Conference Title: **FY2025 Second-Quarter Investor Conference Call**

Date: **Thursday, 16th January 2025**

Operator: Good day and welcome to the National Rural Utilities Cooperative Finance Corporation FY 2025 Second-Quarter Investor Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Heesun Choi, VP of Capital Markets Relations. Please go ahead.

Heesun Choi: Thank you, operator. Welcome to our investor conference call for our second quarter of fiscal year 2025. We appreciate your time and interest in CFC. Today I'm joined by our CEO, Andrew Don, and our CFO, Ling Wang. Andrew and Ling will discuss our second quarter-end 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 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 regarding these statements and measures. Any forward-looking statements made during today’s call are subject to risks and uncertainties. Factors that may cause actual results to differ materially from expectations are described on slide two, and 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 January 13, 2025, as well as in the appendix of the presentation slides. At the end of the presentation, we will open the call for questions. Andrew and Ling will take your questions, which you can ask over the phone or submit online. With that, I will now turn the call over to Andrew.

Andrew Don: Thank you Heesun. Good afternoon. Thank you for joining our call today to review our business and operational results during the three months ended November 30, 2024, which was our second fiscal quarter of fiscal 2025. Moving to slide five to discuss highlights from the second fiscal quarter. We continue to experience strong loan demand from our members during the quarter, with loans to members reaching $35.6 billion, an increase of $1.1 billion, or 3%, from the prior fiscal year-end of May 31, 2024, and $503 million, or 1%, from August 31, 2024, which was our first fiscal quarter end date. Of the $1.1 billion six-month loan growth, 52%, or $559 million, was a net increase in long-term loans, and 48%, or $513 million, was a net increase in line of credit loans. Since the prior fiscal quarter-end, our members needs for line of credit loans have continued to increase. During the three months ended November 30, 2024, we experienced a net increase of $330 million in line of credit loans, which represented 64% of the increase since the prior fiscal year-end. Of the $513 million increase in line of credit loans, 43%, or $219, support members' recovery efforts following Hurricane Helene, and the remaining 57%, or $294 million, was primarily attributable to members higher working capital and capital expenditure requirements. Subsequent to November 30, 2024, our line of credit loans have further increased by $776 million for the month of December 2024, of which 30%, or $235 million, was attributable borrowings under emergency line of credit loans. From June 1, 2024, to December 31, 2024, we have made a total of $454 million emergency line of credit loan advances. Additionally, $212 of the $1.1 billion 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 increased to an estimated $3.3 billion as of November 30, 2024, compared to approximately $3.1 billion at the prior fiscal year-end. Despite the robust loan growth, our loan portfolio continued to maintain its pristine quality, with no charge-offs during the second fiscal quarter, only 0.14% of loans were classified as non-performing at the quarter-end. Our financial position remains strong with an adjusted TIER at 1.2 times during the six months ended November 30, 2024, and 1.19 times during the second fiscal quarter of fiscal year 2025, each exceeding our goal of 1.1 times. Our members' equity increased to $2.5 billion at the fiscal quarter-end. During the second fiscal quarter, we have revised the methodology and the internal threshold for our adjusted debt to equity ratio. These changes are intended to more accurately reflect our financial condition given the continued growth in our loan portfolio, align our methodology more closely with the rating agency methodologies and provide a ratio that is consistent with our business objectives. Ling will discuss the revised methodology later in her presentation. Having strategically diversified our funding and liquidity sources, we have minimized the risk of being dependent on any single source or market and continued to strategically expand our funding sources. In October 2024, we accessed the private placement debt market for the first time and priced $300 million collateral trust bonds, which are scheduled to settle next week. In addition, in November 2024, we launched a new Subordinated Note program that we offer to retail investors via the InspereX platform. We continue to maintain a diverse range of liquidity sources at the fiscal quarter-end, including 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.

