FitchRatings

Non-Bank Financial Institutions
Finance and Leasing Companies
U.S.A.

National Rural Utilities Cooperative Finance Corporation

Key Rating Drivers

Strong Franchise and Unique Structure: National Rural Utilities Cooperative Finance Corporation's (CFC's) ratings reflect its unique competitive position within the electric cooperative lending space, strong asset quality, sufficient liquidity, funding diversity and adequate coverage of interest expenses. The ratings are constrained by CFC's higher leverage compared to similarly-rated peers, its unique capital structure, a business model that results in modest earnings and an inability to access the equity capital markets.

Demonstrated Track Record: CFC has a demonstrated track record in credit, recording very low credit losses over time. Over its entire 52-year operating history, the firm has experienced only 17 defaults in its electric utility loan portfolio, which includes the default of Brazos Power Cooperative, Inc. (Brazos) in March 2021, which resulted in six losses in the electric utility portfolio. Net write-offs as a percentage of average loans amounted to just 0.77% since inception, evidencing strong and stable lending, as well as solid credit risk management. As of fiscal quarter ended Nov. 30, 2021 (2Q22), CFC had two loans classified on nonaccrual and nonperforming totaling $219 million, or 0.8% of total loans.

High Leverage: Fitch Ratings calculated leverage (debt to tangible equity) to be 8.6x at 2Q22, relatively consistent with 8.5x at FYE21. Leverage can be impacted by mark-to-market changes on CFC's derivatives, although this is incorporated into CFC's ratings. While Fitch views CFC's leverage as reasonable given low portfolio credit risk and CFC's ability and willingness to access subordinated deferrable debt markets to support growth, leverage metrics are higher than similarly-rated non-bank financial institutions and remain a rating constraint.

Modest Earnings: Earnings on a pre-tax ROAA basis are very low when compared to similarly-rated non-bank financial institutions. Fitch places greater emphasis on the company's adjusted times interest earned ratio (TIER), which has been consistent over time. Adjusted TIER amounted to 1.3x for 1H22, relatively consistent with the prior year. Given the company's strong asset quality and ability to adjust loan pricing, Fitch expects adjusted TIER to remain in excess of the firm's 1.1x target over time.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade: Fitch believes the likelihood of a ratings upgrade over the medium term is limited given CFC's higher-than-peer leverage. However, over time, positive momentum could be driven by a decline in leverage approaching 5.0x on a Fitch-calculated basis, which is more consistent with Fitch's investment grade benchmark ratio for balance sheet-heavy finance and leasing companies, and by enhanced funding flexibility as evidenced by the lengthening of CFC's debt maturity profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade: A perceived drift in focus, evidenced by an increased level of lending to sectors outside of its rural electric member base, a spike in nonperforming loans due to financial stress within the sector indicating an inability to adapt to new legislation, an inability to pass along cost increases to end-users, an increase in Fitch-calculated leverage sustained above 10.0x, and/or a deterioration in the firm's liquidity profile could yield negative rating action.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Commercial Paper	F1
Senior Secured	A+
Senior Unsecured	A
Subordinated	BBB+

Outlooks

Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2022)

Corporate Hybrids Treatment and Notching Criteria (November 2020)

Related Research

Fitch Ratings 2022 Outlook: North America Finance and Leasing Companies (December 2021)

Fitch Ratings 2022 Outlook: U.S. Public Power and Electric Cooperatives (December 2021)

Fitch Affirms National Rural at 'A'/'F1'; Outlook Stable (September 2021)

U.S. Public Power – Rating Update (Texas Public Power and Electric Cooperative Rating Watches Resolved (September 2021)

Texas Public Power and Electric Cooperative Utilities Recovering from Winter Storm (Credit Ratings Remain Largely Intact Despite Devastating Winter Storm, but Credit Risk Remains (June 2021)

Financial Data

National Rural Utilities Cooperative Finance Corporation

($Mil.)	11/30/21	5/30/21
Total Loans	28,947	28,427
Total Debt	27,790	27,426
GAAP Equity	1,391	1,400
Net Interest Income	218	415

Analysts

Johann Juan
+1 312 368 3339
johann.juan@fitchratings.com

Bain Rumohr
+1 312 368 3153
bain.rumohr@fitchratings.com

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Long-Term IDR	Short-Term IDR	Outlook
National Rural Utilities Cooperative Finance Corporation	A	F1	Stable

Source: Fitch Ratings.

