FitchRatings

National Rural Utilities Cooperative Finance Corporation

Key Rating Drivers

U.S. Electric Cooperative Lender: National Rural Utilities Cooperative Finance Corporation's (CFC) ratings reflect its unique competitive position within the U.S. 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 relative to similarly rated peers, its unique capital structure which includes an inability to access the public equity markets, and its business model that results in modest earnings performance relative to peers.

Low Credit Losses Over Time: Over the company's 55-year operating history, CFC has experienced only 18 defaults in its electric utility loan portfolio, which resulted in cumulative net charge-offs totaling $100 million since inception. This demonstrates prudent and stable underwriting as well as solid risk management.

Fitch Ratings (Fitch) expects management to maintain its strategic focus on core electric cooperative members, given that the company has kept its telecommunication loan exposure — which was the cause of most of CFC's credit losses over its history— relatively modest. As of the fiscal year-ended May 31, 2024 (fiscal YE 2024), nonperforming loans were $48.7 million, or 0.14% of loans outstanding, which is a decrease of $40.7 million (45.5%) from fiscal YE 2023.

Not a Profit Maximizer: As a cooperative lender, CFC's mission is not to generate large profits, but to cover its cost of funding, cost of operations, and loan losses. Fitch places a greater emphasis on the company's adjusted net income and adjusted times interest earned ratio (TIER), which amounted to 1.24x at fiscal YE 2024, in line with the prior year. Due to the company's strong asset quality and ability to adjust loan pricing, Fitch expects adjusted TIER to remain in excess of CFC's target of 1.10x over time.

High Leverage Relative to Peers: Fitch calculated CFC's debt to tangible equity leverage at 6.7x at fiscal YE 2024, down slightly from 6.8x a year ago. This is attributed to growth in GAAP equity from retained earnings and, to a lesser extent, positive derivative fair value changes. While Fitch views CFC's leverage as reasonable, due to its low portfolio credit risk and the company's ability and willingness to access the subordinated deferrable debt markets to support growth, its current leverage metrics are higher than those of similarly rated non-bank financial institutions (NBFIs), and remain a rating constraint.

Diverse Funding Sources: Fitch believes that CFC has demonstrated the ability to maintain appropriate funding sources through various cycles and has successfully diversified its funding base over time. Unsecured debt as a percentage of total funding was 48% at fiscal YE 2024 which, while relatively stable, is below that of similarly rated peers.

Sufficient Liquidity: Fitch's analysis of CFC is heavily influenced by the company's ability to maintain sufficient liquidity to meet short- and long-term funding needs. At fiscal YE 2024, CFC's liquidity resources included $561 million in cash and investments and $6.1 billion in borrowing capacity on various committed, line of credit and long-term credit facilities. Additionally, CFC anticipates $1.6 billion in long-term loan repayments over the next 12 months. Fitch believes that liquidity is sufficient to cover $7.0 billion in debt maturities over the next 12 months by 1.2x, as of fiscal YE 2024.

Non-Bank Financial Institutions
Finance & Leasing Companies
United States

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Sovereign Risk (United States of America)	
Long-Term Foreign Currency IDR	AA+
Long-Term Local Currency IDR	AA+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign Currency IDR	Stable
Sovereign Long-Term Foreign Currency IDR	Stable
Sovereign Long-Term Local Currency IDR	Stable

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2024)

Corporate Hybrids Treatment and Notching Criteria (November 2020)

Related Research

Fitch Affirms National Rural at 'A'/'F1'; Outlook Stable (August 2024)

U.S. Public Power – Peer Review (June 2024)

EPA Rules Curb U.S. Public Power Utilities' Ability to Meet Growing Demand (June 2024)

U.S. Public Power and Electric Cooperatives Outlook 2024 (December 2023)

Global Economic Outlook (June 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A perceived drift in strategic focus, evidenced by an increased level of lending to sectors outside of its rural electric member base;
- A sustained increase in nonperforming loans due to an alteration in underwriting standards and/or financial stress within the sector indicating an inability to adapt to new legislation or an inability to pass along cost increases to end-users;
- An increase in Fitch-calculated leverage sustained above 10x;
- A deterioration in the company's liquidity profile below 1.0x coverage of liquidity sources to uses.

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;
- Over time, positive rating momentum could be driven by a decline in leverage approaching 5x 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 an enhancement of funding flexibility as evidenced by the lengthening of CFC's debt maturity profile.