Subsequent to November 30, 2024, we further enhanced our liquidity position by increasing our available liquidity to a total of $1.45 billion. The increase consists of a $500 million increase in committed bank lines and additional $450 million commitment under guaranteed underwriting program, and a $500 million increase in the Farmer Mac note purchase agreement. We remain committed to maintaining strong investment grade credit ratings from Fitch, Moody's and S&P. In November 2024, S&P affirmed CFC's credit ratings with a stable outlook. Our short-term and long-term credit ratings outlooks are unchanged. Our current long-term unsecured credit ratings are A, A2 and A-minus, all with a stable outlook. As we discussed on our previous call, the Empowering Rural America Program, referred to as New ERA, provides $9.7 billion in available funding to rural electric cooperatives for their investments in renewable power supply, transmission and storage projects to support a transition to clean, affordable and reliable energy. So far, a total of 49 electric cooperatives covering 38 states have been selected for loan funding or grants under the New ERA program. More specifically, 43 electric cooperatives, consisting of 19 generation transmission and 24 distribution cooperatives, have been awarded more than $9 billion of funding in the form of either grants or loans to build over 13 gigawatts of additional renewable resources, including solar, wind, battery storage and nuclear. The remaining six cooperatives, three generation transmission and three distribution cooperatives, have been selected as program finalists and are currently undergoing New ERAs underwriting to be awarded funding. Additional cooperatives can be selected for awards under the New ERA program until January 20, 2025. Electric cooperatives who were awarded New ERA funding will have until September 30, 2031, to complete their projects. We view the New ERA program as potentially creating a need from our members for bridge financing. With that, I will 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 period ended November 30, 2024, which is our second quarter of fiscal year 2025. And I'm going to refer to as the current fiscal quarter-end. Our total assets at the current fiscal quarter-end were approximately $37.1 billion, an increase of $935 million, or 3%, from the prior fiscal year-end level. The increase was primarily driven by loan growth. Our loans to members increased by $1.1 billion, or 3%, to $35.6 billion at the current fiscal quarter-end. Loans to CFC distribution, power supply and statewide and associate member borrowers accounted for 95% of total loans to members at the current fiscal quarter-end. We experienced increases in CFC distribution loans of $1 billion and CFC electric loans of $35 million, CFC statewide and associated loans of $32 million and NCSC telecom loans of $9 million and a decrease in CFC power supply loans of $16 million during six months ended November 30, 2024. Our members' equity, which excludes cumulative derivative forward value gains and accumulated other comprehensive loss, increased by $80 million to $2.5 billion from the prior fiscal year-end, primarily due to the adjusted net income of $128 million during the six months ended November 30, 2024, partially offset by the CFC Board of Directors authorized patronage capital retirement of $47 million during the same period, which was returned to our members in cash in September 2024. Beginning in the current fiscal quarter, we have refined our methodology for calculating the adjusted debt to equity ratio, which I will discuss in detail on the next slide. With our revised methodology, the adjusted debt to equity ratio was 7.37-to-1 at the current fiscal quarter-end, up from 7.27-to-1 at the prior fiscal year-end. The increase was driven by borrowings to support our loan growth, which outpaced the increase in adjusted equity, resulting in a modestly higher leverage. I'm moving to slide nine to discuss the revised methodology for our adjusted debt to equity ratio. Adjusted debt to equity ratio is one of the key measures in managing our business. It is used to set corporate goals, create budgets and forecasts and monitor our overall leverage and credit ratings. As Andrew mentioned earlier, we have refined our methodology for calculating the adjusted debt to equity ratio and updated our internally established threshold to 8.5-to-1 from the previous 6-to-1 target. The table on the right side of this slide compares the prior methodology with our revised methodology. Key changes include replacing total liabilities with total debt outstanding, which includes our interest-bearing debt and excludes non-interest bearing liabilities, and reducing equity credit for subordinated deferrable debt that we issued in the market from 100% equity content to 50%. The modifications in how we calculate the leverage ratio and set the leverage ratio target do not affect our business operations. We believe these changes provide a more precise representation of our financial condition, given the continued growth in our loan portfolio, and enable us to closely monitor our credit ratings in alignment with rating agency methodologies and our business objectives for leverage ratios. Moving on to slide 10. The composition of our loan portfolio has remained stable and has not changed materially during recent years. Our loan portfolio consists mainly of long-term, fixed-rate, secure loans to rural electric cooperatives. At the current fiscal quarter-end, $35 billion, or 98%, of our loans consist of loans to rural electric systems and $607 million, or 2%, to the telecommunications sector. Our long-term fixed-rate loans were $30.8 billion, or 86%, of total loans outstanding at the current fiscal quarter-end, compared to $30.3 billion, a slight 2% decrease from 88% at the prior fiscal year-end. Our total long-term loans are typically secured by substantially all assets of the borrowers. Lines of credit loans were $3.9 billion, or