According to Fitch's "Non-Bank Financial Institutions Rating Criteria," dated Jan. 31, 2022, a Long-Term Issuer Default Rating (IDR) of 'A' maps to a Short-Term IDR of 'F1' or 'F1+'. To qualify for the higher rating, CFC would need to have a minimum funding, liquidity and coverage (FLC) score of 'aa-'. CFC's score is currently 'bbb'. Accordingly, CFC's Short-Term IDR is 'F1'.

The Short-Term IDR is primarily sensitive to the Long-Term IDR and would be expected to move in tandem. However, a material improvement in CFC's FLC profile, resulting in an upgrade of the sub-factor score to 'aa-', could result in an upgrade of the Short-Term IDR to 'F1+'.

Debt Rating Classes

Rating Level	Rating
Commercial Paper (CP)	F1
Senior Secured	A+
Senior Unsecured	A
Subordinated	BBB+

Source: Fitch Ratings.

The CP rating of 'F1' is equalized with the Short-Term IDR of 'F1'. CFC's CP rating is sensitive to changes in the firm's Short-Term IDR and would be expected to move in tandem.

The senior secured debt ratings benefit from a one-notch uplift from the Long-Term IDR given the strong collateral coverage backing such notes and the good recovery prospects for debtholders under a stress scenario. CFC's collateral trust bonds (CTB) are backed by high-performing mortgage notes with strong, stable underlying hard assets and substitution requirements in the event of collateral underperformance.

The senior unsecured debt ratings are equalized with CFC's Long-Term IDR, reflecting their subordination to secured debt and average recovery prospects for debtholders in a stress scenario. Medium-term notes represent unsecured obligations that may be issued through dealers in the capital markets or directly to CFC's members.

The subordinated deferrable debt ratings (SDD) are two-notches below the Long-Term IDR due to poor recovery prospects for debtholders in a stress scenario given their deep subordination to senior secured and senior unsecured debt.

CFC's senior secured, senior unsecured, and hybrid debt ratings are sensitive to changes in the firm's Long-Term IDR, its funding mix, and availability of collateral for each class of debt.

Ratings Navigator

Significant Changes

Inflation is Prompting Policy Normalization

Fitch's "Global Economic Outlook" (GEO), published Dec. 7, 2021, expects U.S. GDP to grow 3.7% in 2022, unchanged compared to Fitch's September GEO forecasts. Households accumulated large savings buffers through the pandemic and can ride out the shock to real income from higher prices without cutting spending aggressively. Core goods and energy price inflation is expected to decline in the middle of 2022 but recent U.S. Consumer Price Index (CPI) data has shown inflationary pressures starting to broaden to the services sector with rental inflation and wage growth rising above pre-coronavirus pandemic rates. This has raised U.S. Federal Reserve (Fed) concerns that inflation is broadening beyond the pandemic-related goods price shock, potentially warranting earlier or faster rate rises. Fitch expects the Fed to raise rates twice in 2022 and four times in 2023, taking the upper bound of the Fed funds rate to 1.75% by end-2023 from 0.25% currently.

Affordability Trends Stabilize After Economic Shocks

Fitch expects the affordability of electric service to stabilize over the near term, further moderating rate pressures, sustaining operating margins and supporting credit quality through 2022. Following the economic shocks related to the coronavirus, Fitch expects the affordability of electric costs to weaken modestly, but remain in line with historically favorable levels.

Fitch expects residential electric costs to consume only 2.1% of medium household income (MHI) in 2022; up modestly from 2.0% in 2019, but still well below 2.7% in 2010. The weaker projected ratio reflects lower real median household income (MHI), which excludes pandemic-related government aid. MHI fell roughly 3% in 2020 and is expected to remain lower through 2022. Fitch expects electric costs to remain relatively stable. While the modest strain could undermine rate-setting initiatives for some issuers, particularly for those whose customers experience more pronounced declines in MHI and/or relied more heavily on stimulus payments, no significant reversal of trend is expected.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Company Summary and Key Qualitative Assessment Factors

Franchise Strengths; Growth in 100% Borrowers

CFC was formed in 1969 by its members, primarily rural cooperative electric distributors and generation and transmission (G&T) systems. The company was organized to provide its members with a source of financing to supplement the Rural Utilities Service's (RUS) lending program. Fitch notes that within the electric cooperative lending space, there are just three primary players: the U.S. government (through the RUS), the Farm Credit System (through CoBank ACB (IDR: 'AA-'/Stable) and CFC. Fitch believes CFC has meaningful and unique franchise strengths and estimates that CFC garners over 26% of the U.S. electric cooperative lending market. The company continues to strengthen its franchise, as demonstrated by the number of borrowers that use CFC exclusively for long-term borrowing needs (100% borrowers), which increased to 248 at FYE21 up from 245 at FYE20.

