Conference Title: FY2025 First-Quarter Investor Conference Call

Date: Friday, 25th October 2024

Operator: Good day and welcome to the National Rural Utilities Cooperative Finance Corporation Fiscal Year 2025 First-Quarter Investor Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Heesun Choi, vice president of capital markets relations. Please go ahead.

Heesun Choi: Thank you, Operator. Welcome to our investor conference call for our first quarter of fiscal year 2025. Today, I'm joined by our CEO, Andrew Don, and our CFO, Ling Wang. Andrew will discuss our first quarter results and answer your questions. Before we get started, I would like to remind you that today's presentation slides and financial reports filed with the SEC can be found on our website at nrucfc.coop under investor relations.

This call is being recorded and a replay and call transcript will be made available on our website as well. Our presentation today will include forward looking statements and certain non-GAAP financial measures. Please review the disclosures on slide two and three of the presentation regarding these statements and measures. I would like to remind you that any forward-looking statements that we may make during today's call, as of October 25, 2024, are subject to risks and uncertainties.

Factors that may cause actual results to differ materially from expectations are described on slide two of today's presentation, as well as in our annual and quarterly reports filed with the SEC. Information about any non-GAAP financial measures referenced during the presentation, including reconciliations to GAAP measures, can also be found in our Form 10-Q filed with the SEC on October 11, 2024, as well as in the appendix of the presentation slides. At the end of the presentation, we will open the call and Andrew and Ling will take your questions. You can ask questions over the phone or submit your questions online. With that, I will turn this call over to Andrew.

Andrew Don: Thank you, Heesun. Good afternoon. Thank you for joining our call today to review our business and operating results during the three months ended August 31, 2024, which is our first fiscal quarter of fiscal year 2025. And moving to slide five to discuss highlights during the quarter. We continued to experience solid loan demand from our members during our first fiscal quarter, with loans to members reaching $35.1 billion, reflecting an increase of approximately $569 million, or 2%, from the prior fiscal year-end.

We continue to maintain a strong financial position. Our adjusted TIER was 1.20 times during the current fiscal quarter, well above our goal of 1.1 times. We remain committed to growing our members equity to support loan growth. Our members equity stood at $2.4 billion at the current fiscal quarter-end. The quality of our loan portfolio remains pristine. We had no charge-offs during the fiscal quarter, and only 0.14% of loans were classified as non-performing at the quarter-end.

Over the years, we have strategically diversified our funding and liquidity sources to minimize the risk of being dependent on any single source or market. Our diverse liquidity sources consist of operating cash investments, committed bank lines, committed loan facilities under the guaranteed underwriter program, a revolving note purchase agreement with Farmer Mac and access to repo facilities. We remain committed to maintaining strong investment grade credit ratings from Fitch, Moody's and S&P. Our short-term and long-term credit ratings and outlook are unchanged. During the quarter, Fitch affirmed all of CFC's credit ratings with a stable outlook.

Next, I would like to provide an update on the recent hurricanes that affected some of our members. Slide six summarized the impact of recent hurricanes, specifically Hurricane Helene and Milton. Hurricane Helene affected five states, Florida, Georgia, North Carolina, South Carolina and Tennessee, causing power outages for approximately 5.5 million customers in those states. Among the 5.5 million customers, approximately 1.25 million, or 22%, were served by 26 out of the 132 electric distribution cooperatives operating in the affected states.

On the other hand, Hurricane Milton impacted Florida only, resulting in power outages for 3.4 million customers, where 340,000, or 10%, were customers of five out of the 21 electric distribution cooperatives in Florida. Three electric distribution cooperatives in Florida were affected by both hurricanes. We have received requests or inquiries for our emergency line of credit product from some of the impacted members, and have been working with our members to support their restoration efforts following these hurricanes.

We anticipate our members will likely advance funds gradually over the course of the next 12 months. Rural electric cooperatives generally are eligible to apply for assistance from the Federal Emergency Management Agency, FEMA, and their states to help recover from major disaster emergencies. Governors of those states impacted by Hurricane Helene and Milton declared a state of emergency, and President Biden declared a federal disaster, which enabled assistance from FEMA. Hurricanes Helene and Milton were therefore declared as a natural disaster by FEMA. FEMA typically reimburses up to 75% of eligible costs after restoration is complete. The FEMA reimbursement process could take between two and four years. With that, I'll now turn the call over to Ling, who will review our financial results in greater detail. Thank you.