Recent Developments

Monetary Policy Enters a New Phase

In the updated "Global Economic Outlook" (GEO), published in June 2024, Fitch raised its world GDP forecast for 2024 to 2.6%, up from 2.4% in the March GEO. This revision is driven by improved prospects for a European recovery, a revival in China's export sector, and stronger domestic demand in emerging markets excluding China (EM ex-China). Fitch's 2024 growth forecast for the U.S. remained unchanged at 2.1%. Fitch expects the U.S. Federal Reserve and the Bank of England will cut interest rates in 3Q24, after recent interest rate cuts by the European Central Bank. However, the agency believes that global rates will decline at a shallower pace over the next 12 to 18 months due to persistent inflation. For 2025, Fitch forecasts world growth will edge down to 2.4%, as growth slows in the U.S. and China but picks up in the eurozone.

EPA Rules Curb U.S. Public Power Utilities' Ability to Meet Growing Demand

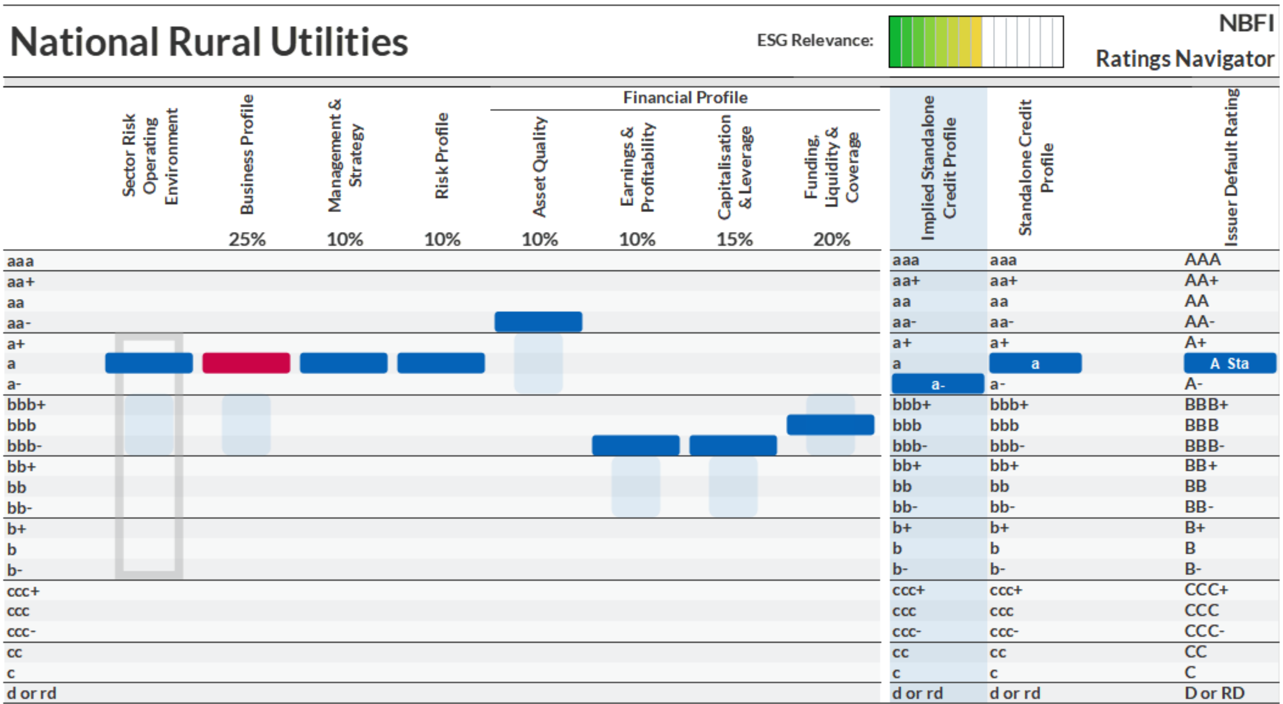
The Environmental Protection Agency's (EPA) new rules could accelerate the retirement of existing coal-fired generating facilities and limit new baseload natural gas facilities, hampering the public power sector's ability to meet growing electricity demand, says Fitch. Utilities exposed to market dislocation, price spikes and operational disruptions as a result could face drains on liquidity and downward rating pressure.

However, while price spikes are typically short-lived and manageable, in some cases the effects can be severe, especially in regions with constrained transmission capacity or where generation is nearing capacity limits. The financial fallout of the crisis that unfolded in Texas following winter storm Uri in 2021 included not only weakened liquidity ratios and significant long-term liabilities for some systems, but also four rating downgrades and a bankruptcy. The Electric Reliability Council of Texas had a reserve margin of 12.6% during the 2021 winter crisis, which was lower than its target of 13.75% of peak demand.

The finalized rules require coal plants that plan to operate past 2039 and new baseload gas-fired plants to reduce their carbon emissions beginning in 2032 using carbon capture or other methods. The timeline is ahead of general industry expectations for the deployment of viable and cost-effective technologies at a scale sufficient to meet demand while replacing older capacity. The rules further refine and/or tighten requirements related to mercury and air toxic standards (MATS), wastewater discharge and coal ash management. Together, these standards are likely to meaningfully alter resource strategies going forward.

