
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-7102

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**

(Exact name of registrant as specified in its charter)

District of Columbia

52-0891669

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

20701 Cooperative Way, Dulles, Virginia, 20166

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(703) 467-1800**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
7.35% Collateral Trust Bonds, due 2026	NRUC 26	New York Stock Exchange
5.50% Subordinated Notes, due 2064	NRUC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2021 (“this Report”) contains certain statements that are considered “forward-looking statements” as defined in and within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not represent historical facts or statements of current conditions. Instead, forward-looking statements represent management’s current beliefs and expectations, based on certain assumptions and estimates made by, and information available to, management at the time the statements are made, regarding our future plans, strategies, operations, financial results or other events and developments, many of which, by their nature, are inherently uncertain and outside our control. Forward-looking statements are generally identified by the use of words such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity” and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the adequacy of the allowance for credit losses, operating income and expenses, leverage and debt-to-equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance may differ materially from our forward-looking statements. Therefore, you should not place undue reliance on any forward-looking statement and should consider the risks and uncertainties that could cause our current expectations to vary from our forward-looking statements, including, but not limited to, legislative changes that could affect our tax status and other matters, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, nonperformance of counterparties to our derivative agreements, economic conditions and regulatory or technological changes within the rural electric industry, the costs and impact of legal or governmental proceedings involving us or our members, general economic conditions, governmental monetary and fiscal policies, the occurrence and effect of natural disasters, including severe weather events or public health emergencies, such as the emergence in 2019 and spread of a novel coronavirus that causes coronavirus disease 2019 (“COVID-19”) and the factors identified under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2020 (“2020 Form 10-K”), as well as any risk factors identified under “Part II —Item 1A. Risk Factors” in this Report. Forward-looking statements speak only as of the date they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect the impact of events, circumstances or changes in expectations that arise after the date any forward-looking statement is made.

INTRODUCTION

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution systems, generation and transmission (“power supply”) systems and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. As a member-owned cooperative, CFC’s objective is not to maximize profit, but rather to offer members cost-based financial products and services. CFC funds its activities primarily through a combination of public and private issuances of debt securities, member investments and retained equity. As a Section 501(c)(4) tax-exempt, member-owned cooperative, we cannot issue equity securities.

Our financial statements include the consolidated accounts of CFC, National Cooperative Services Corporation (“NCSC”), Rural Telephone Finance Cooperative (“RTFC”) and subsidiaries created and controlled by CFC to hold foreclosed assets resulting from defaulted loans or bankruptcy. NCSC is a taxable member-owned cooperative that may provide financing to members of CFC, government or quasi-government entities which own electric utility systems that meet the Rural

Electrification Act definition of “rural,” and for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. RTFC is a taxable Subchapter T cooperative association that provides financing for its rural telecommunications members and their affiliates. CFC and its consolidated entities have not held any foreclosed assets since the fiscal year ended May 31, 2017 (“fiscal year 2017”). See “Item 1. Business—Overview” in our 2020 Form 10-K for additional information on the business activities of each of these entities. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities. All references to members within this document include members, associates and affiliates of CFC and its consolidated entities, except where indicated otherwise.

We conduct our operations through three business segments, which are based on each of the legal entities included in our consolidated financial statements: CFC, NCSC and RTFC. CFC’s business operations account for the substantial majority of our loans and revenue. Loans to members totaled \$28,327 million as of February 28, 2021, of which 96% was attributable to CFC. We generated total revenue, which consists of net interest income and fee and other income, of \$320 million for the nine months ended February 28, 2021 (“current year-to-date period”), compared with \$258 million for the nine months ended February 29, 2020 (“same prior year-to-date period”). Our adjusted total revenue was \$234 million for the nine months ended February 28, 2021, compared with \$219 million for the same prior year-to-date period. We provide information on the financial performance of our business segments in “Note 14—Business Segments.”

Management monitors a variety of key indicators to evaluate our business performance. In addition to financial measures determined in accordance with generally accepted accounting principles in the United States (“GAAP”), management also evaluates performance based on certain non-GAAP measures and metrics, which we refer to as “adjusted” measures. The following MD&A is intended to provide the reader with an understanding of our consolidated results of operations, financial condition and liquidity by discussing the factors influencing changes from period to period and key measures used by management to evaluate performance, including, among others, net interest income, net interest yield, debt-to-equity ratio and the related non-GAAP adjusted measures, loan activity and credit quality metrics. Our MD&A is provided as a supplement to, and should be read in conjunction with the unaudited consolidated financial statements and related notes in this Report, our audited consolidated financial statements and related notes in our 2020 Form 10-K and additional information, including the risk factors identified under “Part I—Item 1A. Risk Factors,” contained in our 2020 Form 10-K, as well as additional information contained elsewhere in this Report.

SUMMARY OF SELECTED FINANCIAL DATA

Table 1 provides a summary of consolidated selected financial data for the three and nine months ended February 28, 2021 and February 29, 2020, and as of February 28, 2021 and May 31, 2020. In addition to financial measures determined in accordance with GAAP, management also evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Our key non-GAAP financial measures are adjusted net income, adjusted net interest income, adjusted interest expense, adjusted net interest yield, adjusted times interest earned ratio (“TIER”) and adjusted debt-to-equity ratio. The most comparable GAAP measures are net income, net interest income, interest expense, net interest yield, TIER and debt-to-equity ratio, respectively. The primary adjustments we make to calculate these non-GAAP measures consist of: (i) adjusting interest expense and net interest income to include the impact of net periodic derivative cash settlements expense; (ii) adjusting net income, total liabilities and total equity to exclude the non-cash impact of the accounting for derivative financial instruments; (iii) adjusting total liabilities to exclude the amount that funds CFC member loans guaranteed by RUS, subordinated deferrable debt and members’ subordinated certificates; and (iv) adjusting total equity to include subordinated deferrable debt and members’ subordinated certificates and exclude cumulative derivative forward value gains and losses and accumulated other comprehensive income (“AOCI”). We believe our non-GAAP adjusted measures, which are not a substitute for GAAP and may not be consistent with similarly titled non-GAAP measures used by other companies, provide meaningful information and are useful to investors because management evaluates performance based on these metrics for purposes of: (i) budgeting and forecasting; (ii) comparing period-to-period operating results, analyzing changes in results and identifying potential trends; (iii) making compensation decisions and (iv) informing the establishment of short- and long-term strategic goals. In addition, certain of the financial covenants in our committed bank revolving line of credit agreements and debt indentures are based on these non-GAAP adjusted measures. We provide a reconciliation of our non-GAAP adjusted measures to the most comparable GAAP measures in the section “Non-GAAP Financial Measures.”

Table 1: Summary of Selected Financial Data⁽¹⁾

(Dollars in thousands)	Three Months Ended		Change	Nine Months Ended		Change
	February 28, 2021	February 29, 2020		February 28, 2021	February 29, 2020	
Statement of operations						
Interest income	\$ 278,172	\$ 287,195	(3) %	\$ 834,255	\$ 864,247	(3) %
Interest expense	(173,040)	(203,040)	(15)	(527,438)	(624,182)	(15)
Net interest income	105,132	84,155	25	306,817	240,065	28
Fee and other income	3,819	3,647	5	13,667	18,430	(26)
Total revenue	108,951	87,802	24	320,484	258,495	24
Provision for credit losses	(33,023)	(2,382)	1,286	(34,987)	(1,367)	2,459
Derivative gains (losses) ⁽²⁾	330,196	(337,936)	**	471,759	(550,211)	**
Investment securities gains (losses)	(2,807)	749	**	491	2,255	(78)
Operating expenses ⁽³⁾	(23,562)	(25,269)	(7)	(70,361)	(75,367)	(7)
Other non-interest income (expense) ⁽¹⁾	(301)	(359)	(16)	(2,411)	5,891	**
Income (loss) before income taxes ..	379,454	(277,395)	**	684,975	(360,304)	**
Income tax benefit (provision)	(507)	426	**	(920)	856	**
Net income (loss)	\$ 378,947	\$ (276,969)	**	\$ 684,055	\$ (359,448)	**
Adjusted operational financial measures						
Adjusted interest expense ⁽⁴⁾	\$ (202,775)	\$ (217,394)	(7)	\$ (613,945)	\$ (663,729)	(8)
Adjusted net interest income ⁽⁴⁾	75,397	69,801	8	220,310	200,518	10
Adjusted total revenue ⁽⁴⁾	79,216	73,448	8	233,977	218,948	7
Adjusted net income ⁽⁴⁾	19,016	46,613	(59)	125,789	151,216	(17)
Selected ratios						
Fixed-charge coverage ratio/TIER ⁽⁵⁾	3.19	—	**	2.30	0.42	448
Adjusted TIER ⁽⁴⁾	1.09	1.21	(10)	1.20	1.23	(2)
Net interest yield ⁽⁶⁾	1.51 %	1.23 %	28 bp	1.47 %	1.18 %	29 bps
Adjusted net interest yield ⁽⁴⁾⁽⁷⁾	1.08	1.02	6	1.05	0.99	6
Net charge-off rate ⁽⁸⁾	0.00	0.00	—	0.00	0.00	—

	February 28, 2021	May 31, 2020	Change
Balance sheet			
Assets:			
Cash, cash equivalents and restricted cash.....	\$ 177,453	\$ 680,019	(74) %
Investment securities.....	607,254	370,135	64
Loans to members ⁽⁹⁾	28,327,481	26,702,380	6
Allowance for credit losses ⁽¹⁰⁾	(92,012)	(53,125)	73
Loans to members, net.....	28,235,469	26,649,255	6
Total assets.....	29,414,988	28,157,605	4
Liabilities and equity:			
Short-term borrowings.....	4,407,957	3,961,985	11
Long-term debt.....	20,555,544	19,712,024	4
Subordinated deferrable debt.....	986,265	986,119	—
Members' subordinated certificates.....	1,257,024	1,339,618	(6)
Total debt outstanding.....	27,206,790	25,999,746	5
Total liabilities.....	28,146,399	27,508,783	2
Total equity.....	1,268,589	648,822	96
Guarantees ⁽¹¹⁾	676,385	820,786	(18)
Selected ratios period end			
Allowance coverage ratio ⁽¹⁰⁾⁽¹²⁾	0.32 %	0.20 %	12 bps
Debt-to-equity ratio ⁽¹³⁾	22.19	42.40	(48) %
Adjusted debt-to-equity ratio ⁽⁴⁾	6.21	5.85	6

** Calculation of percentage change is not meaningful.

⁽¹⁾ Certain reclassifications have been made to prior periods to conform to the current period presentation.

