Guarantee Underwriter Program. We had $390 million short-term borrowings under our repurchase agreements as of November 30, 2022, which we repaid on December 2, 2022. Subsequent to our current quarter-end in December 2022, we issued a $400 million five-year dealer medium-term loans. Excluding our member medium-term note maturities of $503 million, which have traditionally been reinvested with us, we have approximately $1.8 billion of refinancing needs over the next 12 months to fund the upcoming maturities from January to December 2023. As we have consistently stated, we will look to utilize both capital market and non-capital market funding sources to refinance upcoming debt maturities in due course.

This slide shows the various sources of liquidity that CFC had in place at November 30, 2022. Our available liquidity from various sources included cash and investments, committed bank lines, Guaranteed Underwriter Program and Farmer Mac revolving note purchase agreement totalling $7.2 billion as of November 30, 2022. During the current quarter, we amended the three-year and the four-year committed bank revolving credit line of credit agreements to extend the maturity dates to November 28, 2025, and November 28, 2026, respectively. Subsequent to our quarter-end in December 2022, we closed a new facility totalling $750 million under the Guarantee Underwriter Program. Including the $750 million availability under the new facility, we currently have a total of $1.52 billion availability under the Guarantee Underwriter Program. As indicated in the table, at November 2022, short-term investments from our members totalled $3.9 billion. Because our members have traditionally rolled over a large portion of their short-term investment 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 $3.7 billion of debt maturities over the next 12 months as of November 30, 2022. These debt maturities consist of outstanding borrowings under repurchase agreements of $390 million, dealer commercial paper of $1.4 billion and loan term and subordinated debt obligations of $1.9 billion. Excluding the $3.9 billion debt maturities related to our member short-term investments, we have a total liquidity equal to 1.9 times or $3.5 billion of liquidity in excess of our debt maturities over the next 12 months subsequent to November 30, 2022. This does not include the $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 need over the next 18 months subsequent to November 30, 2022. Our cash needs are derived from two primary areas: refinancing existing debt maturities and funding loan growth, partially offset by the amortization and repayment 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. As indicated in the last column, our expected long-term debt issuances over this period are approximately $4.5 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, secured and unsecured financings while always looking to access the most attractive cost of funds for our members.

To conclude our call, I'd like to leave you with a few key takeaways when you consider CFC as an investment opportunity. These key items are areas that CFC consistently focus on and represent credit strength when viewing CFC as an investment. CFC credit ratings from Fitch, Moody's and S&P remain strong and stable at A+, A1 and A- on a senior secured basis and A, A2 and A- on the senior unsecured basis, respectively. During the current quarter, Fitch affirmed CFC's credit ratings and stable outlook. On December 7, 2022, S&P reaffirmed CFC credit ratings and outlook. CFC's secure offering in the capital markets is in the form of collateral trust bonds. 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 continue to be strong with 79% of our loans to electric distribution borrowers and 16% to power supply borrowers. In addition, 92% of our loans are made on a senior secured basis. CFC continues to receive strong support from our members, both in terms of new lending business and as a very valuable funding source.

Our short-term and long-term member investments totalled $5.4 billion at the end of the current quarter, compared with $4.2 billion at our fiscal year end 2017. Over the last 12 fiscal quarters, our total member investments have averaged $5.2 billion. Our members' equity has grown by 49% to $2.1 billion from $1.4 billion in 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

November 30, 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 operators to open the lines for questions and also suggest that you submit your questions via the web service so we may respond to those as well. Thank you.

Operator: Thank you. If you would like to ask a question over the phone, please signal by pressing star one 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. Again, press star one to ask a question and we'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll take our first question from Anton Armand with Bank of America. Please go ahead.

Anton Armand: Hey, good morning. Thank you for taking my question. I just wanted to ask, so you mentioned that you wanted to sort of keep access to multiple sources of financing. I was curious if you could give us some color around how you were thinking about hybrids and on that note, I know you have a junior subset that could be redeemed next year. Just trying to think how you guys think about that issue particularly.

Andrew Don: I mean, obviously we've issued subordinated debt in the form of hybrids several times over the last couple of years to manage our debt-to-equity. As you noted, we had a 2013 issuance and there was a 10-year fixed-to-float, so that does actually come up for potential call, I believe, this April. We are certainly looking at options as well as what the pricing would be. It is certainly a tool that we've used to manage our adjusted debt-to-equity level and we'll continue to consider that as a source of funding. I don't know. Is there anything more specific you had related to that?

Anton Armand: Nope. I just wanted to get some color on it. Thank you so much.

Andrew Don: Thank you.

Operator: And there are no additional phone questions at this time.

Ling Wang: Okay, and thank you very much for joining us today, and if you have any additional questions, feel free to contact myself or Heesun Choi. Have a good day.

Operator: So this concludes today's call. Thank you for your participation. You may now disconnect.