Ling Wang: Thank you, Andrew, and good afternoon everyone. I'm going to move to slide eight to discuss our financial results for the three months ended August 31st, 2024, which I am going to refer to as the current fiscal quarter-end. Our total assets at the current fiscal quarter-end were approximately $36.5 billion, an increase of $310 million, or 1%, from prior fiscal year-end level. This is driven primarily by loan growth.

Our loans to members increased by $569 million, or 2%, to $35.1 billion at the current fiscal quarter-end. Loans to CFC distribution, power supply and state-wide and associate members accounted for 95% of total loans to members at the current fiscal quarter-end. The increase in loans to members was primarily attributable to net increases in long-term and line of credit loans of $386

million and $183 million, respectively. Additionally, approximately $105 million of the loan growth was related to loans to our members' broadband projects.

Our aggregate loans outstanding to our electric distribution cooperative members relating to broadband projects, which we started tracking in October 2017, increased to an estimated $3.2 billion at the current fiscal quarter-end, compared to approximately $3.1 billion at the prior fiscal year end. Our members equity, which excludes cumulative derivative forward value gains and accumulated other comprehensive loss, increased by $18 million to $2.4 billion from the prior fiscal year-end, primarily due to the adjusted net income of $66 million during the current fiscal quarter, partially offset by the CFC Board of Directors authorized patronage capital retirement of $47 million during the current fiscal quarter, which was returned to our members in cash in September 2024.

Our adjusted debt to equity ratio was 6.32-to-1 at the current fiscal quarter-end, an increase from 6.24-to-1 at the prior fiscal year-end. The increase from the prior fiscal year-end was primarily driven by an increase in adjusted liabilities resulting from additional borrowings to fund loan growth, partially offset by an increase in adjusted equity. We are moving away from maintaining the internally established threshold of a 6-to-1 adjusted debt to equity ratio, and are in the process of making changes of how we calculate and manage our adjusted debt to equity ratio that will allow us to continue to execute our business objectives and to sustain our current credit ratings.

Looking at slide nine for our loan portfolio. The composition of our loan portfolio at the current fiscal quarter-end remained largely similar to the prior fiscal year-end. Our loan portfolio consists mainly of long-term fixed-rate secured loans to rural electric cooperatives. At the current fiscal quarter-end, $34.5 billion, or 98%, of our loans consisted of loans to rural electric systems and $611 million, or 2%, to the telecommunications sector.

During the current fiscal quarter, we experienced increases in loans outstanding across all member classes. Our distribution loan portfolio increased by $419 million, and our power supply loan

portfolio increased by $83 million. We also experienced increases in CFC statewide associate loans of $27 million and CFC electric loans of $27 million, and NCSC telecom loans of $13 million during the current fiscal quarter. Our long-term fixed-rate loans were worth 87% of our total loan outstanding at the current fiscal quarter-end. Similar to the level of 88% of the prior fiscal year-end.

Our long-term loans are typically secured substantially by all assets of the borrower. Long-term loan advances totaled $848 million during the current fiscal quarter, of which approximately 97% was provided to members for capital expenditures, 2% for refinancing of loans made by other lenders and 1% for other purposes. In comparison, long-term loan advances totaled $711 million during the same prior-year period, of which approximately 87% was provided to members for capital expenditures and approximately 13% for other purposes, primarily asset acquisitions.

Of the $848 million total long-term loan advanced during the current fiscal quarter, $774 million were fixed-rate loan advances, with a weighted average fixed-rate term of eight years. In comparison, of the $711 million total long-term loan advances during the same prior-year period, $659 million were fixed-rate loan advances, with a weighted average fixed-rate term of 14 years.

Our line of credit loans outstanding increased by $183 million to $3.6 billion, or 10%, of total loans outstanding, at the current fiscal quarter-end. Based on recent developments regarding the two hurricanes that Andrew mentioned earlier, we expect that we may experience a further increase in our line of credit loans, driven by our members’ need for emergency line of credit financing to support their restoration efforts following these recent hurricanes.

We typically lend to our members on a senior secured basis, with 91% of our loans being senior secured at the current fiscal quarter-end, similar to the level of 92% at the prior fiscal year-end. We generally offer long-term amortized loans to our members for up to 35 years. The average remaining maturity of our long-term loans, which accounted for 90% of total loans outstanding at the current fiscal quarter-end, was 19 years.