⁽²⁾ Consists of net periodic contractual interest amounts on our interest rate swaps, which we refer to as derivatives cash settlements interest (expense) income, and derivative forward value gains (losses) on derivatives not designated for hedge accounting. Derivative forward value gains (losses) represent changes in fair value during the period, excluding net periodic contractual interest amounts, related to derivatives not designated for hedge accounting and amounts reclassified into income related to the cumulative transition adjustment amount recorded in accumulated other comprehensive income as of June 1, 2001, the adoption date of the derivative accounting guidance requiring derivatives to be reported at fair value on the balance sheet.

⁽³⁾ Consists of salaries and employee benefits and the other general and administrative expenses components of non-interest expense, each of which are presented separately on our consolidated statements of operations.

⁽⁴⁾ See “Non-GAAP Financial Measures” for details on the calculation of these non-GAAP adjusted measures and the reconciliation to the most comparable GAAP measures.

⁽⁵⁾ Calculated based on net income (loss) plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same during each period presented because we did not have any capitalized interest during these periods.

⁽⁶⁾ Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.

⁽⁷⁾ Calculated based on annualized adjusted net interest income for the period divided by average interest-earning assets for the period.

⁽⁸⁾ Calculated based on annualized net charge-offs (recoveries) for the period divided by average total loans outstanding for the period.

⁽⁹⁾ Consists of the outstanding principal balance of member loans plus unamortized deferred loan origination costs, which totaled \$11 million as of both February 28, 2021 and May 31, 2020.

⁽¹⁰⁾ On June 1, 2020, we adopted Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology previously used for estimating our allowance for credit losses with an expected loss methodology referred to as the current expected credit loss (“CECL”) model. At adoption, we recorded an increase in our allowance for credit losses of \$4 million and a corresponding decrease in retained earnings through a cumulative-effect adjustment.

⁽¹¹⁾ Reflects the total amount of member obligations for which CFC has guaranteed payment to a third party as of the end of each period. This amount represents our maximum exposure to loss, which significantly exceeds the guarantee liability recorded on our consolidated balance sheets. See “Note 11—Guarantees” for additional information.

⁽¹²⁾ Calculated based on the allowance for credit losses at period end divided by total outstanding loans at period end.

⁽¹³⁾ Calculated based on total liabilities at period end divided by total equity at period end.

EXECUTIVE SUMMARY

Our primary objective as a member-owned cooperative lender is to provide cost-based financial products to our rural electric members while maintaining a sound financial position required for investment-grade credit ratings on our debt instruments. Our objective is not to maximize profit; therefore, the rates we charge our member-borrowers reflect our funding costs plus a spread to cover our operating expenses, a provision for credit losses and earnings sufficient to achieve interest coverage to meet our financial objectives. Our goal is to earn an annual minimum adjusted TIER of 1.10 and to maintain an adjusted debt-to-equity ratio at approximately 6.00-to-1 or below.

We are subject to period-to-period volatility in our reported GAAP results due to changes in market conditions and differences in the way our financial assets and liabilities are accounted for under GAAP. Our financial assets and liabilities expose us to interest-rate risk. We use derivatives, primarily interest rate swaps, as part of our strategy in managing this risk. Our derivatives are intended to economically hedge and manage the interest-rate sensitivity mismatch between our financial assets and liabilities. We are required under GAAP to carry derivatives at fair value on our consolidated balance sheets; however, the financial assets and liabilities for which we use derivatives to economically hedge are carried at amortized cost. Changes in interest rates and the shape of the swap curve result in periodic fluctuations in the fair value of our derivatives, which may cause volatility in our earnings because we do not apply hedge accounting for our interest rate swaps. As a result, the mark-to-market changes in our interest rate swaps are recorded in earnings. Because our derivative portfolio consists of a higher proportion of pay-fixed swaps than receive-fixed swaps, we generally record derivative losses when interest rates decline and derivative gains when interest rates rise. This earnings volatility generally is not indicative of the underlying economics of our business, as the derivative forward fair value gains or losses recorded each period may or may not be realized over time, depending on the terms of our derivative instruments and future changes in market conditions that impact the periodic cash settlement amounts of our interest rate swaps. As such, management uses our non-GAAP adjusted results to evaluate our operating performance. Our adjusted results include realized net periodic interest rate swap settlement amounts but exclude the impact of unrealized forward fair value gains and losses. Certain of the financial covenants in our committed bank revolving line of credit agreements and debt indentures are also based on our non-GAAP adjusted results, as the forward fair value gains and losses related to our interest rate swaps do not affect our cash flows, liquidity or ability to service our debt.

Financial Performance

Reported Results

We reported net income of \$379 million and a TIER of 3.19 for the three months ended February 28, 2021 (“current quarter”). In comparison, we reported a net loss of \$277 million, which resulted in no TIER coverage for the three months ended February 29, 2020 (“same prior-year quarter”). We reported net income of \$684 million and a TIER of 2.30 for the nine months ended February 28, 2021, compared with a net loss of \$359 million and a TIER of 0.42 for the same prior year-to-date period. The significant variance between our reported results for the current-year periods and the same prior-year periods was attributable to mark-to-market changes in the fair value of our derivative instruments. Our debt-to-equity ratio decreased to 22.19 as of February 28, 2021, from 42.40 as of May 31, 2020, primarily due to an increase in equity from our reported net income of \$684 million, which was partially offset by a decrease in equity from the retirement of patronage capital of \$60 million authorized by the CFC Board of Directors in July 2020 and paid to members in September 2020.

We experienced a variance of \$656 million between our reported net income of \$379 million for the current quarter, and our reported net loss of \$277 million for the same prior-year quarter, which was primarily driven by a favorable shift in derivative fair value changes of \$668 million between periods. We recorded derivative gains of \$330 million for the current quarter due to an increase in the net fair value of our swap portfolio resulting from an increase in medium- and longer-term swap interest rates. In comparison, we recorded derivative losses of \$338 million for the same prior-year quarter due to a decrease in the net fair value of our swap portfolio resulting from a decline in interest rates across the swap curve. Net interest income increased \$21 million, or 25%, to \$105 million for the current quarter, attributable to the combined impact of an increase in the net interest yield of 28 basis points, or 23%, to 1.51% and an increase in our average interest-earning assets of \$818 million, or 3%. The increase in the net interest yield was largely due to a reduction in our average cost of borrowings of 51 basis points to 2.65%, partially offset by a decrease in the average yield on interest-earning assets of 21 basis points to 3.99%. The favorable impact from the derivative gains and increase in net interest income for the current quarter was partially offset by an increase in our provision for credit losses of \$31 million to \$33 million for the current

quarter due to an addition to our allowance for credit losses of \$33 million in the current quarter. The addition to the allowance was primarily attributable to a significant adverse financial impact on two CFC Texas-based electric power supply borrowers due to their exposure to elevated wholesale electric power costs during the mid-February 2021 polar vortex (the “February 2021 polar vortex”), which we discuss further under “Credit Quality.”

We experienced a variance of \$1,043 million between our reported net income of \$684 million for the current year-to-date period and our reported net loss of \$359 million for the same prior year-to-date period, driven by a favorable shift in the change in the fair value of our derivatives of \$1,022 million between periods. We recorded derivative gains of \$472 million for the nine months ended February 28, 2021, due to an increase in the net fair value of our swap portfolio attributable to increases in medium- and longer-term swap interest rates. In contrast, we recorded derivative losses of \$550 million during the same prior year-to-date period due to a decrease in the net fair value of our swap portfolio resulting from declines in interest rates across the swap curve. In addition, net interest income increased \$67 million, or 28%, to \$307 million for the current year-to-date period, attributable to an increase in the net interest yield of 29 basis points, or 25%, to 1.47% and an increase in average interest-earning assets of \$779 million, or 3%. The increase in the net interest yield reflected the impact of a reduction in our average cost of borrowings of 56 basis points to 2.70%, which was partially offset by a decrease in the average yield on interest-earning assets of 26 basis point to 3.99%.

The decreases in our average cost of borrowings and average yield on interest-earning assets were driven by lower interest rates on our short-term borrowings and line-of-credit and variable rate loans attributable to the overall lower interest rate environment. Since February 29, 2020, the end of the same prior-year quarter, the benchmark federal funds rate has decreased 150 basis points as a result of the decision by the Federal Open Market Committee (“FOMC”) of the Federal Reserve in March 2020 to lower the federal funds rate to a near-zero target range of 0% to 0.25% as part of a series of measures implemented to ease the economic impact of the COVID-19 pandemic. The target federal funds rate range has remained unchanged since that time. Over the last 12 months, the 3-month London Interbank Offered Rate (“LIBOR”) decreased by 127 basis points to 0.19% as of February 28, 2021. While medium- and longer-term interest rates fell during the first nine months of this period, the decreases were not as pronounced as the reduction in short-term interest rates. Medium- and longer-term interest rates began trending up during the current quarter and subsequently following the enactment of additional COVID-19 relief bills totaling \$900 billion under the Consolidated Appropriations Act, 2021 (“Appropriations Act”), signed into law on December 27, 2020, and \$1.9 trillion under the American Rescue Plan Act of 2021, signed into law on March 11, 2021.