Focus on Lending to Members

CFC's strategic objective is to focus on lending to electric utility cooperatives. As of 2Q22, core members represented 99% of the total portfolio. Management has significantly reduced the exposure to telecommunication entities in recent years, which had been the cause of most of CFC's historical credit losses. They now represent just 1.5% of the total portfolio as of the same date. If there is a perceived drift in focus, evidenced by an increased level of lending to sectors outside of its rural electric member base, negative rating action would be likely.

Maintain Diversified Funding

Another key focus for CFC is to diversify its funding sources over time, beyond capital market offerings of debt securities. Private funding programs with the Federal Financing Bank, under a guarantee from the RUS, and the Federal Agricultural Mortgage Corporation have become more prominent sources of funding in recent years given their reliability, flexibility, and cost. As of FYE21, capital markets funding (collateral trust bonds, non-member CP, medium-term notes, subordinated deferrable debt, and securities sold under repurchase agreements) represented 48% of total funding, compared to 84% in FYE03. Fitch views favorably CFC's economic access to diversified funding sources and reduced reliance on the wholesale debt markets.

Exposure to Interest Rate Risk

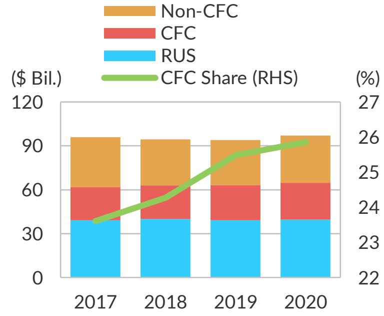
In order to minimize interest rate risk, CFC utilizes plain vanilla swaps. CFC records all derivatives as either assets or liabilities and measures the fair value of the instruments each quarter-end with cash settlements included in interest expense when adjusted performance ratios are calculated. Changes in interest rates and the shape of the swap curve result in periodic fluctuations in the fair value of derivatives, which may cause volatility in earnings because CFC does not apply hedge accounting for the swaps. As a result, mark to market changes in the interest rate swaps are recorded in earnings. To evaluate core earnings performance, management uses non-GAAP measures, which exclude the impact of unrealized fair value gains and losses on the swaps.

South-Central U.S. Winter Storm Event

A series of unusual winter storms hit Texas and several neighboring states in February 2021, where the duration of low temperatures exceeded most, if not all prior records. The freezing conditions affected power demand, supply and market prices in Texas, triggering unprecedented increases in electric power load demand, in combination with significant reductions in power supply, including a loss of almost half of the electric generation within the Electric Reliability Council of Texas (ERCOT) service region. ERCOT raised wholesale electric power prices to the $9,000 per megawatt-hour cap to spur greater power generation to remain online.

The surge in wholesale electricity prices had a direct financial impact on certain electric power supply utilities, including two of CFC's Texas-based borrowers, Brazos (rated 'D' by Fitch) and Rayburn Country Electric Cooperative, Inc. (Rayburn; unrated by Fitch). The liquidity requirements imposed proved overwhelming for Brazos, which filed for bankruptcy on March 1, 2021. Fitch believes CFC's exposure to the winter storm event was limited to their loans to Brazos and Rayburn, which appear to be manageable.

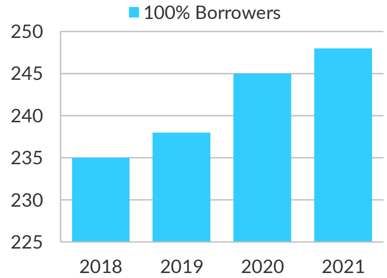
Financing Market Share



Source: Fitch Ratings and CFC.