Slide 10 presents historical performance of our loan portfolio for the past three years. The quality of our loan portfolio remains strong with stable credit metrics. We had only one non-performing loans outstanding at the current fiscal quarter-end, totaling $49 million, or 0.14% of total loans outstanding. This loan was made to an electric power supply borrower and was put on non-performing during fiscal year 2020. Our allowance for credit losses increased slightly by $1 million to $50 million at the current fiscal quarter-end, compared to $49 million at the prior fiscal year-end.

The allowance coverage ratio remained unchanged at 14 basis points at the current fiscal quarter, compared to the prior fiscal year-end. The $1 million increase in the allowance for credit losses reflected an increase in the collective allowance, primarily due to loan growth. We had no loan charge-offs during the current fiscal quarter.

Moving on to slide 11. During the current fiscal quarter, we generated an adjusted net income of $66.1 million, compared to $66.3 million, which was a slight decrease from the same prior-year period. The slight decrease in our adjusted net income was primarily driven by an increase in operating and other expenses of approximately $4 million, partially offset by a combination of an increase in adjusted net interest income and increase in gains recorded on our investment securities, and the increase in fee and other income of $1 million in each of the category.

During the current fiscal quarter, our adjusted net interest income increased by $1 million, or 1%, from the same prior-year period, primarily due to an increase in average interest earning assets of $1.8 billion, or 5%, partially offset by a decrease in adjusted net interest yield of 5 basis points, or 5%, to 1.05%. The increase in average interest earning assets of 5% during the current fiscal quarter was primarily driven by the growth in average total loans of $2 billion, or 6%, attributable primarily to the increases in average long-term fixed-rate and line of credit loans discussed previously.

The decrease in the adjusted net interest yield of 5 basis points was primarily attributable to an increase in our adjusted average cost of borrowing of 25 basis points to 3.91%, which was partially offset by an increase in average yield on interest earning assets of 17 basis points to 4.69%, and an increase in the benefit from non-interest bearing funding of 3 basis points to 0.27%. The increase in both average yield and interest earning assets, and the adjusted average cost of borrowing were attributable to a continued elevated interest rate environment.

Being a member owned finance cooperative, our primary financial goal focuses on earning an annual minimum adjusted times interest earned ratio, or TIER, of 1.1 times. For the current fiscal quarter, our adjusted TIER decreased by 0.03, or 3 ticks, to 1.20 compared to the same prior-year period, still comfortably exceeding our target of 1.1 times. Our total debt outstanding was $33.2 billion at the current fiscal quarter-end, an increase of $448 million, or 1%, from the prior fiscal year-end, primarily to fund the growth in our loan portfolio.

We continue to maintain diverse funding sources, including funding from our members, as well as capital markets and non-capital markets funding. At the current fiscal quarter end, $4.9 billion of CFC's funding came from our members in the form of short-term and long-term investments, an increase of $19 million from the prior fiscal year-end. Our member investments represented 15% of our total debt outstanding at the current fiscal quarter-end, unchanged from prior fiscal year-end.

At the current fiscal quarter-end, our funding under the guarantee underwriter program and notes payable with Farmer Mac totaled $9.9 billion, or 30%, of our total debt outstanding, a $496 million, or 5%, decrease from the prior fiscal year-end, primarily due to net decreases of $319 million in borrowings under Farmer Mac note purchase program and $177 million decrease under the guarantee underwriter program. Our capital markets related funding sources totaled $18.4 billion at the current fiscal quarter end, a $925 million, or 5%, increase from the prior fiscal year-end. The increase was primarily due to net increases of $585 million in dealer commercial paper, $349 million in collateral trust bonds, partially offset by a net decrease of $9 million in dealer medium-term notes.

At the current fiscal quarter-end, capital markets related funding sources accounted for 55% of our total funding, compared to 53% from the prior fiscal year-end. At the current fiscal quarter-end, 51% of our total debt was secured and 49% was unsecured, slightly shifted from 52% for secured and 48% for unsecured at the prior fiscal year-end. Our short-term borrowings increased by $84 million to $4.4 billion at the current fiscal quarter-end, compared to $4.3 billion at the prior fiscal year-end.

At the current fiscal quarter-end and the prior fiscal year-end, short-term borrowings accounted for 13% of our total debt outstanding. The slight increase in short-term borrowings was driven by a $585 million increase in dealer commercial paper, partially offset by a repayment of $500 million in short-term borrowings from Farmer Mac. At the current fiscal quarter-end and the prior fiscal year-end, a total of $3.3 billion of our short-term borrowings came from short-term investments made by our members, representing 75% and 77% of our total borrowings, respectively.