Other factors affecting the variance between our reported results for the current year-to-date period and the same prior year-to-date period include the unfavorable impact of an increase in the provision for credit losses of \$34 million to \$35 million resulting from the current quarter allowance addition of \$33 million, the absence of a gain of \$8 million recorded in connection with the sale of land in the same prior year-to-date period and a decrease in fee income of \$5 million due to a reduction in prepayment fees, which together more than offset a reduction in other general and administrative expenses of \$8 million due to reduced travel and in-person meetings and the cancellation of certain events because of the COVID-19 pandemic.

Adjusted Non-GAAP Results

Adjusted net income totaled \$19 million and adjusted TIER was 1.09 for the current quarter, compared with adjusted net income of \$47 million and adjusted TIER of 1.21 for the same prior-year quarter. Adjusted net income totaled \$126 million and adjusted TIER was 1.20 for the nine months ended February 28, 2021, compared with adjusted net income of \$151 million and adjusted TIER of 1.23 for the same prior year-to-date period. Our adjusted debt-to-equity ratio increased above our targeted threshold of 6.00-to-1 to 6.21 as of February 28, 2021, from 5.85 as of May 31, 2020. The increase was primarily attributable to an increase in adjusted liabilities due to additional borrowings to fund the growth in our loan portfolio.

We experienced a decrease in adjusted net income of \$28 million in the current quarter from the same prior-year quarter, primarily attributable to the increase in the provision of credit losses of \$31 million, to \$33 million for the current quarter due to the allowance addition resulting from the significant adverse financial impact of the February 2021 polar vortex on two CFC Texas-based electric power supply borrowers. Adjusted net interest income increased \$6 million, or 8%, to \$75 million for the current quarter, driven by an increase in the adjusted net interest yield of 6 basis points, or 6%, to 1.08% and an increase in average interest-earning assets of \$818 million, or 3%. The increase in our adjusted net interest yield reflected

the favorable impact of a reduction in our adjusted average cost of borrowings of 29 basis points to 3.10%, which was partially offset by a decrease in the average yield on interest-earning assets of 21 basis points to 3.99%. As noted above, the lower interest rate environment had a favorable impact on our adjusted average cost of borrowings and contributed to the decrease in the average yield on interest-earnings assets.

We experienced a decrease in adjusted net income of \$25 million for the nine months ended February 28, 2021 from the same prior year-to-date period, largely attributable to the increase in the provision of credit losses of \$34 million to \$35 million resulting from the current quarter allowance addition of \$33 million. The increase in the provision for credit losses was partially offset by an increase in our adjusted net interest income of \$20 million, or 10%, to \$220 million, driven by an increase in the adjusted net interest yield of 6 basis points, or 6%, to 1.05% and an increase in average interest-earning assets of \$779 million, or 3%. The increase in our adjusted net interest yield reflected the favorable impact of a reduction in our adjusted average cost of borrowings of 33 basis points to 3.14%, which was partially offset by a decrease in the average yield on interest-earning assets of 26 basis points to 3.99%, both of which were attributable to the lower interest rate environment.

Other factors affecting the variance between our adjusted results for the current year-to-date period and the same prior year-to-date period include the absence of a gain of \$8 million recorded in connection with the sale of land in same the prior year-to-date period and a decrease in fee income of \$5 million due to a reduction in prepayment fees, which together more than offset a reduction in other general and administrative expenses of \$8 million due to reduced travel and in-person meetings and the cancellation of certain events because of the COVID-19 pandemic.

See “Non-GAAP Financial Measures” for additional information on our adjusted measures, including a reconciliation of these measures to the most comparable GAAP measures.

Lending Activity

Loans to members totaled \$28,327 million as of February 28, 2021, an increase of \$1,625 million, or 6%, from May 31, 2020. The increase was driven by increases in long-term and line of credit loans of \$941 million and \$684 million, respectively. We experienced increases in CFC distribution loans, CFC power supply loans, NCSC loans and RTFC loans of \$1,108 million, \$456 million, \$24 million and \$46 million, respectively, and a decrease in CFC statewide and associate loans of \$9 million.

Long-term loan advances totaled \$2,050 million during the nine months ended February 28, 2021, of which approximately 84% was provided to members for capital expenditures and 9% was provided for the refinancing of loans made by other lenders. In comparison, long-term loan advances totaled \$1,950 million during the same prior year-to-date period, of which approximately 77% was provided to members for capital expenditures and 18% was provided for the refinancing of loans made by other lenders. CFC had long-term fixed-rate loans totaling \$281 million that were scheduled to reprice during the nine months ended February 28, 2021. Of this total, \$268 million repriced to a new long-term fixed rate, \$9 million repriced to a long-term variable rate and \$4 million was repaid in full. In comparison, CFC had long-term fixed-rate loans totaling \$350 million that were scheduled to reprice during the same prior year-to-date period, of which \$330 million repriced to a new long-term fixed rate, \$10 million repriced to a long-term variable rate and \$10 million was repaid in full.

Credit Quality

In mid-February 2021, Texas and several neighboring states experienced a series of severe winter storms and record-low temperatures as a result of the polar vortex. The freezing conditions affected power demand, supply and market prices in Texas, triggering unprecedented increases in electrical power load demand in combination with significant reductions in power supply across Texas, including a loss of almost half of the electric generation within the Electric Reliability Council of Texas (“ERCOT”) service area. ERCOT raised wholesale electric power prices per megawatt hour to the maximum allowable amount of \$9,000, to spur greater power generation by providing a financial incentive for power generators in the state to remain online. According to ERCOT data, pre-storm wholesale power prices were less than \$50 per megawatt hour. ERCOT also initiated controlled rolling power outages, which impacted millions of residential and commercial customers, to protect and maintain the stability of the Texas electric grid.

The surge in wholesale electricity prices had a direct financial impact primarily on certain electric power supply utilities, including a significant adverse financial impact on two CFC Texas-based electric power supply borrowers that had insufficient generation supply during the February 2021 polar vortex and were forced, at the height of the surge in power prices, to purchase power at peak prices to meet the electric demand of their member distribution system customers. On March 1, 2021, we were informed that Brazos Electric Power Cooperative, Inc. (“Brazos”), a CFC Texas-based electric power supply borrower, filed for Chapter 11 bankruptcy protection. We had exposure to Brazos totaling \$85 million as of February 28, 2021, consisting of unsecured loans outstanding of \$82 million and letters of credit of \$3 million, pursuant to a \$500 million syndicated revolving credit agreement administered by Bank of America. As a result of draws on the letters of credit in March 2021, subsequent to Brazos’ bankruptcy filing, we currently have unsecured loans outstanding to Brazos of \$85 million. We downgraded Brazos’ borrower risk rating from a rating within the pass category to doubtful, classified its loans outstanding of \$82 million as of February 28, 2021 as nonperforming, placed the loans on nonaccrual status, and reversed unpaid interest amounts previously accrued and recognized in interest income. In addition to the downgrade of Brazos, we made a material downgrade in the risk rating of another CFC Texas-based electric power supply borrower, which had loans outstanding of \$383 million as of February 28, 2021. The risk rating for this borrower was downgraded from a rating within the pass category to special mention as of February 28, 2021.

Under the terms of the syndicated Bank of America revolving credit agreement, in the event of bankruptcy by Brazos, each lending participant is permitted to hold any deposited or investment funds from Brazos, up to the amount of the participant’s exposure to Brazos pursuant to the agreement, for set off against such exposure to Brazos. The total so held by all participants is required to be shared among the participants in accordance with the pro rata share of each participant in the agreement. As of the bankruptcy filing date, funds on deposit from or invested by Brazos with participating lenders of the agreement, available for set off against Brazos’s obligations, totaled \$117 million. Based on our exposure of \$85 million under the \$500 million syndicated Bank of America agreement, our pro rata share set-off right is 17%, or approximately \$20 million. The set-off rights have been agreed to and confirmed by Brazos and the bankruptcy court, subject only to challenge by parties other than Brazos until May 16, 2021, and subject to extension beyond this date by order of the court. In order to allow Brazos to access such deposited or invested funds, the lenders have been granted adequate protection liens and super-priority claims in an amount equal to the diminution of value of the amount available for set off.

Loans outstanding to electric utility organizations of \$27,885 million and \$26,306 million as of February 28, 2021 and May 31, 2020, respectively, represented approximately 99% of total loans outstanding as of each date. Loans outstanding to Texas-based electric utility organizations accounted for 17% and 16% of total loans outstanding as of each respective date. Loans outstanding to Texas-based electric utility organizations covered by the Federal Agricultural Mortgage Corporation (“Farmer Mac”) standby repurchase agreement of \$174 million and \$181 million as of February 28, 2021 and May 31, 2020, respectively, reduced our Texas-based exposure to 16% and 15% of total loans outstanding as of each respective date. We historically have had limited defaults and losses on loans in our electric utility loan portfolio largely because of the essential nature of the service provided by electric utility cooperatives as well as other factors, such as limited rate regulation and competition, which we discuss further in the section “Credit Risk—Loan Portfolio Credit Risk.” We generally lend to members on a senior secured basis, which reduces the risk of loss in the event of a borrower default. Of our total loans outstanding, 92% and 94% were secured as of February 28, 2021 and May 31, 2020, respectively.

Nonperforming loans increased \$72 million to \$240 million, or 0.85% of total loans outstanding, as of February 28, 2021, from \$168 million, or 0.63% of total loans outstanding, as of May 31, 2020, primarily due to our classification of the loans outstanding of \$82 million to Brazos as nonperforming as a result of its bankruptcy filing. In addition to Brazos, we classified loans outstanding to two affiliated RTFC telecommunications borrowers totaling \$10 million as nonperforming as of February 28, 2021. Although we experienced an increase in nonperforming and criticized loans due to the downgrade of the two CFC Texas-based electric power supply borrowers during the current quarter, we believe the overall credit quality of our loan portfolio remained strong as of February 28, 2021, as the adverse impact on the credit quality of our loan portfolio from the February 2021 polar vortex is primarily limited to these two Texas-based electric power supply borrowers. Prior to Brazos’ bankruptcy filing, we had not experienced any defaults or charge-offs in our electric utility and telecommunications loan portfolios since fiscal year 2013 and 2017, respectively. In addition, we had no delinquent loans as of either February 28, 2021 or May 31, 2020. However, as a result of its bankruptcy filing, we expect that Brazos will be unable to make future scheduled loan payments without approval of the bankruptcy court.