The new rules were largely expected by the market, and public power utilities have been broadly planning and taking actions to reduce carbon emissions. The EPA has been attempting to regulate carbon dioxide as a pollutant since 2009, having previously released its Clean Power Plan (2014) and Affordable Clean Energy Plan (2019), both of which were subject to legal challenges and replaced by incoming administrations. The new rules have also been challenged in court and likely to face renewed political debate if the November elections produce a Republican administration.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied Standalone Credit Profile (SCP) are shown as percentages at the top. In cases where the implied SCP is adjusted upwards or downwards to arrive at the SCP, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD. The sector risk assessment acts as a sector-specific constraint on the typical implied operating environment range and is shown as an overlay on the operating environment.

Adjustments

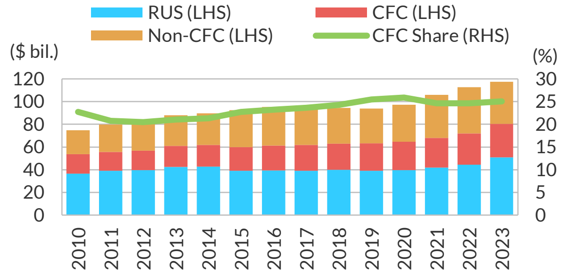
- The Standalone Credit Profile has been assigned above the implied Standalone Credit Profile due to the following adjustment reason: Business Profile (positive).
- The Sector Risk Operating Environment score has been assigned above the implied score due to the following adjustment reason: Business model (positive).
- The Business Profile score has been assigned above the implied score due to the following adjustment reason: Market position (positive).
- The Asset Quality score has been assigned above the implied score due to the following adjustment reason: Underwriting standards (positive).
- The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason: Portfolio risk (positive).
- The Capitalization & Leverage score has been assigned above the implied score due to the following adjustment reason: Risk profile and business model (positive), Capital flexibility and ordinary support (positive).

Key Qualitative Factors

Franchise Strengths as a Key Lender in the Sector

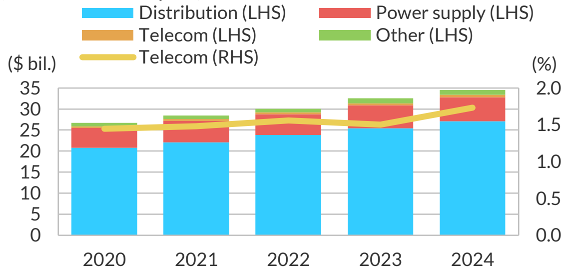
Since its formation in 1969, CFC has largely operated within the electric cooperative sector, primarily making loans to its distribution system and generation and transmission (power supply) members supplementing the existing loan programs operated by the Rural Utilities Service (RUS). Alongside CFC and RUS, the Farm Credit System, which operates through CoBank, ACB ('A+'/Stable), serves as another key lender in the sector. Together, these three entities provide most of the financing, with modest competition from other financial institutions and the capital markets. Given the relatively small number of lenders in this space and the differentiation between them, combined with CFC's significant market share, consistent business strategy, and stable member base, Fitch views CFC's franchise to be strong and a key factor in its ratings.

Electric Cooperative Financing Market Share
(Years Ended Dec. 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Loans by Member Class
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Focus on Lending to Members

As of fiscal YE 2024, consolidated membership for CFC and the National Cooperative Services Corporation (NCSC) included 1,167 members and 512 associates. The majority of these are cooperative or not-for-profit rural electric systems and affiliates, eligible to borrow from RUS under its Electric Loan Program.

The loan portfolio totaled $34.5 billion across 885 borrowers as of fiscal YE 2024. Nearly all of the exposure is to electric utility organizations, with distribution borrowers representing 78% of the portfolio by balance and power supply borrowers representing 16%. Exposure to the telecommunications industry has declined over the past two decades and has remained at or below 2% of the portfolio since 2015. If there is a perceived shift in focus, evidenced by an increased level of lending to sectors outside of the company's rural electric member base, negative rating action would be likely.