11%, of total loans outstanding at the current fiscal quarter-end, compared to $3.4 billion, or 10%, of total loans outstanding at the prior fiscal year-end. Long-term loan advances totaled $1.3 billion during the six months ended November 30, 2024, of which, approximately 95% was provided to members for capital expenditures, 4% was for refinancing of loans made by other lenders and 1% was for other purposes. In comparison, long-term loan advances totaled $1.6 billion during the same prior-year period, of which, approximately 94% was for capital expenditures and approximately 6% was for other purposes, primarily business acquisitions. Of the $1.3 billion total long-term loan advances during the six months ended November 30, 2024, $1.2 billion were fixed-rate loan advances with weighted average fixed-rate term of eight years. In comparison, of the total of the $1.6 billion total long-term loans advanced during the same prior-year period, $1.5 billion were fixed-rate long-term loans advances with weighted average fixed-rate term of 12 years. The current high-rate environment has led our members to continue favoring shorter rate-lock period on their long-term loans. 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, compared to 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 89% of total loans outstanding at the current fiscal quarter-end, was 19 years. Slide 11 presents historical performance of our loan portfolio for the past four fiscal years and the current fiscal quarter. The quality of our loan portfolio remains strong with stable credit metrics. We had only one non-performing loan 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, which was put on non-performing during fiscal year 2020. In December 2024, we received a $6 million payment on this non-performing loan, which reduced its outstanding balance to $43 million. Our allowance for credit losses increased slightly by $2 million dollars to $51 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-end, compared to the prior fiscal year-end. The $2 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 12. During the current fiscal quarter, we generated adjusted net income of $62.2 million, compared to $69.9 million in the same prior-year period. The $7.7 million decrease in our adjusted net income was primarily driven by an increase in operating and other expenses of approximately $4 million, a decrease in adjusted net interest income of $2 million and a decrease in fee and other income of $1 million. During the current fiscal year to date, our adjusted net income decreased by $8 million, or 6%, to $128 million from $136 million in the same prior-year period. The decrease in adjusted net income was primarily driven by an increase in operating and other expenses of $8 million and a decrease in adjusted net interest income of approximately $1 million, partially offset by an increase in gains recorded on our investment securities of $1 million. During the current fiscal quarter, our adjusted net interest income decreased by $2 million, or 2%, from the same prior-year period, primarily due to the decrease in adjusted net interest yield of 9 basis points, or 8%, to 103 basis points, partially offset by increasing average earning assets of $1.7 billion, or 5%. The increase in average interest earning assets of 5% during the current fiscal quarter was primarily driven by the growth in average loans of $2 billion, or 6%, attributable primarily to increases in average long-term fixed-rate and line of credit loans, as discussed previously. The decrease in the adjusted net interest yield of 9 basis points was primarily attributable to an increase in our adjusted average cost of borrowing of 21 basis points to 3.96%, which was partially offset by an increase in average yield on our interest earning assets of 11 basis points to 4.73% and the increase in the benefit of non-interest bearing funding of 1 basis point to 0.26%. The increase in both average yield on interest earning assets and the adjusted average cost of borrowing were attributable to the continued high long-term rate environment since November 30, 2023. During the current fiscal year to date, CFC's adjusted net interest income was $186 million, a $1 million decrease from the same prior-year period. This was driven by a decrease in adjusted net interest yield of 7 basis points, or 6%, to 104 basis points, partially offset by an increase in interest earning assets of $1.8 billion, or 5%. Average interest earning assets increased as average total loans grew by $2 billion, or 6%. Adjusted net yield declined by 7 basis points, as our adjusted average cost of borrowing increased by 22 basis points to 3.93%, partially offset by an increase in average yield on interest earning assets of 14 basis points to 4.71% and the increase in the benefit of non-interest bearing funding of 1 basis points to 0.26%. Being a member owned finance cooperative association, our primary financial goals focuses on earning an annual minimum, adjusted time interest earned ratio, or TIER, of 1.1 times. For the current fiscal quarter, our adjusted TIER decreased by five ticks to 1.19 times, compared to the same prior-year period. For the current fiscal year to date, our adjusted TIER decreased by three ticks to 1.2 times, compared to the same prior-year period. Adjusted TIER for the current fiscal quarter and the current fiscal year to date comfortably exceed our target of 1.1 times. Our total debt outstanding was $33.7 billion at the current fiscal quarter-end, an increase of $976 million, or 3%, from the prior fiscal year, 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, $4.7 billion of CFC's funding came from our members in the form of short-term and long-term investments, a decrease of $136 million from the prior fiscal year-end. Our member investments represented 14% of our total debt outstanding at the current fiscal quarter-end, down 1% from the prior fiscal year-end. At the current fiscal quarter-end, our funding under the guaranteed underwriter