Our allowance for credit losses and allowance coverage ratio increased to \$92 million and 0.32%, respectively, as of February 28, 2021, from \$53 million and 0.20%, respectively, as of May 31, 2020, primarily due to the current quarter

addition to the allowance for credit losses of \$33 million. This addition was driven by the material risk rating downgrade of the CFC Texas-based power supply borrower with loans outstanding totaling \$383 million as of February 28, 2021, and the classification of the loans outstanding of \$82 million to Brazos as nonperforming as of February 28, 2021.

On June 1, 2020, we adopted the current expected credit loss (“CECL”) accounting standard, which replaces the incurred loss methodology for estimating credit losses with an expected loss methodology. The incurred loss model delayed the recognition of credit losses until it was probable that a loss had occurred, while the CECL model requires the immediate recognition of expected credit losses over the contractual term for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects our estimates of the allowance for credit losses for our loan portfolio and the reserve for our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees. The adoption of CECL resulted in an increase in our allowance for credit losses for our loan portfolio of \$4 million and a corresponding decrease to retained earnings of \$4 million, recorded through a cumulative-effect adjustment. The impact on the reserve for credit losses for our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees was not material. While CECL had no impact on our earnings at adoption on June 1, 2020, subsequent estimates of lifetime expected credit losses for newly recognized loans, unadvanced loan commitments and financial guarantees, as well as changes during the period in our estimate of lifetime expected credit losses for existing financial instruments subject to CECL, are now recognized in earnings.

We discuss our methodology for estimating the allowance for credit losses under the CECL model in “Note 1—Summary of Significant Accounting Policies” of this Report. We also provide information on the allowance for credit losses below in the section “Credit Risk—Allowance for Credit Losses” and in “Note 5—Allowance for Credit Losses.”

Financing Activity

We issue debt primarily to fund growth in our loan portfolio. As such, our outstanding debt volume generally increases and decreases in response to member loan demand. Total debt outstanding was \$27,207 million as of February 28, 2021, an increase of \$1,207 million from May 31, 2020, due to borrowings to fund the increase in loans to members. Debt activity during this period consisted of net increases in medium-term notes of \$1,257 million and outstanding dealer commercial paper of \$655 million, which together totaled \$1,912 million. This increase was partially offset by net decreases in Farmer Mac notes payable of \$384 million, borrowings under the United States Department of Agriculture (“USDA”) Guaranteed Underwriter Program (“Guaranteed Underwriter Program”) of \$231 million, members’ subordinated certificates of \$83 million and the combined outstanding amounts of member commercial paper, select notes and daily liquidity fund notes of \$4 million, which together totaled \$702 million. Outstanding dealer commercial paper of \$655 million as of February 28, 2021 was below our targeted maximum threshold of \$1,250 million.

On October 8, 2020, we issued \$400 million aggregate principal amount of 1.35% sustainability collateral trust bonds due March 15, 2031. On November 19, 2020, we closed on a \$375 million committed loan facility (“Series R”) from the Federal Financing Bank under the Guaranteed Underwriter Program. Pursuant to this facility, we may borrow any time before July 15, 2025. Each advance is subject to quarterly amortization and a final maturity not longer than 30 years from the date of the advance. On February 8, 2021, we issued \$350 million of aggregate principal amount of 1.65% collateral trust bonds due June 15, 2031. In February 2021, we issued dealer medium-term notes totaling \$1,425 million.

On March 5, 2021, S&P Global Inc. (“S&P”) issued a downgrade of our long-term issuer credit rating, citing a shift from “Strong” to “Adequate” in its view of CFC’s risk position due to CFC’s loan portfolio concentration in the State of Texas. S&P also revised its outlook on CFC to negative based on the potential for additional elevated credit stress posed by Texas electric cooperatives due to the February 2021 polar vortex. The downgrade of CFC’s long-term issuer credit rating by S&P resulted in a downgrade of: (i) our senior secured and senior unsecured debt ratings to A- from A; (ii) our subordinated debt rating to BBB from BBB+; and (iii) our short-term issuer credit and commercial paper ratings to A-2 from A-1, each with a negative outlook. Our credit ratings by Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”) remain unchanged from May 31, 2020, and as of the date of this Report.

As discussed in the “Liquidity Risk” section, we believe CFC is well capitalized with adequate sources of liquidity and funding to meet our maturing debt obligations and loan demand from our members.

Liquidity

As of February 28, 2021, our sources of liquidity readily available for access totaled \$7,566 million, consisting of (i) \$170 million in cash and cash equivalents; (ii) investments in debt securities with a fair value of \$575 million, subject to changes in market value; (iii) up to \$2,722 million available for access under committed bank revolving line of credit agreements; (iv) up to \$1,275 million available under committed loan facilities under the Guaranteed Underwriter Program; and (v) up to \$2,824 million available under a revolving note purchase agreement with Farmer Mac, subject to market conditions.

Debt scheduled to mature over the next 12 months totaled \$7,082 million as of February 28, 2021, consisting of short-term borrowings of \$4,408 million and long-term debt of \$2,674 million. The short-term borrowings scheduled maturity amount of \$4,408 million consists of member investments of \$3,753 million and dealer commercial paper of \$655 million. The long-term debt scheduled maturity amount of \$2,674 million consists of fixed-rate debt totaling \$1,579 million with a weighted average cost of 2.42%, variable-rate debt totaling \$860 million and scheduled amortization on borrowings under the Guaranteed Underwriter Program and notes payable to Farmer Mac totaling \$235 million. Our available liquidity of \$7,566 million as of February 28, 2021, was \$484 million in excess of our total debt obligations over the next 12 months of \$7,082 million and \$4,237 million in excess of, or 2.3 times, our long-term debt and dealer commercial paper obligations over the next 12 months of \$2,674 million and \$655 million, respectively, which together total \$3,329 million.

Our members historically have maintained a relatively stable level of short-term investments in CFC in the form of daily liquidity fund notes, commercial paper, select notes and medium-term notes. Member short-term investments in CFC averaged \$3,658 million over the last six fiscal quarter-end reporting periods. We believe we can continue to roll over outstanding member short-term debt, which totaled \$3,753 million as of February 28, 2021, based on our expectation that our members will continue to reinvest their excess cash in these short-term investment products offered by CFC. We expect to continue accessing the dealer commercial paper market as a cost-effective means of satisfying our incremental short-term liquidity needs. Although the intra-period amount of outstanding dealer commercial paper may fluctuate based on our liquidity requirements, we intend to manage our short-term wholesale funding risk by maintaining outstanding dealer commercial paper at an amount near or below \$1,250 million for the foreseeable future. We expect to continue to be in compliance with the covenants under our committed bank revolving line of credit agreements, which will allow us to mitigate roll-over risk, as we can draw on these facilities to repay dealer or member commercial paper that cannot be refinanced with similar debt.

We provide additional information on our primary sources and uses of liquidity and our liquidity profile below in the section “Liquidity Risk.”

COVID-19

Our priorities during the COVID-19 pandemic, which continues to persist, have been to protect the health and safety of our employees, while also ensuring that we are able to meet the needs of our electric cooperative borrowers as they operate in a sector in which the service provided to residential and commercial customers is considered essential. We continue to adhere to the COVID-19 workplace safety and health standards established by Virginia, where CFC is headquartered, and the guidance provided by the United States (“U.S.”) Center for Disease Control and Prevention. Since June 2020, we have been operating under a plan in which staff work at our corporate office and remotely based on a rotating schedule that limits the office occupancy level to approximately 25% of normal capacity. In addition, since the onset of the pandemic we have limited travel and in-person meetings. On March 23, 2021, Virginia’s governor announced an easing of some COVID-19 restrictions beginning April 1, 2021. Our plan, assuming no additional changes to current governmental and public health directives, is to move toward more normal operations beginning in May 2021, by bringing our staff back to our corporate office under a gradual transition schedule, with appropriate workplace protocols to mitigate risk and maintain the safety of our employees in compliance with federal, state and local laws and guidance.

While several U.S. industry sectors have been severely affected by the COVID-19 pandemic, we believe we have been able to navigate the challenges of the COVID-19 pandemic to date and that the pandemic has not had any significant negative effect on our liquidity. During the first nine months of the fiscal year ending May 31, 2021 (“fiscal year 2021”), we continued to be able to access the capital markets, private funding programs and our members for the funds required to repay maturing debt and provide loan advances to our members for capital improvements and to fund their operations. We also believe that the credit quality of our loan portfolio has remained strong throughout the pandemic. Our electric utility

cooperative borrowers operate in a sector identified by the U.S. government as one of the 16 critical infrastructure sectors because the nature of the services provided in these sectors are considered essential and vital in supporting and maintaining the overall functioning of the U.S. economy. Historically, the utility sector in which our electric utility borrowers operate has been resilient to economic downturns. While our electric cooperative members continue to be subject to certain state-mandated suspensions on utility shut-offs due to nonpayment, we have not experienced any delinquencies in scheduled loan payments or received requests for payment deferrals from our borrowers due to the pandemic. We are in contact with our member borrowers on a continuous basis, closely monitoring developments and key credit metrics to facilitate the timely identification of loans with potential credit weaknesses and assess any notable shifts in the credit quality of our loan portfolio. To date, we believe that the pandemic has not had a significant negative impact on the overall financial performance of our members.