CFC 100% Borrowers

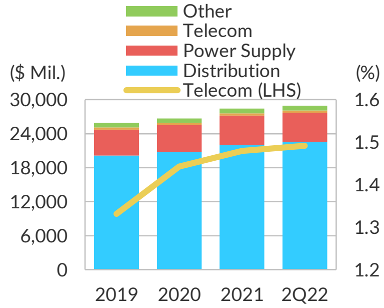
(Years Ended May 31)



Source: CFC.

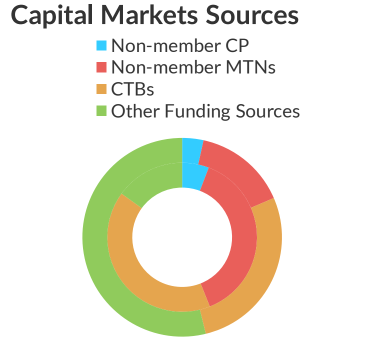
Loan Mix

(Years Ended May 31)



2Q22 - Second quarter ended Nov. 30, 2021.
Source: Fitch Ratings and CFC.

Capital Markets Sources



Note: Inner Ring: 2003, Outer Ring: 2021.
Source: Fitch Ratings and CFC.

Key Financial Metrics – Latest Developments

Solid Credit Risk Management; Low Credit Losses Over Time

CFC has a demonstrated track record in credit risk management, having recorded very low credit losses over time. Over CFC's 52-year operating history, the company has experienced only 17 defaults in its electric utility portfolio, including the most recent default of Brazos in March 2021, which resulted in six losses in the electric utility portfolio. Net write-offs in the electric utility portfolio totaled only $86 million (0.77% of average loans) since inception, evidencing strong and stable lending, as well as solid credit risk management. As of 2Q22, CFC had two loans classified on nonaccrual and nonperforming totaling $219 million, or 0.8% of total loans. Brazos is not permitted to make scheduled loan payments without approval by the bankruptcy court. CFC has reported that Rayburn remains current on all of its debt obligations.

Mission as a Cooperative Lender; Emphasis on Coverage Metrics for Earnings

Earnings and profitability metrics are low compared to similarly-rated non-bank financial institutions, with pre-tax income as a percentage of average assets averaging 0.5% in fiscal years 2018-2021. Fitch believes earnings have a lower influence on the overall ratings as CFC's mission (and its members' expectation) is not to generate large profits, but instead to cover its cost of funding, cost of operations, and its loan losses.

In 1H22, CFC recorded pre-tax income of $45.6 million, down 85% compared to a year ago, due to a shift in derivative fair value changes attributed to declines in longer-term swap rates during the period. CFC's current ratings incorporate an expectation of potential period-to-period volatility in reported earnings given mark-to-market changes on derivatives. In its analysis of earnings, Fitch places a greater emphasis on the company's adjusted net income and TIER. These measures have been adequate and consistent with Fitch's expectations over time. CFC's adjusted TIER excludes from net income the impact of unrealized derivative forward fair value gains and losses and includes periodic cash derivative settlements in adjusted interest expense and net interest income. Adjusted TIER amounted to 1.3x in 1H22, relatively consistent with the prior year. Given the company's strong credit quality and ability to adjust loan prices, Fitch expects the adjusted TIER to remain in excess of CFC's 1.1x target over time.

Relatively Stable Leverage

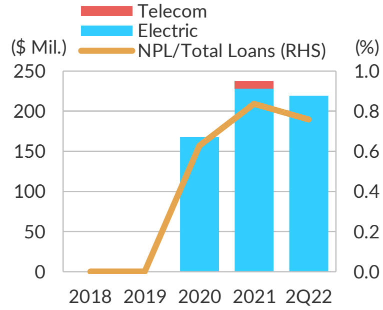
Fitch calculated CFC's leverage (debt to tangible equity) to be 8.6x at 2Q22, relatively consistent with 8.5x at FYE21. Leverage can be impacted by mark-to-market changes on CFC's derivatives, although this is incorporated into CFC's ratings. While Fitch views CFC's leverage as reasonable given low portfolio credit risk and CFC's ability and willingness to access subordinated deferrable debt markets to support growth, CFC's leverage metrics are higher than similarly-rated non-bank financial institutions and remains a rating constraint. Fitch notes that the inclusion and treatment of loan and guarantee subordinated certificates (LGSC) as 100% equity in Fitch's leverage calculation is considered a variation to the agency's hybrid criteria because the LGSC have a contractual or implied maturity, more akin to a hybrid instrument, which would typically receive 50% equity credit. (For more information, see Discussion of CFC's Equity Base, on page 6).