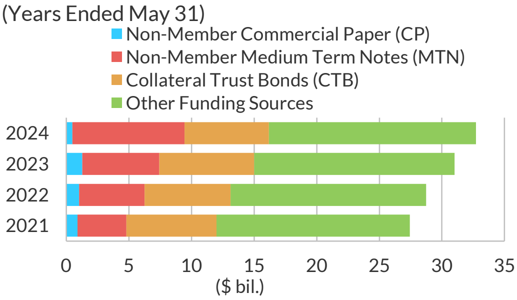
As a result of the focus on lending to its members, CFC's financial performance is highly correlated with the overall health of the sector. The sector's inability to adapt to structural changes, long-term challenges, and significant one-time events has the potential to meaningfully impact CFC's asset quality metrics, profitability, and capital. A number of factors could likely present challenges to CFC's borrowers during and beyond the Outlook horizon. These factors include pricing dynamics compared to alternative energy sources, potential strains on existing infrastructure due to increased demand, elevated operating costs, possible changes in federal and state regulations, and the risk of cyber-attacks and extreme weather.

Fitch believes that CFC has effectively managed credit risks, as evidenced by its low credit losses over time. The organization's lending specialization has enabled CFC to cultivate a strong franchise in its niche and to develop underwriting standards and a risk management framework tailored to the sector. Over its operating history, the level of problem assets and losses has remained low. The single sector concentration is also partially mitigated by relative diversity in geography and individual borrowers.

Maintaining Diverse Access to Funding

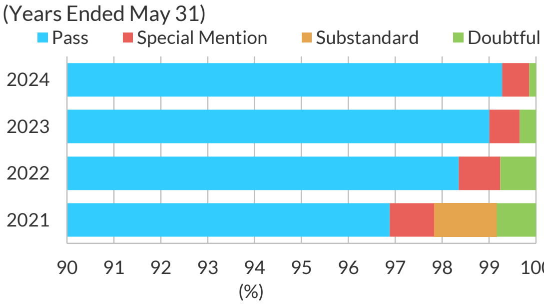
Another key strategic objective for CFC is to maintain diversified funding sources beyond capital market offerings of debt securities. Funding through the Guaranteed Underwriter Program, which is financed through the Federal Financing Bank and guaranteed by RUS and the Federal Agricultural Mortgage Corporation, is meaningful and viewed favorably given its reliability, flexibility and cost. As of fiscal YE 2024, capital markets funding (which include collateral trust bonds, non-member commercial paper, and non-member medium-term notes) represented 49% of total funding, compared with 71% at fiscal YE 2004. The ratio increases to 53% when subordinated deferrable debt is included. Fitch believes that CFC has sufficient access to diversified funding sources to support the company's lending activities.

Capital Markets Sources
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Portfolio by Internal Risk Rating
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Solid Underwriting and Risk Controls

Fitch views CFC's underwriting standards and risk controls to be solid. CFC maintains an internal credit risk system in which the company assigns credit ratings to each borrower and credit facility based on qualitative and quantitative factors. These ratings are used as a key input into the allowance for credit losses model. The rating framework and definitions align with those established by the U.S. Federal Banking Regulatory Agencies.

As of fiscal YE 2024, CFC had only a small number of criticized loans, with just 0.58% of the portfolio classified as 'special mention', 0.14% as 'doubtful', and none as 'substandard'. One electric distribution borrower with $185 million in loans outstanding (0.5% of the portfolio) accounted for the majority of 'special mention' loans. This borrower experienced financial challenges due to restoration costs incurred from repair damage after two successive hurricanes. CFC expects that the borrower will continue to receive grant funds from both the state and from the Federal Emergency Management Agency to reimburse the restoration costs.

Earnings Modestly Sensitive to Declining Rates

CFC utilizes plain-vanilla swaps to manage interest rate risk, given the material volume of long-term fixed assets. As of fiscal YE 2024, long-term fixed-rate loans represented 88% of the loan portfolio. CFC's fixed-rate debt made up 82% of total debt, which increases to 95% when incorporating the pay-fixed and receive-fixed interest rate swaps. CFC records all derivatives as either assets or liabilities, and measures the fair value of the instruments at each quarter-end.

As of fiscal YE 2024, CFC's duration gap narrowed to negative 1.13 months from negative 1.34 months at fiscal YE 2023, and was within the risk limits established by the company's Asset Liability Committee. The negative duration gap indicates that the duration of interest-earning assets is less than the duration of the CFC's debt and derivatives, which suggests that CFC has greater exposure to declining interest rates in the long term. Fitch views CFC's modest liability sensitivity as manageable.

Changes in interest rates and the shape of the swap curve can result in periodic fluctuations in the fair value of derivatives, which may cause volatility in earnings since CFC generally does not apply hedge accounting for these swaps. To evaluate core earnings performance (adjusted TIER), management uses non-GAAP measures. These measures include derivative cash settlements in adjusted interest expense along with adjusted net interest income, and exclude unrealized fair market gains and losses on swaps from adjusted net income.