Recent Developments

On March 10, 2021, the CFC Board of Directors appointed J. Andrew Don, who has served as senior vice president and CFC's Chief Financial Officer since 2013, to succeed Sheldon C. Petersen as CFC's Chief Executive Officer ("CEO"), effective May 3, 2021, the date on which the July 23, 2020 announced retirement of Mr. Petersen as CEO is expected to occur. We do not anticipate any fundamental changes in CFC's overall business model as a result of this leadership change. As a member-owned cooperative, we plan to continue working with our members to ensure that CFC is able to meet the financing needs of our members, as well as provide industry expertise and strategic services to aid them in delivering affordable and reliable essential services to their communities.

Outlook

We currently believe that the growth in outstanding loans coupled with an anticipated continued steepening of the yield curve in the near term will contribute to an increase in our net interest income, net interest yield, adjusted net interest income and adjusted net interest yield over the next 12 months. We anticipate that our adjusted debt-to-equity ratio, which excludes the impact of derivative forward fair value gains and losses, will remain above our targeted threshold of 6.00-to-1 for the next 12 months due to the current year-to-date increase in total debt outstanding to fund the growth in our loan portfolio. Our reported income and equity include the impact of periodic unrealized fluctuations in the fair value of our interest rate swaps. These periodic fluctuations are primarily driven by changes in expected interest rates over the life of the swaps, which we are unable to predict because the majority of our swaps are long-term, with an average remaining life of approximately 15 years as of February 28, 2021. We therefore exclude the potential impact of derivative forward value gains and losses from our forecasted adjusted net income-related measures.

We believe the overall credit quality of our loan portfolio remained high as of February 28, 2021, and the significant adverse financial impact from the surge in wholesale power costs in Texas during the February 2021 polar vortex was primarily limited to the two CFC Texas-based electric power supply borrowers discussed above. Our estimate of expected credit losses on loans outstanding to these two borrowers, which together totaled \$465 million as of February 28, 2021, involves significant judgment and assumptions that are based on information available to us as of the date of this Report. Given that a resolution on these elevated power costs has not been reached and the process to reach a resolution is in a very early stage, there is significant uncertainty with regard to the ultimate outcome. Therefore, we are unable at this time to provide a reasonably reliable forecast of adjusted net income and adjusted TIER for the next 12 months. Our projected adjusted measures exclude the impact of derivative forward value gains and losses because we are unable to predict these amounts. We expect to adjust our current expected credit loss estimate for these two Texas-based electric power supply borrowers as developments occur in the resolution process and we accumulate additional, relevant information. As the outcome becomes more certain, we expect that we will resume providing a 12-month projected trend of adjusted net income and adjusted TIER.

See "Item 1A. Risk Factors" in our 2020 Form 10-K for a discussion of the potential adverse impact of natural disasters, including weather-related events such as the February 2021 polar vortex, and widespread health emergencies, such as COVID-19, on our business, results of operations, financial condition and liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our consolidated financial statements. Understanding our accounting policies and the extent to which we use management's judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a discussion of our significant accounting policies under "Note 1—Summary of Significant Accounting Policies" in our 2020 Form 10-K. Pursuant to our June 1, 2020 adoption of the CECL accounting standard, we have provided updates to certain of our significant accounting policies, including the allowance for credit losses, in "Note 1—Summary of Significant Accounting Policies" of this Report.

We have identified certain accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our results of operations or financial condition. Our most critical accounting policies and estimates involve the determination of the allowance for credit losses and fair value. Below we have updated our critical accounting policy for the allowance for credit losses under the CECL model, which involves additional areas involving significant management judgment.

Prior to the adoption of CECL on June 1, 2020, we maintained an allowance based on an estimate of probable incurred losses inherent in our loan portfolio as of each balance sheet date. Under CECL, we are required to maintain an allowance based on a current estimate of credit losses that are expected to occur over the remaining contractual life of the loans in our portfolio. The methods utilized to estimate the allowance for credit losses, key assumptions and quantitative and qualitative information considered by management in determining the appropriate allowance for credit losses is discussed in "Note 1—Summary of Significant Accounting Policies" of this Report.

Some of the key inputs we use in determining the appropriate allowance for credit losses are more readily quantifiable, such as our historical loss data and third-party default data, while other inputs require more qualitative judgment, such as our internally assigned borrower risk ratings that are intended to assess a borrower's capacity to meet its financial obligations and provide information on the probability of default. Degrees of imprecision exist in each of these inputs due in part to subjective judgments involved and an inherent lag in the data available to quantify current conditions and events that may affect our credit loss estimate.

Our internally assigned borrower risk ratings serve as the primary credit quality indicator for our loan portfolio. We perform an annual comprehensive review of each of our borrowers, following the receipt of the borrower's annual audited financial statements, to reassess the borrower's risk rating. In addition, interim risk-rating adjustments may occur as a result of updated information affecting a borrower's ability to fulfill its obligations or other significant developments and trends. Our Credit Risk Management Group and Corporate Credit Committee review and provide rigorous oversight and governance around our internally assigned risk ratings to ensure that the ratings process is consistent. In addition, we engage third-party credit risk management experts to conduct an independent annual review of our risk rating system to validate the overall integrity of our rating system. This review involves an evaluation of the accuracy and timeliness of individual risk ratings and the overall effectiveness of our risk rating framework relative to the risk profile of our credit exposures. While we have a robust risk rating process, changes in our borrower risk ratings may not always directly coincide with changes in the risk profile of an individual borrower due to the timing of the rating process and a potential lag in the receipt of information necessary to evaluate the impact of emerging developments and current conditions on the risk ratings of our borrower. Although our allowance for credit losses is sensitive to each key input, shifts in the credit risk ratings of our borrowers generally have the most notable impact on our allowance for credit losses.

Our allowance for credit losses was \$92 million as of February 28, 2021, consisting of an allowance for loans collectively evaluated of \$50 million and an allowance for loans individually evaluated of \$42 million. The allowance coverage ratio was 0.32% as of February 28, 2021. A one-level favorable shift in the risk rating for each of our borrowers would have resulted in a decrease in the collective allowance for credit losses of \$32 million as of February 28, 2021, and a total allowance coverage ratio of 0.21%. A one-level unfavorable shift in the risk rating for each borrower would have resulted in an increase in the collective allowance for credit losses of \$22 million as of February 28, 2021, and a total allowance coverage ratio of 0.40%. This sensitivity analysis does not represent management's expectations of changes in the credit risk profile of our borrowers, but is provided to illustrate the hypothetical impact of changes in the primary credit quality

indicator we use in evaluating the overall credit risk profile of our loan portfolio on the allowance for credit losses. We believe the borrower risk ratings currently in use are appropriate and the likelihood of the occurrence of the alternative hypothetical scenarios presented is remote.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed significant judgments and assumptions in applying our critical accounting policies with the Audit Committee of the CFC Board of Directors. We provide information on the significant judgments and assumptions in measuring fair value under “MD&A—Critical Accounting Policies and Estimates” in our 2020 Form 10-K. See “Item 1A. Risk Factors” in our 2020 Form 10-K for a discussion of the risks associated with management’s judgments and estimates in applying our accounting policies and methods.

RECENT ACCOUNTING CHANGES AND OTHER DEVELOPMENTS

Recent Accounting Changes

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted during the current fiscal year, as well as recently issued accounting standards not yet required to be adopted and the expected impact of the adoption of these accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our consolidated results of operations, financial condition or liquidity, we also discuss the impact in the applicable section(s) of this MD&A.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated results of operations between the three months ended February 28, 2021 and February 29, 2020 and between the nine months ended February 28, 2021 and February 29, 2020. Following this section, we provide a comparative analysis of our consolidated balance sheets as of February 28, 2021 and May 31, 2020. You should read these sections together with our “Executive Summary—Outlook for the Next 12 Months” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income earned on our interest-earning assets, which includes loans and investment securities, and the interest expense on our interest-bearing liabilities. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities plus the impact of non-interest bearing funding. We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. We do not fund each individual loan with specific debt. Rather, we attempt to minimize costs and maximize efficiency by proportionately funding large aggregated amounts of loans.

Table 2 presents average balances for the three and nine months ended February 28, 2021 and February 29, 2020, and for each major category of our interest-earning assets and interest-bearing liabilities, the interest income earned or interest expense incurred, and the average yield or cost. Table 2 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net accrued periodic derivative cash settlements expense in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under “Non-GAAP Financial Measures.”

Table 2: Average Balances, Interest Income/Interest Expense and Average Yield/Cost