CFC assesses its leverage based on an adjusted debt to equity calculation, which strips out derivative fair value changes, and treats all member-held subordinated certificates, and subordinate deferrable debt as 100% equity. Based on this treatment, CFC's adjusted leverage metric stood at 6.2x at 2Q22, consistent with the metric at FYE21.

Sufficient Liquidity to Address Upcoming Debt Maturities

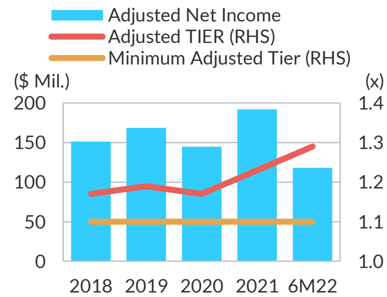
Fitch's analysis is heavily influenced by the firm's ability to maintain adequate liquidity to meet short- and long-term funding needs. At Nov. 30, 2021, CFC had aggregate liquidity of $7.1 billion, comprised of $762 million of cash and investments and $6.3 billion of borrowing capacity on various credit facilities. Additionally, CFC had $1.5 billion of anticipated long-term loan repayments over the next 12 months. Fitch believes CFC has sufficient liquidity, providing 1.9x coverage, to address the $7.2 billion of debt maturities over the next 12 months, as of 2Q22. Excess liquidity excludes member short-term investments from the $7.2 billion of debt maturities.

Non-Performing Loans



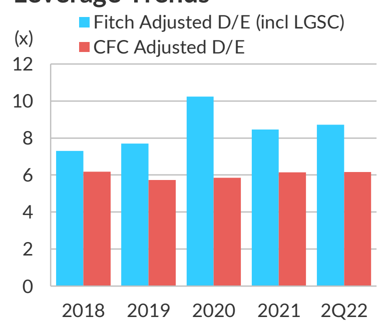
2Q22 – Second quarter ended Nov. 30, 2021.
Source: Fitch Ratings and CFC.

Operating Results



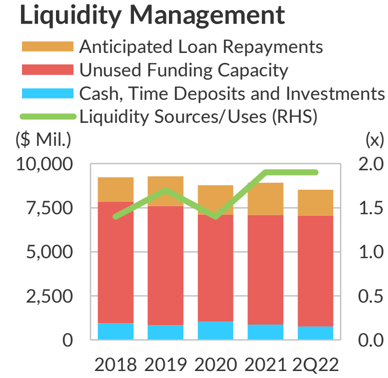
6M22 – Six months ended Nov. 30, 2021.
Source: Fitch Ratings and CFC.

Leverage Trends



Source: Fitch Ratings and CFC.

Liquidity Management



2Q22 - Second quarter ended Nov. 30, 2021.
Source: Fitch Ratings and CFC.

Discussion of CFC's Equity Base

As a cooperative, CFC's capital generation is primarily derived from its members, through member-owned investment vehicles and retained earnings, which is a rating constraint in Fitch's view. This is especially important given CFC's earnings are low, due to its mission-oriented business model. Still, management and the board have shown the willingness to improve earnings retention in order to improve the quality of CFC's capital and lower its leverage by adjusting the company's patronage capital policy in 2009.

In assessing the equity treatment given to CFC's various instruments (and thus determining capital adequacy), Fitch has applied its "Corporate Hybrids Treatment and Notching Criteria." The assessment is presented in the table to the right.

It is important to note that all of CFC's capital instruments are held by system members, except for outstanding SDD. All of these instruments held by system members are subordinated, meaning they would take first loss before all other non-member instruments.

CFC's Equity Base

	2Q22	Equity Credit (%)	Fitch Adj. Equity
GAAP Equity	1,391	100	1,391
SDD	986	50	493
Membership Sub. Certs.	629	100	629
Member Capital Sec.	239	50	120
LGSC	385	100	385
Total Fitch Adj. Equity	—	—	**3,017**

Source: Fitch Ratings and CFC.