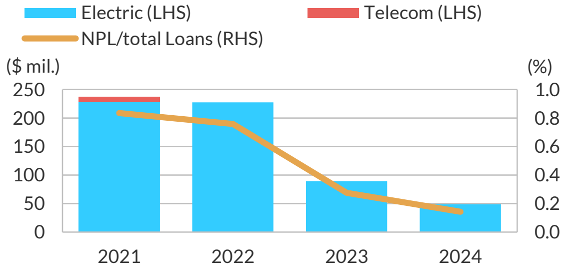
Financial Profile

Low Credit Losses in the Electric Utility Portfolio

Fitch views CFC's low levels of losses in the electric utility portfolio favorably and as indicative of a solid underwriting acumen and appropriate risk management practices. Since inception, CFC has experienced only 18 defaults in its electric utility loan portfolio, which resulted in cumulative net charge-offs totaling $100 million. Of these losses, $81 million stemmed from the power supply portfolio, with the remainder attributable to a distribution borrower. The power supply portfolio was particularly impacted by the 2021 and 2022 defaults of Brazos Electric Power Cooperative, Inc. (Brazos) and Brazos Sandy Creek Electric Cooperative Inc. (Brazos Sandy Creek) after the entities' bankruptcy filings subsequent to the Texas winter storm in February 2021.

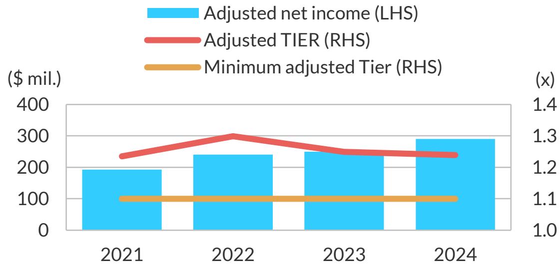
In fiscal year 2024, CFC received loan principal payments from Brazos and Brazos Sandy Creek to repay its nonperforming loans outstanding and CFC recognized a $1 million net recovery for amounts previously charged-off. At fiscal YE 2024, credit quality metrics remained strong, with nonperforming loans amounting to only $48.7 million, or 0.14% of loans outstanding, which is a decrease of $40.7 million (45.5%) from fiscal YE 2023.

Nonperforming Loans
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Operating Metrics
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Mission as a Cooperative Lender; Sufficient Earnings Coverage

CFC's mission —and the expectation of its members— is not to generate large profits, but to cover its cost of funding, cost of operations and loan losses while generating reasonable margins. As a result, reported earnings have historically been modest compared to similarly rated NBFIs. From fiscal YE 2021 to fiscal YE 2024, the average of pretax income as a percentage of average assets has been 2.1%. In fiscal year 2024, pretax income rose by 10.6% yoy to $555.8 million, driven by derivative gains that offset the compression of net interest income.

Fitch places a greater emphasis on the company's adjusted net income and TIER, as these measures are not affected by volatility from changes in derivatives. CFC's adjusted TIER excludes the impact of unrealized derivative forward value gains and losses from adjusted net income, and includes periodic cash derivative settlements in adjusted interest expense and adjusted net interest income. In fiscal year 2024, adjusted TIER amounted to 1.24x, in line with the prior year. Fitch believes that earnings are sufficient to cover cost of funds, operations and loan losses, and expects CFC will maintain adjusted TIER above the target of 1.10x, given its strong credit quality and ability to adjust loan prices.

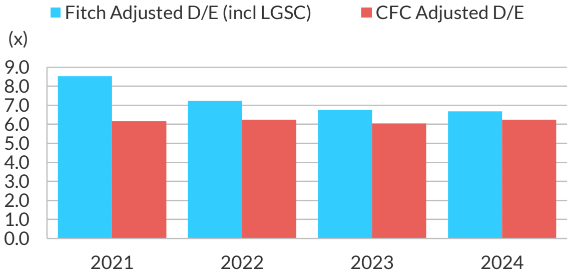
Appropriate Leverage, but Higher than Similarly Rated Peers

Fitch calculated CFC's debt to equity leverage at 6.7x at fiscal YE 2024, down slightly from 6.8x the previous year. This decrease is attributed to growth in GAAP equity from retained earnings and, to a lesser extent, positive derivative fair value changes. While Fitch's leverage metric can be affected by mark to market changes on CFC's derivatives, this factor is already incorporated into CFC's ratings. Fitch views CFC's leverage as appropriate, because of the low credit risk of its portfolio and the company's ability and willingness to access the subordinated deferrable debt markets to support growth. However, CFC's current leverage metrics are higher than those of similarly rated NBFIs, and remain a rating constraint.