(Dollars in thousands)	Three Months Ended					
	February 28, 2021			February 29, 2020		
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
Assets:						
Long-term fixed-rate loans ⁽¹⁾	\$ 25,110,992	\$ 262,379	4.24 %	\$ 23,957,348	\$ 261,036	4.38 %
Long-term variable-rate loans	620,837	3,435	2.24	929,992	7,552	3.27
Line of credit loans	1,623,389	8,605	2.15	1,757,380	13,378	3.06
Troubled debt restructuring (“TDR”) loans	10,175	194	7.73	11,053	210	7.64
Nonperforming loans	179,676	—	—	—	—	—
Other, net ⁽²⁾	—	(348)	—	—	(419)	—
Total loans	27,545,069	274,265	4.04	26,655,773	281,757	4.25
Cash, time deposits and investment securities	763,378	3,907	2.08	834,920	5,438	2.62
Total interest-earning assets	\$ 28,308,447	\$ 278,172	3.99 %	\$ 27,490,693	\$ 287,195	4.20 %
Other assets, less allowance for credit losses	669,136			482,234		
Total assets	<u>\$ 28,977,583</u>			<u>\$ 27,972,927</u>		
Liabilities:						
Short-term borrowings	\$ 4,762,171	\$ 3,473	0.30 %	\$ 4,824,675	\$ 21,185	1.77 %
Medium-term notes	3,744,027	27,751	3.01	3,408,324	30,860	3.64
Collateral trust bonds	6,919,530	61,903	3.63	6,937,982	62,914	3.65
Guaranteed Underwriter Program notes payable	6,110,139	41,426	2.75	5,379,993	39,708	2.97
Farmer Mac notes payable	2,694,586	12,079	1.82	2,930,004	21,220	2.91
Other notes payable	9,403	51	2.20	14,226	97	2.74
Subordinated deferrable debt	986,233	12,886	5.30	986,041	12,881	5.25
Subordinated certificates	1,261,925	13,471	4.33	1,345,250	14,175	4.24
Total interest-bearing liabilities	\$ 26,488,014	\$ 173,040	2.65 %	\$ 25,826,495	\$ 203,040	3.16 %
Other liabilities	1,451,553			1,064,666		
Total liabilities	27,939,567			26,891,161		
Total equity	1,038,016			1,081,766		
Total liabilities and equity	<u>\$ 28,977,583</u>			<u>\$ 27,972,927</u>		
Net interest spread ⁽³⁾			1.34 %			1.04 %
Impact of non-interest bearing funding ⁽⁴⁾			0.17			0.19
Net interest income/net interest yield ⁽⁵⁾		<u>\$ 105,132</u>	<u>1.51 %</u>		<u>\$ 84,155</u>	<u>1.23 %</u>
Adjusted net interest income/adjusted net interest yield:						
Interest income		\$ 278,172	3.99 %		\$ 287,195	4.20 %
Interest expense		173,040	2.65		203,040	3.16
Add: Net periodic derivative cash settlements interest expense ⁽⁶⁾		29,735	1.35		14,354	0.58
Adjusted interest expense/adjusted average cost ⁽⁷⁾		<u>\$ 202,775</u>	<u>3.10 %</u>		<u>\$ 217,394</u>	<u>3.39 %</u>
Adjusted net interest spread ⁽⁵⁾			0.89 %			0.81 %
Impact of non-interest bearing funding ⁽⁴⁾			0.19			0.21
Adjusted net interest income/adjusted net interest yield ⁽⁸⁾		<u>\$ 75,397</u>	<u>1.08 %</u>		<u>\$ 69,801</u>	<u>1.02 %</u>

(Dollars in thousands)	Nine Months Ended					
	February 28, 2021			February 29, 2020		
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
Assets:						
Long-term fixed-rate loans ⁽¹⁾	\$ 24,845,687	\$ 787,763	4.24 %	\$ 23,716,480	\$ 780,228	4.39 %
Long-term variable-rate loans	649,068	11,431	2.35	951,172	25,439	3.57
Line of credit loans	1,446,202	23,841	2.20	1,666,290	42,089	3.37
Troubled debt restructuring ("TDR") loans	10,421	597	7.66	11,341	628	7.40
Nonperforming loans	167,586	—	—	—	—	—
Other, net ⁽²⁾	—	(1,027)	—	—	(990)	—
Total loans	27,118,964	822,605	4.06	26,345,283	847,394	4.30
Cash, time deposits and investment securities	805,102	11,650	1.93	799,673	16,853	2.82
Total interest-earning assets	\$ 27,924,066	\$ 834,255	3.99 %	\$ 27,144,956	\$ 864,247	4.25 %
Other assets, less allowance for credit losses	570,775			547,173		
Total assets	<u>\$ 28,494,841</u>			<u>\$ 27,692,129</u>		
Liabilities:						
Short-term borrowings	\$ 4,248,077	\$ 11,217	0.35 %	\$ 4,146,382	\$ 66,119	2.13 %
Medium-term notes	3,675,148	86,765	3.16	3,489,031	94,376	3.61
Collateral trust bonds	6,854,040	186,119	3.63	7,185,889	192,818	3.58
Guaranteed Underwriter Program notes payable	6,187,316	125,007	2.70	5,384,520	119,927	2.98
Farmer Mac notes payable	2,893,312	38,618	1.78	2,974,785	68,948	3.10
Other notes payable	10,926	193	2.36	19,436	581	3.99
Subordinated deferrable debt	986,184	38,669	5.24	986,017	38,647	5.24
Subordinated certificates	1,275,286	40,850	4.28	1,352,403	42,766	4.22
Total interest-bearing liabilities	\$ 26,130,289	\$ 527,438	2.70 %	\$ 25,538,463	\$ 624,182	3.26 %
Other liabilities	1,527,932			1,064,411		
Total liabilities	27,658,221			26,602,874		
Total equity	836,620			1,089,255		
Total liabilities and equity	<u>\$ 28,494,841</u>			<u>\$ 27,692,129</u>		
Net interest spread ⁽³⁾			1.29 %			0.99 %
Impact of non-interest bearing funding ⁽⁴⁾			0.18			0.19
Net interest income/net interest yield ⁽⁵⁾		<u>\$ 306,817</u>	<u>1.47 %</u>		<u>\$ 240,065</u>	<u>1.18 %</u>
Adjusted net interest income/adjusted net interest yield:						
Interest income		\$ 834,255	3.99 %		\$ 864,247	4.25 %
Interest expense		527,438	2.70		624,182	3.26
Add: Net periodic derivative cash settlements interest expense ⁽⁶⁾		86,507	1.28		39,547	0.51
Adjusted interest expense/adjusted average cost ⁽⁷⁾		<u>\$ 613,945</u>	<u>3.14 %</u>		<u>\$ 663,729</u>	<u>3.47 %</u>
Adjusted net interest spread ⁽⁵⁾			0.85 %			0.78 %
Impact of non-interest bearing funding ⁽⁴⁾			0.20			0.21
Adjusted net interest income/adjusted net interest yield ⁽⁸⁾		<u>\$ 220,310</u>	<u>1.05 %</u>		<u>\$ 200,518</u>	<u>0.99 %</u>

(1) Interest income on long-term, fixed-rate loans includes loan conversion fees, which are generally deferred and recognized as interest income using the effective interest method.

(2) Consists of late payment fees and net amortization of deferred loan fees and loan origination costs.

- ⁽³⁾Net interest spread represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities. Adjusted net interest spread represents the difference between the average yield on total average interest-earning assets and the adjusted average cost of total average interest-bearing liabilities.
- ⁽⁴⁾Includes other liabilities and equity.
- ⁽⁵⁾Net interest yield is calculated based on annualized net interest income for the period divided by total average interest-earning assets for the period.
- ⁽⁶⁾Represents the impact of net periodic contractual interest amounts on our interest rate swaps during the period. This amount is added to interest expense to derive non-GAAP adjusted interest expense. The average (benefit)/cost associated with derivatives is calculated based on the annualized net periodic swap settlement interest amount during the period divided by the average outstanding notional amount of derivatives during the period. The average outstanding notional amount of interest rate swaps was \$8,906 million and \$9,997 million for the three months ended February 28, 2021 and February 29, 2020, respectively. The average outstanding notional amount of interest rate swaps was \$9,061 million and \$10,451 million for the nine months ended February 28, 2021 and February 29, 2020, respectively.
- ⁽⁷⁾Adjusted interest expense consists of interest expense plus net periodic derivative cash settlements interest expense during the period. Net periodic derivative cash settlement interest amounts are reported on our consolidated statements of operations as a component of derivative gains (losses). Adjusted average cost is calculated based on annualized adjusted interest expense for the period divided by total average interest-bearing liabilities during the period.
- ⁽⁸⁾Adjusted net interest yield is calculated based on annualized adjusted net interest income for the period divided by total average interest-earning assets for the period.

Table 3 displays the change in net interest income between periods and the extent to which the variance is attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities. The table also presents the change in adjusted net interest income between periods. Changes that are not solely due to either volume or rate are allocated to these categories on a pro-rata basis based on the absolute value of the change due to average volume and average rate.

Table 3: Rate/Volume Analysis of Changes in Interest Income/Interest Expense

(Dollars in thousands)	Three Months Ended			Nine Months Ended		
	February 28, 2021 versus February 29, 2020			February 28, 2021 versus February 29, 2020		
	Total	Variance Due To: ⁽¹⁾		Total	Variance Due To: ⁽¹⁾	
Variance	Volume	Rate	Variance	Volume	Rate	
Interest income:						
Long-term fixed-rate loans	\$ 1,343	\$ 10,305	\$ (8,962)	\$ 7,535	\$ 36,397	\$ (28,862)
Long-term variable-rate loans	(4,117)	(2,552)	(1,565)	(14,008)	(8,096)	(5,912)
Line of credit loans	(4,773)	(1,122)	(3,651)	(18,248)	(5,593)	(12,655)
TDR loans	(16)	(18)	2	(31)	(51)	20
Other, net	71	—	71	(37)	—	(37)
Total loans	(7,492)	6,613	(14,105)	(24,789)	22,657	(47,446)
Cash, time deposits and investment securities	(1,531)	(507)	(1,024)	(5,203)	99	(5,302)
Total interest income	<u>(9,023)</u>	<u>6,106</u>	<u>(15,129)</u>	<u>(29,992)</u>	<u>22,756</u>	<u>(52,748)</u>
Interest expense:						
Short-term borrowings	(17,712)	(448)	(17,264)	(54,902)	1,559	(56,461)
Medium-term notes	(3,109)	2,759	(5,868)	(7,611)	4,943	(12,554)
Collateral trust bonds	(1,011)	(687)	(324)	(6,699)	(9,074)	2,375
Guaranteed Underwriter Program notes payable	1,718	5,016	(3,298)	5,080	17,754	(12,674)
Farmer Mac notes payable	(9,141)	(1,867)	(7,274)	(30,330)	(1,950)	(28,380)
Other notes payable	(46)	(33)	(13)	(388)	(255)	(133)
Subordinated deferrable debt	5	(104)	109	22	(29)	51
Subordinated certificates	(704)	(988)	284	(1,916)	(2,476)	560
Total interest expense	<u>(30,000)</u>	<u>3,648</u>	<u>(33,648)</u>	<u>(96,744)</u>	<u>10,472</u>	<u>(107,216)</u>
Net interest income	<u>\$ 20,977</u>	<u>\$ 2,458</u>	<u>\$ 18,519</u>	<u>\$ 66,752</u>	<u>\$ 12,284</u>	<u>\$ 54,468</u>
Adjusted net interest income:						
Interest income	\$ (9,023)	\$ 6,106	\$ (15,129)	\$ (29,992)	\$ 22,756	\$ (52,748)
Interest expense	(30,000)	3,648	(33,648)	(96,744)	10,472	(107,216)
Net periodic derivative cash settlements interest expense ⁽²⁾	15,381	(1,672)	17,053	46,960	(5,289)	52,249
Adjusted interest expense ⁽³⁾	<u>(14,619)</u>	<u>1,976</u>	<u>(16,595)</u>	<u>(49,784)</u>	<u>5,183</u>	<u>(54,967)</u>
Adjusted net interest income	<u>\$ 5,596</u>	<u>\$ 4,130</u>	<u>\$ 1,466</u>	<u>\$ 19,792</u>	<u>\$ 17,573</u>	<u>\$ 2,219</u>

⁽¹⁾The changes for each category of interest income and interest expense are divided between the portion of change attributable to the variance in volume and the portion of change attributable to the variance in rate for that category. The amount attributable to the combined impact of volume and rate has been allocated to each category based on the proportionate absolute dollar amount of change for that category.