As we have consistently stated, investments from our members are a very reliable funding source with little reinvestment risk, as our member continues to invest a large portion of their excess funds with us. Our member short-term investments have averaged $3.5 billion over the last 12 fiscal quarter-end reporting periods. Slide 13 shows the variable sources of liquidity that CFC had in place at the current fiscal quarter-end.

Our available liquidity included cash investments, committed bank lines, committed loan facilities under the guarantee underwriter program and Farmer Mac note purchase agreements totaling $6.95 billion at the current fiscal quarter-end. Subsequent to the current fiscal quarter-end, in September 2024, we received an additional $450 million commitments under the guarantee underwriting program. We expect to close this commitment by this calendar year-end.

As indicated in the table on the right side, at the current fiscal quarter-end, we had a total of $7.4 billion in debt maturities over the next 12 months, with $3.3 billion of this debt maturities

representing short-term investment from our members. Based on our experience, we expect our members to roll over a large portion of their short-term investments with us at maturity. The remaining $4.1 billion in debt maturities includes $1.1 billion in dealer commercial paper and $3 billion long-term and subordinated debt obligations. These obligations are well covered by the $6.95 billion liquidity discussed previously. It is also worth noting that the $6.95 billion liquidity does not include the $1.6 billion scheduled repayment and amortization on long-term loans we expect to receive from our members over the next 12 months.

Slide 14 summarizes CFC's long-term debt issuance needs over the next 18 months, subsequent to the current fiscal quarter-end. Our cash needs are derived from two primary areas: refinancing existing debt maturities and funding loan advances to our members, partially offset by the amortization and repayments of loans from our members. Our funding needs are also driven by our member investment levels. During the current fiscal quarter, we issued $350 million of collateral trust bonds and borrowed $200 million under the note purchase agreement with Farmer Mac.

Subsequent to the current fiscal quarter-end in September, we issued a total of $1 billion in fixed and floating rate medium-term notes with tenors ranging from three to five years. As a result, our outstanding dealer commercial paper decreased to $155 million as of September 30, 2024, as we use the proceeds from these issuances to pay down commercial paper. Over the next 18 months, from September 2024 through February 2026, we have a total of $5.4 billion of long-term debt maturities and amortization, consisting of $3.6 billion in capital markets debt and $1.8 billion in non-capital market debt.

We expect our net loan growth over the same period to be approximately $2.2 billion. As indicated in the chart, we project issuing approximately $6.6 billion in long-term debt over this time period to refinance existing debt and fund expected loan growth. Thank you once again for joining us today to review our results for our first fiscal quarter ended August 31, 2024. We appreciate your interest in CFC and look forward to discussing our financial performance and funding plans in the future. I

would like to ask the operator to open the lines for questions, and also suggest that you can submit your questions via the web service, so we may respond to those as well. Thank you.

Operator: Thank you. If you are dialed in via the telephone and would like to ask a question, 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, please press star one to ask a question. If you are in the event via the web interface and would like to ask a question, simply type your question into the ask a question box and click send. We will pause for just a moment to allow everyone an opportunity to ask a question. At this time, we do not have any questions over the phone.

Ling Wang: Okay. So we do have a question that's asked via the web service. The question is, can we talk about the issuance needs in Q4 in 2025? If you look at our material, in September of 2024, we issued about a billion of medium-term notes. It's in the form of fixed and floating rate debt. So that's in September of 2024. And if you look at our projections, we forecast to issue approximately a billion of debt in Q2 of our fiscal year, which is Q4 of 2024 calendar year.

So when you say Q4, I'm assuming you mean Q4 of 2024. So we say we're going to issue a billion, which we have issued a billion in September. Our 2025 issuance plan. We have showed it being our – that will be what we will call the February 28, 2025, May 31, 2025. So the long-term debt issuance, if you add those up, it will probably be around $3 to $4 billion. That will be the 2025 issuance plan for calendar year.

Operator: It's the Operator and we do have a question over the phone. We'll take a question from Raymond Leung with Scotiabank.

Raymond Leung: Andrew, hey. Ling, thanks for the time. Just a question. You mentioned Fitch just affirmed your ratings. Any insights on the other two agencies? Thoughts around them and any update with respect to that?

Andrew Don: You raise your question about timing or is that what it's related to?

Raymond Leung: Yeah. I guess typically I suspect you guys, you go in the same time to see the agencies unless I'm misreading that. And just news from the other two.