CFC assesses leverage based on an adjusted debt to equity calculation that excludes the impact of derivative fair value changes. It treats membership subordinated certificates, loan and guarantee subordinated certificates, member capital securities, and subordinated deferrable debt as 100% equity. At fiscal YE 2024, CFC calculated its adjusted leverage at 6.24x, compared to 6.04x at fiscal YE 2023. This increase was driven by higher borrowings, partially offset by an increase in GAAP equity. Leverage was also modestly impacted by the sale of the Rural Telephone Finance Cooperative's (RTFC's) business to NCSC in December 2023. This transaction resulted in the early retirement of $66 million of CFC patronage capital allocated to RTFC at a discounted amount of $41 million, and a $10 million decrease in equity after the deconsolidation. In fiscal year 2024, the Board of Directors (Board) approved a change to the patronage capital practice to allow CFC to retain additional earnings. Consequently, CFC retained 79% of adjusted net income in fiscal year 2024, compared to 56% a year prior.

Leverage Trends

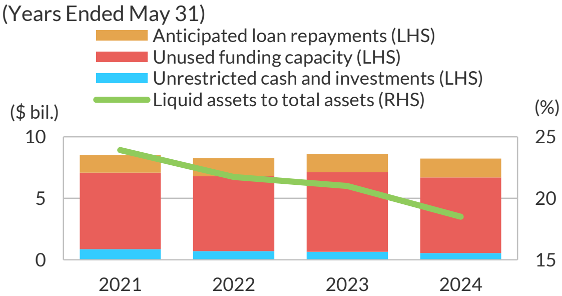
(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Liquidity Trends

(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Appropriate Funding and Liquidity

Fitch believes that CFC has demonstrated an ability to maintain appropriate funding sources through various cycles and has successfully diversified its funding base over time. At fiscal YE 2024, unsecured debt as a percentage of total funding was 48%. Although the percentage has increased modestly yoy, it remains below that of similarly rated peers.

Fitch's analysis of CFC is heavily influenced by the company's ability to maintain sufficient liquidity to meet both short- and long-term funding needs. At fiscal YE 2024, CFC's liquidity resources included $561 million of cash and investments and $6.1 billion of borrowing capacity on various committed, line of credit and long-term credit facilities. Additionally, CFC anticipates $1.6 billion in long-term loan repayments over the next 12 months. Fitch believes that liquidity is sufficient to cover $7.0 billion of debt maturities due over the next 12 months by 1.2x, as of fiscal YE 2024.

Appendix: Discussion of CFC's Equity Base

As a cooperative, CFC's capital is primarily comprised of member-owned investment vehicles and retained earnings, which Fitch views as a rating constraint. This is especially important because CFC's earnings are low, due to its mission-oriented business model. Nevertheless, management and the Board have shown willingness to improve earnings retention to strengthen CFC's capital base and reduce the company's leverage by adjusting its patronage capital policy.

Fitch has applied its "Corporate Hybrids Treatment and Notching Criteria" to assess the equity treatment given to CFC's various instruments, and thus to determine capital adequacy. The assessment is presented in the table below. All of CFC's capital instruments, except for outstanding subordinated deferrable debt, are held by system members and are subordinated, which means they would incur the first loss before any non-member instruments.

Fitch's Analysis of CFC's Equity Base

(As of Fiscal YE 2024)		Less: Amounts maturing under 5 years	Net	Fitch Equity Credit (%)	Fitch Adjusted Equity
GAAP Equity	3,012.17	0.00	3,012.17	100%	3,012.17
Membership Subordinated Certificates	628.63	1.38	627.25	100%	627.25
Subordinated Deferrable Debt	1,286.86	0.00	1,286.86	50%	643.43
Member Capital Securities	246.16	0.00	246.16	50%	123.08
Total Equity	**5,173.82**				**4,405.93**
Loan and Guarantee Sub Certs. (LGSCs)	322.86	82.61	240.26	100%	240.26
Total Fitch Adjusted Equity					**4,646.18**

Note: Based on Fitch's "Corporate Hybrids Treatment and Notching Criteria"
Source: Fitch Ratings, CFC

Membership Subordinated Certificates

These instruments represent CFC's initial capitalization, and were previously required to be purchased as a condition of membership. They are interest-bearing, unsecured, and subordinated, with a weighted-average interest rate of 4.96% at fiscal YE 2024. They typically have an original maturity of 100 years. Fitch views these instruments similar to a non-cumulative perpetual preferred stock, and assigns them 100% equity credit. Per Fitch criteria, amounts maturing under 5 years do not receive equity credit.

Member Capital Securities

These instruments are offered to CFC voting members and are interest-bearing, unsecured, and subordinated. They mature 30 years from issuance and are callable at par beginning either five or 10 years after issuance. Payments, which are cumulative, can be deferred for up to five years. Fitch gives these instruments 50% equity credit, given their deep subordination and the cumulative nature of the interest in the event of a deferral.