Subordinated Deferrable Debt

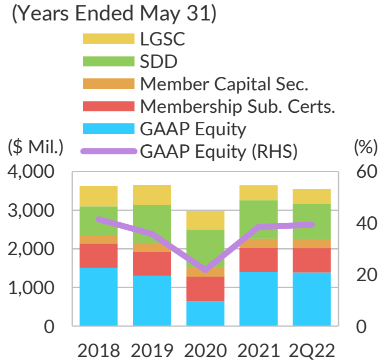
To supplement CFC's capital base, management has made the decision over the years to issue non-member SDD with the following attributes: subordinated to all senior debt; senior to all member-held subordinated instruments; at least a 30-year maturity from issuance; and ability to defer interest up to 20 quarters (five years), similar to member capital securities (10 consecutive semi-annual payments, or five years). During the deferral, interest continues to accrue on a cumulative basis. Based on Fitch's criteria, these instruments are given 50% equity credit given the deep subordination and the cumulative nature of the interest in the event of a deferral. The weighted-average interest rate of the SDD was 5.11% at FY21.

Membership Subordinated Certificates

These instruments represent the company's initial capitalization and were required to be purchased as a condition of membership. They are interest-bearing (weighted-average interest rate of 4.95% at FY21) with an initial maturity of 100 years and are non-cumulative. Fitch believes membership subordinated certificates resemble perpetual preferred stock and they are given 100% equity credit in Fitch's analysis.

Capitalization Trends

(Years Ended May 31)



2Q22 - Second quarter ended Nov. 30, 2021.
Source: Fitch Ratings and CFC.

Member Capital Securities

The member capital securities program is an initiative started at the end of 2008 to raise additional capital from CFC's members and further entrench membership. These are interest-bearing (weighted-average interest rate of 5.0% at FY21) with a maturity of 35 years from issuance. Payments, which are cumulative, can be deferred for up to five years. These instruments have full offset rights in the event that a borrower defaults. According to Fitch's criteria, they are given 50% equity credit given the instrument's deep subordination and the cumulative nature of the interest in the event of a deferral.

Loan and Guarantee Subordinated Certificates (LGSC)

Borrowers that receive long-term funding, certain short-term loans, or guarantees from CFC are sometimes required to purchase additional LGSC with CFC based on the member's debt to equity ratio. These instruments are also subordinated to all other debt of CFC. The maturity of the LGSCs match that of the financing the borrower is receiving but some also amortize annually based on the outstanding balance, and paid back as the borrower repays the loan.

LGSC are included in capital without limitation under CFC's covenant calculations for leverage. Given the tenor of the certificates are not publicly disclosed, Fitch believes that it is difficult to assign pure equity credit to them. Instead, Fitch views them as a quasi-loan loss reserve. LGSCs have the ability to offset any losses of loans to members before any other capital instrument, and this feature has been demonstrated over time.

Fitch affords CFC's LGSC 100% equity credit given the instrument's deep subordination and ability to absorb loan losses. However, the treatment of the LGSC as equity is considered a variation to criteria because the LGSC have a contractual, or implied maturity, more akin to a hybrid instrument.

Environmental, Social and Governance Considerations

FitchRatings **National Rural Utilities** — **Non-Bank FI Ratings Navigator** Finance & Leasing Companies

Credit-Relevant ESG Derivation

National Rural Utilities has 4 ESG potential rating drivers

- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	4	issues	3
not a rating driver	6	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Operating Environment	5
Energy Management	2	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Appetite	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Operating Environment; Risk Appetite; Asset Quality	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy; Earnings & Profitability; Capitalization & Leverage; Funding, Liquidity & Coverage	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities	Company Profile; Earnings & Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way they in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Income Statement

($Mil., Years Ended May 31)	6M22 Unaudited	2021 Audited — Unqualified	2020 Audited — Unqualified	2019 Audited — Unqualified
Interest Income	566.4	1,116.6	1,151.3	1,135.7
Interest Expense	(348.4)	(702.1)	(821.1)	(836.2)
Net Interest Income	**218.0**	**414.5**	**330.2**	**299.5**
Benefit (Provision) for Loan Losses	(0.6)	(28.5)	(35.6)	1.3
Net Interest Income after Benefit for Loan Losses	217.4	386.0	294.6	300.7
Fee and Other Income	8.8	18.9	23.0	15.4
Derivative Gains (Losses)	(126.1)	506.3	(790.2)	(363.3)
Investment Securities Gains (Losses)	(6.6)	1.5	9.4	(1.8)
Total Non-Interest Income	**(123.9)**	**526.7**	**(757.8)**	**(349.8)**
Salaries and Employee Benefits	(25.7)	(55.2)	(54.5)	(49.8)
Other General and Administrative Expenses	(21.6)	(39.4)	(46.6)	(43.3)
Gains (Losses) on Early Extinguishment of Debt	(0.1)	(1.5)	(0.7)	(7.1)
Other Non-Interest Expense	(0.6)	(1.6)	(25.6)	(1.7)
Total Non-Interest Expense	**(48.7)**	**(97.7)**	**(127.4)**	**(101.9)**
Income (Loss) Before Taxes	**45.6**	**815.0**	**(590.6)**	**(151.0)**
Income Tax Expense (Provision)	(0.2)	(1.0)	1.2	(0.2)
Net Income (Loss)	**45.4**	**814.0**	**(589.4)**	**(151.2)**
Net (Income) Loss Attributable to Noncontrolling Interests	(0.2)	(2.3)	4.2	2.0
Net Income (Loss) Attributable to CFC	**45.2**	**811.7**	**(585.2)**	**(149.2)**