⁽²⁾For the net periodic derivative cash settlements interest amount, the variance due to average volume represents the change in the net periodic derivative cash settlements interest amount resulting from the change in the average notional amount of derivative contracts outstanding. The variance due to average rate represents the change in the net periodic derivative cash settlements amount resulting from the net difference between the average rate paid and the average rate received for interest rate swaps during the period.

⁽³⁾See “Non-GAAP Financial Measures” for additional information on our adjusted non-GAAP measures.

Reported Net Interest Income

Reported net interest income of \$105 million for the current quarter increased \$21 million, or 25%, from the same prior-year quarter, driven by the combined impact of an increase in the net interest yield of 28 basis points, or 23%, to 1.51% and an increase in average interest-earning assets of \$818 million, or 3%.

- *Net Interest Yield:* The increase in the net interest yield of 28 basis points, or 23%, was largely due to a reduction in our average cost of borrowings of 51 basis points to 2.65%, partially offset by a decrease in the average yield on interest-earning assets of 21 basis points to 3.99%. The reduction in our average cost of borrowings was primarily driven by a decrease in the average cost of our short-term and variable-rate borrowings due to the decrease in short-term interest rates as the FOMC lowered the benchmark federal funds rate by 150 basis points in March 2020 to a near-zero target range of 0% to 0.25% as part of a series of measures implemented to ease the economic impact of the COVID-19 pandemic. The target federal funds rate range has remained unchanged since that time. As a result, we experienced a decrease in our average short-term borrowings cost of 147 basis points to 0.30% for the current quarter. The decrease in the average yield on interest-earning assets reflected the combined impact of a reduction in the average yield on our long-term fixed-rate loan portfolio, as the maturity and pay-off of loan advances at higher rates were replaced with new loan advances at lower rates due to the lower interest rate environment, and a reduction in the average yield on our long-term variable-rate and line of credit loan portfolios due to the decline in short-term interest rates over the last 12 months.
- *Average Interest-Earning Assets:* The increase in average interest-earning assets of 3% was primarily driven by growth in average total loans of \$889 million, or 3%, attributable to an increase in average long-term fixed-rate loans of \$1,154 million, or 5%. The lower interest rate environment has presented an opportunity for members to obtain advances to fund capital investments and refinance with us loans made by other lenders at a reduced fixed rate of interest.

Reported net interest income of \$307 million for the nine months ended February 28, 2021 increased \$67 million, or 28%, from the same prior year-to-date period, driven by an increase in the net interest yield of 29 basis points, or 25%, to 1.47% and an increase in average interest-earning assets of 3%.

- *Net Interest Yield:* The increase in the net interest yield of 29 basis points, or 25%, was largely due to a reduction in our average cost of borrowings of 56 basis points to 2.70%, partially offset by a decrease in the average yield on interest-earning assets of 26 basis points to 3.99%. The declines in our average cost of borrowing and average yield on interest-earning assets reflect in part the impact of the overall lower interest rate environment, particularly short-term interest rates. As indicated above in Table 3, we experienced a decrease in our average cost of short-term borrowings of 178 basis points to 0.35% as a result of the decline in short-term interest rates, which was the primary driver of the reduction in our overall average cost of borrowings. The pay-off of higher fixed-rate loans and the replacement with new, lower fixed-rate loan advances contributed to the decline in the average yield on our long-term fixed-rate loan portfolio. We also experienced a reduction in the average yield on our long-term variable-rate and line of credit loan portfolios due to the decline in short-term interest rates over the last 12 months.
- *Average Interest-Earning Assets:* The increase in average interest-earning assets of 3% was primarily driven by growth in average total loans of \$774 million, or 3%, attributable to an increase in average long-term fixed-rate loans of \$1,129 million, or 5%, as the lower interest rate environment presented an opportunity for members to obtain advances to fund capital investments and refinance with us loans made by other lenders at a reduced fixed rate of interest.

Adjusted Net Interest Income

Adjusted net interest income of \$75 million for the current quarter increased \$6 million, or 8%, from the same prior-year quarter, driven by an increase in the adjusted net interest yield of 6 basis points, or 6%, to 1.08%, and the increase in average interest-earning assets of \$818 million, or 3%.

- *Adjusted Net Interest Yield:* The increase in the adjusted net interest yield of 6 basis points, or 6%, reflected the favorable impact of a reduction in our adjusted average cost of borrowings of 29 basis points to 3.10%, which was partially offset by the decrease in the average yield on interest-earning assets of 21 basis points to 3.99%. As discussed above, the lower interest rate environment had a favorable impact on our adjusted average cost of borrowings and contributed to the decrease in the average yield on interest-earnings assets.

- *Average Interest-Earning Assets:* The increase in average interest-earning assets of 3% was primarily driven by the growth in average total loans of \$889 million, or 3%.

Adjusted net interest income of \$220 million for the nine months ended February 28, 2021 increased \$20 million, or 10%, from the same prior year-to-date period, driven by an increase in the adjusted net interest yield of 6 basis points, or 6%, to 1.05%, and the increase in average interest-earning assets of \$779 million, or 3%.

- *Adjusted Net Interest Yield:* The increase in the adjusted net interest yield of 6 basis points, or 6%, reflected the favorable impact of a reduction in our adjusted average cost of borrowings of 33 basis points to 3.14%, which was partially offset by the decrease in the average yield on interest-earning assets of 26 basis points to 3.99%, both of which were attributable to the lower interest rate environment. The decrease in the average cost of our short-term borrowings was the primary driver of the overall reduction in our average cost of borrowing as indicated in the net interest yield and rate/volume analysis presented above in Table 2 and Table 3, respectively.
- *Average Interest-Earning Assets:* The increase in average interest-earning assets of 3% was primarily driven by the growth in average total loans of \$774 million, or 3%.

We include the net periodic derivative interest settlement amounts on our interest rate swaps in the calculation of our adjusted average cost of borrowings, which, as a result, also impacts the calculation of adjusted net interest income and adjusted net interest yield. We recorded net periodic derivative cash settlements interest expense of \$30 million for the current quarter, an increase of \$16 million from the \$14 million recorded for the same prior-year quarter. We recorded net periodic derivative cash settlements interest expense of \$87 million for the current year-to-date period, an increase of \$47 million from the \$40 million recorded for the same prior year-to-date period. Because our derivative portfolio consists of a higher proportion of pay-fixed swaps than receive-fixed swaps, we generally record derivative losses when interest rates decline and derivative gains when interest rates rise. The floating-rate payments on our interest rate swaps are typically based on the 3-month LIBOR, which decreased 127 basis points over the last 12 months to 0.19% as of February 28, 2021. The decrease in the 3-month LIBOR drove the increase in the net periodic derivative cash settlements interest expense recorded in the current-year periods.

See “Non-GAAP Financial Measures” for additional information on our adjusted measures, including a reconciliation of these measures to the most comparable GAAP measures.

Provision for Credit Losses

We recorded a provision for credit losses, based on the CECL model for estimating the allowance, of \$33 million and \$35 million for the three and nine months ended February 28, 2021, respectively. In comparison, we recorded a provision for credit losses, based on the incurred model for estimating the allowance, of \$2 million and \$1 million for the three and nine months ended February 29, 2020, respectively.

Under CECL, we are required to maintain an allowance based on a current estimate of credit losses that are expected to occur over the remaining contractual term of the loans in our portfolio. Prior to the adoption of CECL on June 1, 2020, we maintained an allowance based on an estimate of probable incurred losses inherent in our loan portfolio as of each balance sheet date.

As discussed above in “Executive Summary—Credit Quality,” the increases in the provision for credit losses for the current-year periods from the same prior-year periods were primarily attributable to an addition to our allowance for credit losses during the current quarter of \$33 million, as a result of the significant adverse financial impact on two CFC Texas-based electric power supply borrowers due to their exposure to the elevated power costs during the February 2021 polar vortex..

We discuss our methodology for estimating the allowance for credit losses under the CECL model, which we adopted on June 1, 2020, in “Note 1—Summary of Significant Accounting Policies” of this Report. We also provide information on the allowance for credit losses below in the section “Credit Risk—Allowance for Credit Losses” and in “Note 5—Allowance for Credit Losses.”

Non-Interest Income

Non-interest income consists of fee and other income, gains and losses on derivatives not accounted for in hedge accounting relationships and gains and losses on equity and debt investment securities. In the fourth quarter of the fiscal year ended May 31, 2020 (“fiscal year 2020”), we transferred all of the debt securities in our held-to-maturity investment portfolio to trading. As a result, we discontinued the reporting of our debt securities at amortized cost and began reporting these securities at fair value and recognizing the related unrealized gains and losses in earnings.