Loan and Guarantee Subordinated Certificates

Members who obtain long-term funding, certain short-term loans, lines of credit, or guarantees are typically required to purchase additional loan and guarantee subordinated certificates (LGSCs) based on the member's debt to equity leverage profile. The instruments are unsecured and subordinated and may be interest-bearing or non-interest-bearing, with a weighted-average interest rate of 3.02% at fiscal YE 2024. The maturity of the LGSCs matches that of the financing received by borrower, but some LGSCs also amortize annually based on the outstanding balance and are paid back as the member repays the loan.

LGSCs are included in capital without limitation under CFC's leverage covenant calculations. However, given the tenor of the certificates is 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 on loans to members before any other capital instruments, and this feature has been demonstrated over time.

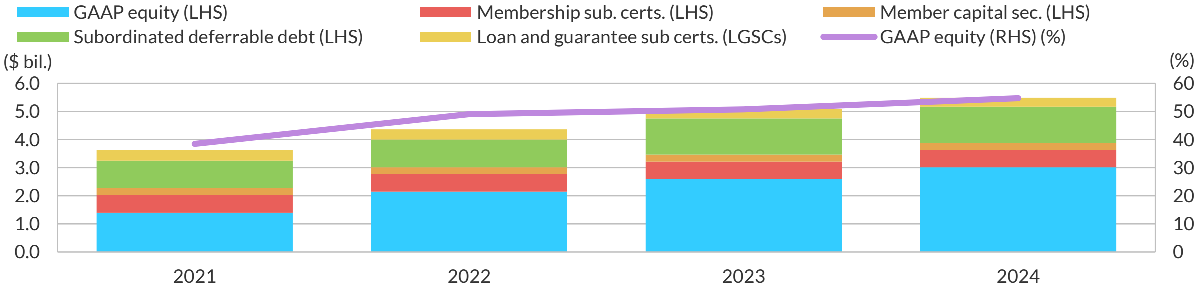
Fitch assigns these instruments 100% equity credit given their deep subordination and ability to absorb loan losses. However, the treatment of the LGSCs as equity is considered a variation to the criteria, as they have a contractual or implied maturity, more similar to a hybrid instrument. Per Fitch criteria, amounts maturing under 5 years do not receive equity credit.

Subordinated Deferrable Debt

These instruments are issued to non-members. They are subordinated to all senior debt and senior to all member-held instruments. They have maturities between 29 to 45 years after issuance and include the option to defer coupons for up to five years, with interest accruing on a cumulative basis. CFC may call these instruments at par any time either five or 10 years after issuance. Fitch assigns these instruments 50% equity credit given the deep subordination and the cumulative nature of interest in the event of a deferral.

Capitalization Trends

(Years Ended May 31)



Source: Fitch Ratings and National Rural Utilities Cooperative Finance Corporation

Debt Ratings

Debt Ratings: National Rural Utilities Cooperative Finance Corporation

Rating Level	Rating	Outlook
Senior Secured: Long Term	A+	
Senior Unsecured: Long Term	A	
Senior Unsecured: Short Term	F1	
Subordinated: Long Term	BBB+	

Source: Fitch Ratings

According to Fitch's "Non-Bank Financial Institutions Rating Criteria," dated Jan. 17, 2024, a Long-Term Issuer Default Rating (IDR) of 'A' maps to a Short-Term IDR of 'F1' or 'F1+'. In order 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'. Fitch therefore has affirmed the Short-Term IDR at 'F1'.

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.

The senior unsecured debt ratings are equalized with CFC's Long-Term IDR, reflecting their subordination to secured debt and average recovery prospect for debtholders in a stress scenario.

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

The commercial paper (CP) rating of 'F1' is equalized with the Short-Term IDR of 'F1'.

Debt Rating Sensitivities

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 subfactor score to 'aa-', could result in the upgrade of the Short-Term IDR to 'F1+'.

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

CFC's hybrid debt ratings are sensitive to changes in CFC's Long-Term IDR and would be expected to move in tandem.

CFC's CP rating is sensitive to changes in the company's Short-Term IDR and would be expected to move in tandem.

Environmental, Social and Governance Considerations

FitchRatings **National Rural Utilities** NBFI Ratings Navigator

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.

key driver	0	issues
driver	0	issues
potential driver	4	issues
not a rating driver	6	issues
	4	issues

ESG Relevance to Credit Rating

5
4
3
2
1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	2	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Sector Risk 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 Profile	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 profile & management; catastrophe risk; credit concentrations	Business Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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	Sector Risk Operating Environment; Risk Profile; Asset Quality	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile; Management & Strategy; Earnings & Profitability; Capitalisation & 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	Business Profile; Earnings & Profitability	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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	Business Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Financials