program and notes payable with Farmer Mac totaled $9.8 billion, representing 29% of our total debt outstanding, a $567 million, or 5%, decrease from the prior fiscal year-end, primarily due to net decreases of $333 million in borrowings under the Farmer Mac note purchase program and $229 million under the guaranteed underwriter program. Our capital markets related funding sources totaled $19.2 billion at the current fiscal quarter-end, a $1.7 billion, or 10%, increase from the prior fiscal year-end. The increase was primarily due to net increases of $804 million in dealer commercial paper, $349 million in collateral trust bonds and $526 million in dealer medium-term notes. Subsequent to the current fiscal quarter-end, we issued a total of $34 million subordinated deferrable notes under the new subordinated note program that Andrew mentioned earlier. These subordinated notes are unsecured and ranked subordinated in right of payment of all of our current and future senior indebtedness. In addition, these subordinated notes are senior to our members, subordinated certificates and rank equal in right of payment and upon liquidation to our outstanding subordinated deferral debt and any other equally ranked subordinated notes that we may issue. At the current fiscal quarter-end, capital markets related funding sources accounted for 57% of our total funding, compared to 53% from the prior fiscal year-end. At the current fiscal quarter-end, 50% of our total debt was secured and 50% was unsecured, slightly shifted from 52% for secured and 48% for unsecured at the prior fiscal year-end. Our short-term borrowings increased by $159 million to $4.5 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 $804 million increase in dealer commercial paper, partially offset by the repayment of $500 million in short-term borrowings from Farmer Mac and a decrease in short-term member investment of $144 million. At the current fiscal quarter-end, a total of $3.2 billion of our short-term borrowings came from short-term investments made by our members, a slight decrease from $3.3 billion at fiscal year-end, and represented 71% and 77% of our total short-term borrowings, respectively. As we have consistently stated, our member investments have historically been our primary source of short-term borrowings, and investments from our members are a very reliable funding source with little reinvestment risk, as our members continue 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 14 shows the variable source 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 revolving note purchase agreements totaling $7 billion at the current fiscal quarter-end. As indicated in the table on the right side, at the current fiscal quarter-end, we had a total of $7.8 billion in debt maturities over the next 12 months, with $3.2 billion of these debt maturities representing short-term investments 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 $4.6 billion in debt maturities includes $1.3 billion dealer commercial paper and $3.3 billion long-term and subordinated debt obligations. These obligations are well covered by $7 billion liquidity discussed previously. It is also worth noting that the $7 billion liquidity does not include the $1.6 billion scheduled repayments and amortization on long-term loans that we expect to receive from our members over the next 12 months. Subsequent to the current fiscal quarter-end, in December 2024, we amended our three-year and four-year committed bank credit facilities to extend the maturity dates by one year and increase the total commitment amount by $500 million. The total commitment amounts under the three-year credit facility and the four-year credit facility are $1.6 billion and $1.7 billion, respectively, for a total of $3.3 billion. Also in December 2024, we closed an additional $450 million commitment under the guaranteed underwriter program. As we filed an 8-K yesterday, we closed an amendment to the Farmer Mac note purchase agreement to increase the size by $500 million from $6 billion to $6.5 billion, and extended the draw period from June 30, 2027, to January 14, 2030. The total available liquidity CFC has added after the current fiscal quarter-end is $1.45 billion. Slide 15 summarizes CFC's projected 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 repayment of loans from our members. Our funding needs are also driven by our member investment levels. Over the next 18 months, from December 2024 through May 2026, we have a total of $5.8 billion of long-term debt maturities and amortization. We expect our net loan growth over the same period to be approximately $2.4 billion. As a result, we project issuing approximately $7.4 billion in long-term debt over the next 18 months to refinance existing debt and to fund expected loan growth. Thank you once again for joining us today to review our results for our second quarter fiscal year 2025 ended November 30, 2024. We appreciate your interest in CFC and look forward to discussing our financial performance and funding plan in the future. I'd like to ask the operator 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 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 in the "Ask a Question box" and click send. Thank you. At this time, we do not have any questions over the phone. I will now turn the call back.

Ling Wang: Thank you, operator. We do have a question from the web. That question is, we do have a floating rate subordinated note outstanding in the market. And the question was, do we expect to refinance these in the coming quarters or are we happy with the current mix? I think we look at our subordinated debt outstanding in a holistic way. So, these subordinated notes right now are callable and we continue to—for us, it will be an economic decision for us, whether it makes sense to redeem it or not. I don’t think we have any more questions. Okay, with that, we’ll just conclude today’s call. Thank you very much.

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