Source: Fitch Ratings, Fitch Solutions, CFC.

Balance Sheet

($Mil., Years Ended May 31)	2Q22	2021	2020	2019
Cash, Cash Equivalents and Restricted Cash	183.8	303.4	680.0	186.2
Investment Securities	626.1	611.3	370.1	653.0
Loans to Members, Net of Allowance	28,860.7	28,341.4	26,649.3	25,899.4
Accrued Interest Receivable	108.4	107.9	117.1	133.6
Other Receivables	34.5	37.1	41.1	36.7
Fixed Assets, Net of Accumulated Depreciation	97.0	91.9	89.1	120.6
Derivative Assets	78.6	121.3	173.2	41.2
Other Assets	26.5	24.1	37.6	53.7
Total Assets	**30,015.6**	**29,638.4**	**28,157.6**	**27,124.4**
Accrued Interest Payable	120.5	123.7	139.6	159.0
Short-Term Debt Borrowings	4,746.9	4,582.1	3,962.0	3,607.7
Long-Term Debt Borrowings	20,804.4	20,603.1	19,712.0	19,210.8
Subordinate Deferrable Debt	986.4	986.3	986.1	986.0
Membership Subordinated Certificates	628.6	628.6	630.5	630.5
Loan and Guarantee Subordinated Certificates	384.6	386.9	483.0	505.5
Member Capital Securities	239.2	239.2	226.2	221.2
Patronage Capital Retirement Payable	2.4	0.0	0.0	0.0
Deferred Income	47.1	51.2	59.3	58.0
Derivative Liabilities	615.1	585.0	1,258.5	31.7
Other Liabilities	49.4	52.4	51.7	50.1
Total Liabilities	**28,624.6**	**28,238.5**	**27,508.8**	**25,820.5**
Retained Equity	1,362.2	1,375.0	628.0	1,276.9
Accumulated Other Comprehensive Income (Loss)	3.9	(0.0)	(1.9)	(0.1)
Noncontrolling Interest	24.9	24.9	22.7	27.1
Total Equity	**1,391.0**	**1,399.9**	**648.8**	**1,303.9**
Total Liabilities and Equity	**30,015.6**	**29,638.4**	**28,157.6**	**27,124.4**

Source: Fitch Ratings, Fitch Solutions, CFC.

Summary Analytics

(%, Years Ended May 31)	2Q22	2021	2020	2019
Non-Performing Loans Ratio	0.8	0.8	0.6	0.0
ALLL Coverage	0.3	0.3	0.3	1.5
Pre-Tax ROAA	0.3	2.8	(2.1)	(0.6)
Adjusted TIER	1.3	1.2	1.2	1.2
Operating Expense Ratio	0.2	0.3	0.4	0.4
Fitch-Calculated Tangible Leverage (x)	8.6	8.5	10.2	7.7
CFC Adjusted Leverage (x)	6.2	6.2	5.9	5.7
Unsecured Debt/Total Debt	40.8	39.3	36.0	37.0
Liquidity to Total Assets	23.5	23.9	22.6	27.0
Liquidity Sources to Uses	1.9	1.9	1.4	1.7
Fixed-Charge Coverage	1.1	2.2	0.3	0.8
Unencumbered Loans/Total Loans	34.7	32.6	26.4	27.1

ALLL – Allowance for loan and lease losses.
Source: Fitch Ratings, Fitch Solutions, CFC.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.