Income Statement

($000, Years Ended May 31)	2024	2023	2022	2021
Interest income	1,593,351	1,351,729	1,141,243	1,116,601
Interest expense	-1,339,088	-1,036,508	-705,534	-702,063
Net Interest Income	**254,263**	**315,221**	**435,709**	**414,538**
Benefit (provision) for loan losses	5,516	-603	17,972	-28,507
Net interest income after benefit (provision) for loan losses	259,779	314,618	453,681	386,031
Fee and other income	22,792	18,134	17,193	18,929
Derivative gains (losses)	392,037	285,844	456,482	506,301
Investment securities gains (losses)	10,772	-4,974	-30,179	1,495
Total Non-Interest Income	**425,601**	**299,004**	**443,496**	**526,725**
Salaries and employee benefits	-67,401	-59,011	-51,863	-55,258
Other general and administrative expenses	-58,970	-50,620	-43,323	-39,447
Losses on early extinguishment of debt	-1,025	-117	-754	-1,456
Other non-interest expense	-2,164	-1,487	-1,552	-1,619
Total Non-Interest Expense	**-129,560**	**-111,235**	**-97,492**	**-97,780**
Income Before Taxes	**555,820**	**502,387**	**799,685**	**814,976**
Income tax expense	-1,504	-800	-1,148	-998
Net Income	**554,316**	**501,587**	**798,537**	**813,978**
Net loss attributable to noncontrolling interests	-967	-97	-2,692	-2,311
Net Income Attributable to CFC	**553,349**	**501,490**	**795,845**	**811,667**

Source: Fitch Ratings, Fitch Solutions, CFC

Balance Sheet

($000, Years Ended May 31)	2024	2023	2022	2021
Cash, cash equivalents and restricted cash	288,341	207,237	161,114	303,361
Investment securities	318,237	510,369	599,904	611,277
Loans to members, net of allowance	34,493,559	32,478,992	29,995,826	28,341,429
Accrued interest receivable	190,247	172,723	111,418	107,856
Other receivables	29,240	31,243	35,431	37,197
Fixed assets, net of accumulated depreciation	85,119	86,011	101,762	91,882
Derivative assets	691,249	460,762	222,042	121,259
Other assets	81,822	64,723	23,885	24,102
Total Assets	**36,177,814**	**34,012,060**	**31,251,382**	**29,638,363**
Accrued interest payable	263,372	212,340	131,950	123,672
Short-term debt borrowings	4,332,690	4,546,275	4,981,167	4,582,096
Long-term debt borrowings	25,901,165	23,946,548	21,545,440	20,603,123
Subordinate deferrable debt	1,286,861	1,283,436	986,518	986,315
Membership subordinated certificates	628,625	628,614	628,603	628,594
Loan and guarantee subordinated certificates	322,863	348,349	365,388	386,896
Member capital securities	246,163	246,163	240,170	239,170
Deferred income	33,356	38,601	44,332	51,198
Derivative liabilities	80,988	115,074	128,282	584,989
Other liabilities	69,562	57,411	57,563	52,431
Total Liabilities	**33,165,645**	**31,422,811**	**29,109,413**	**28,238,484**
Retained equity	2,992,878	2,553,716	2,112,315	1,374,973
Accumulated other comprehensive income (loss)	-1,416	8,343	2,258	-25
Noncontrolling interest	20,707	27,190	27,396	24,931
Total Equity	**3,012,169**	**2,589,249**	**2,141,969**	**1,399,879**
Total Liabilities and Equity	**36,177,814**	**34,012,060**	**31,251,382**	**29,638,363**

Source: Fitch Ratings, Fitch Solutions, CFC

Summary Analytics

(%, Years Ended May 31)	2024	2023	2022	2021
Impaired Loans to Gross Loans	0.2	0.4	0.8	0.9
ACL Coverage	0.1	0.2	0.2	0.3
Pre-Tax ROAA	1.6	1.5	2.6	2.8
Adjusted TIER (x)	1.24	1.25	1.30	1.23
Fitch-Calculated Tangible Leverage, excluding LGSCs (x)	7.0	7.3	8.0	9.8
Fitch-Calculated Tangible Leverage, including LGSCs (x)	6.7	6.8	7.2	8.5
CFC Adjusted Leverage (x)	6.2	6.0	6.2	6.2
Unsecured Debt/Total Debt	48.0	44.0	44.0	39.0
Liquidity to Total Assets	18.5	21.0	21.7	23.9
Liquidity Sources to Uses	1.2	1.2	1.2	1.2
Unencumbered Loans/Total Loans	38.0	35.3	36.6	32.6

Source: Fitch Ratings, Fitch Solutions, CFC

Criteria Variations

The treatment of LGSCs as 100% equity is considered a variation to the hybrids criteria because LGSCs have a contractual or implied maturity, more akin to a hybrid instrument, which would typically receive 50% equity credit.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.