Ling Wang: Yeah. So with Fitch, we've already reaffirmed our ratings and outlook. So we already met with Fitch. We actually met with S&P a few weeks ago. Do we expect them to say something soon? Moody's, if you look at last time, they refreshed our ratings and outlook, it was actually February of 2024. So earlier this year. So they do it once a year. We are planning to meet with Moody's sometime in November. I would expect they will follow a similar timeline to refresh their ratings and outlook for us.

Raymond Leung: Okay. Great and thanks. I'll see you all in a couple of weeks.

Ling Wang: Yeah. See you in a couple of weeks.

Operator: Thank you. Once again, if you would like to ask a question over the phone, please signal by pressing star one.

Ling Wang: We do have a question about, what change is being evaluated for the leverage target?

Andrew Don: It's something that we've spent a lot of time discussing, both internally and with our board of directors. It's still in process, what we're contemplating potentially doing is something that more closely mirrors the calculations that we see coming out of Moody's and Fitch. We think that will be

more instructive and more beneficial for investors on a going forward basis. The timing, we look to do something within the next couple of months in terms of finalizing what I'll call the new target and description of it. But it's just to have greater transparency between how we're calculating it and how the agencies calculate it. It will be our own calculation.

Ling Wang: There's another question. What are we seeing in terms of data center issues, demand supply, and what is your outlook on that?

Andrew Don: We're getting a lot of inquiries from our members around data centers. It's very topical. And again, a lot of interest from the hosts, the people that put the data centers in place into electric cooperative service territories. It has not as yet resulted in direct requirements for increased generation capacity. It is concentrated and certainly in certain states, Virginia being one of them of course, southeast part of the country, Georgia is getting a lot of inquiries, so along the coast.

But I can tell you, we are hearing pretty consistently from a large number of our members, that they are getting inquiries from, again, data center owners and operators. But we have not seen any requests for increased capital to support this as yet, and whether related to either distribution or transmission capex or on a generation side. So our cooperatives are still evaluating opportunities and see where it makes sense, but it has not resulted in any definitive or increase in loan demand for CFC at the current time.

Ling Wang: We do have another question about leverage, which I can answer. Elaborate on the decision to adjust the 6-to-1 debt to equity ratio target and any impact it could have on ratings. Like Andrew said, we are evaluating the way we calculate the leverage ratio to be more consistent with what the rating agencies methodology, as different rating agencies does have a different leverage ratio target for us. As we have consistently stated, ratings are very important to us. Whatever that we come up with, that will be in line with our current rating. So right now, we are well below what

the rating agencies leverage target for us. Another question, do we expect any credit losses from co-ops impacted by the hurricanes?

Andrew Don: As we detailed, we do not expect any. To be frank, obviously, these types of weather events have happened numerous times over the past years, and cooperatives have been able to manage through it. We typically, as I said in our formal comments, do provide what's called emergency line of credit so that people can, if they do have increased needs on a short-term basis, that they can get those put in place and they can focus on restoring their business and operations.

But we have never actually had any loss related to any lines of credit or funding that we've provided to cooperatives for rebuild of their systems related to hurricanes. Again, it's because they are eligible for FEMA reimbursement. It can be a lengthy process, it can take several years to get that reimbursement done. But they do typically get reimbursed anywhere from 75% to 90% of expenditures, depending on state contributions as well. So we have never seen any type of a credit loss related to a hurricane. Obviously, Winter Storm Uri was an extreme weather event. There was a nominal occurrence there. But that was because that was not eligible for FEMA reimbursement as well.

Ling Wang: One more question we have on the web. Can we talk about how we will bridge the funding gap of over a billion between the cash needs and long-term debt issuance? If you look at our slides, these are what we projected long-term debt issuances. So it does not include the fluctuations that we have for our dealer commercial paper or our member investments. So the $1 billion gap that you see will probably be bridged either by the issuance of additional dealer commercial paper or our member investments. Operator, are there any questions from the participants on the phone?

Operator: We have no further questions over the phone.

Ling Wang: Okay. We have answered all the questions we have on the web service as well. If you have any additional questions, feel free to contact myself or Heesun Choi. We are planning to be at the EEI in November, so we can do a one-on-one meeting or small group meeting. If you're interested in that, you can reach out to us and we'll see what will fit into our schedule. Thank you.

Operator: This does conclude today's call.

Andrew Don: Thank you.

Heesun Choi: Thank you.

Operator: This does conclude today's call. Thank you for your participation.