Table 4 presents the components of non-interest income for the three and nine months ended February 28, 2021 and February 29, 2020.

Table 4: Non-Interest Income

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Non-interest income:				
Fee and other income	\$ 3,819	\$ 3,647	\$ 13,667	\$ 18,430
Derivative gains (losses).....	330,196	(337,936)	471,759	(550,211)
Investment securities gains (losses).....	(2,807)	749	491	2,255
Total non-interest income (loss).....	<u>\$ 331,208</u>	<u>\$ (333,540)</u>	<u>\$ 485,917</u>	<u>\$ (529,526)</u>

The significant variances between non-interest income for the current-year periods and the same prior-year periods were attributable to the mark-to-market changes in the fair value of our derivative instruments. In addition, we experienced a decrease in fee and other income of \$5 million during the nine months ended February 28, 2021, due to lower prepayment fees than in the same prior-year period.

Derivative Gains (Losses)

Our derivative instruments are an integral part of our interest rate risk management strategy. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. The derivative instruments we use primarily include interest rate swaps, which we typically hold to maturity. In addition, we may on occasion use Treasury Locks to manage the interest rate risk associated with debt that is scheduled to reprice in the future. The primary factors affecting the fair value of our derivatives and derivative gains (losses) recorded in our results of operations include changes in interest rates, the shape of the swap curve and the composition of our derivative portfolio. We generally do not designate our interest rate swaps, which currently account for all our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). However, we typically designate Treasury Locks as cash flow hedges. We did not have any derivatives designated as accounting hedges as of February 28, 2021 or May 31, 2020.

We currently use two types of interest rate swap agreements: (i) we pay a fixed rate of interest and receive a variable rate of interest (“pay-fixed swaps”), and (ii) we pay a variable rate of interest and receive a fixed rate of interest (“receive-fixed swaps”). The interest amounts are based on a specified notional balance, which is used for calculation purposes only. The benchmark variable rate for the substantial majority of the floating rate payments under our swap agreements is 3-month LIBOR. As interest rates decline, pay-fixed swaps generally decrease in value and result in the recognition of derivative losses, as the amount of interest we pay remains fixed, while the amount of interest we receive declines. In contrast, as interest rates rise, pay-fixed swaps generally increase in value and result in the recognition of derivative gains, as the amount of interest we pay remains fixed, but the amount we receive increases. With a receive-fixed swap, the opposite results occur as interest rates decline or rise. Our derivative portfolio consists of a higher proportion of pay-fixed swaps than receive-fixed swaps; therefore, we generally record derivative losses when interest rates decline and derivative gains when interest rates rise. Because our pay-fixed and receive-fixed swaps are referenced to different maturity terms along the swap curve, different changes in the swap curve—parallel, flattening, inversion or steepening—will also impact the fair value of our derivatives.

Table 5 presents the components of net derivative gains (losses) recorded in our consolidated statements of operations for the three and nine months ended February 28, 2021 and February 29, 2020. Derivative cash settlements interest expense represents the net periodic contractual interest amount for our interest-rate swaps during the reporting period. Derivative forward value gains (losses) represent the change in fair value of our interest rate swaps during the applicable reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts.

Table 5: Derivative Gains (Losses)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Derivative gains (losses) attributable to:				
Derivative cash settlements interest expense.....	\$ (29,735)	\$ (14,354)	\$ (86,507)	\$ (39,547)
Derivative forward value gains (losses).....	359,931	(323,582)	558,266	(510,664)
Derivative gains (losses).....	<u>\$ 330,196</u>	<u>\$ (337,936)</u>	<u>\$ 471,759</u>	<u>\$ (550,211)</u>

The derivative gains of \$330 million recorded during the current quarter were attributable to an increase in the net fair value of our swap portfolio resulting from an increase in medium- and longer-term swap interest rates, as depicted by the comparative February 28, 2021 and November 30, 2020 swap curves presented in the chart below. In contrast, we recorded derivative losses of \$338 million for the same prior-year quarter due to a decrease in the net fair value of our swap portfolio resulting from a decline in interest rates across the swap curve during the period.

The derivative gains of \$472 million recorded during the nine months ended February 28, 2021, were attributable to an increase in the net fair value of our swap portfolio resulting from increases in medium- and longer-term swap interest rates, as depicted by the comparative February 28, 2021 and May 31, 2020 swap curves presented in the chart below. In contrast, the derivative losses of \$550 million during the same prior year-to-date period were attributable to a decrease in the net fair value of our swap portfolio resulting from declines in interest rates across the swap curve, as depicted by the comparative February 29, 2020 and May 31, 2019 swap curves presented in the chart below.

Derivative Cash Settlements

As indicated in Table 5 above, we recorded net periodic derivative cash settlements interest expense of \$30 million for the current quarter, an increase of \$16 million from the \$14 million recorded for the same prior-year quarter. We recorded net periodic derivative cash settlements interest expense of \$87 million for the nine months ended February 28, 2021, an increase of \$47 million from the \$40 million recorded for the same prior year-to-date period. The floating-rate payments on our interest rate swaps are typically based on the 3-month LIBOR, which decreased 127 basis points over the last 12 months to 0.19% as of February 28, 2021. The decrease in the 3-month LIBOR drove the increase in the net periodic derivative cash settlements interest expense recorded in the current-year periods.

As discussed above, our derivative portfolio consists of a higher proportion of pay-fixed swaps than receive-fixed swaps, with pay-fixed swaps accounting for approximately 74% and 71% of the outstanding notional amount of our derivative portfolio as of February 28, 2021 and May 31, 2020, respectively. Table 6 displays, by interest rate swap agreement type, the average outstanding notional amount and the weighted-average interest rate paid and received for the net periodic derivative cash settlements interest expense during each respective period.

Table 6: Derivatives—Average Notional Amounts and Interest Rates

(Dollars in thousands)	Three Months Ended					
	February 28, 2021			February 29, 2020		
	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,506,850	2.71 %	0.24 %	\$ 7,047,332	2.82 %	1.89 %
Receive-fixed swaps.....	2,399,000	0.96	2.80	2,949,549	2.58	2.69
Total.....	<u>\$ 8,905,850</u>	<u>2.25 %</u>	<u>0.93 %</u>	<u>\$ 9,996,881</u>	<u>2.75 %</u>	<u>2.12 %</u>

Nine Months Ended

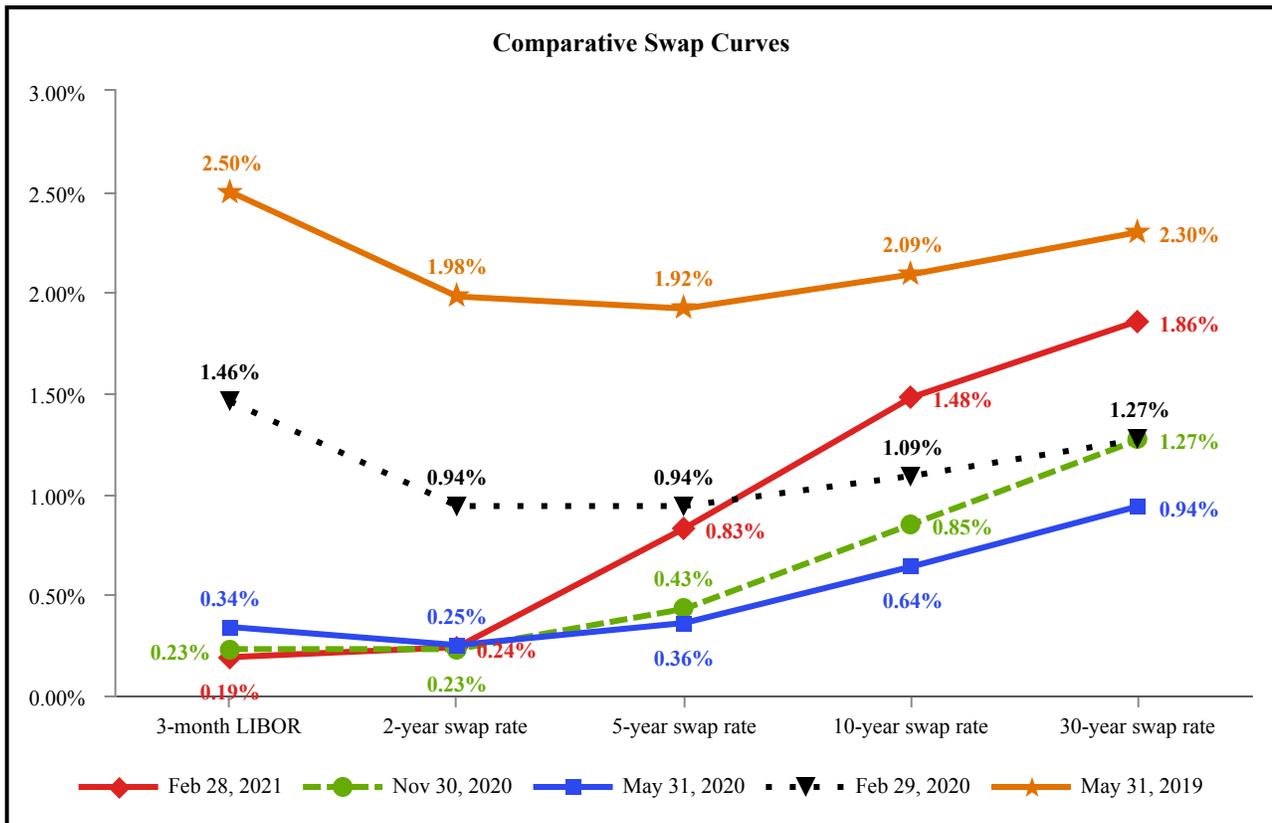
(Dollars in thousands)	February 28, 2021			February 29, 2020		
	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,534,162	2.76 %	0.29 %	\$ 7,233,790	2.83 %	2.12 %
Receive-fixed swaps.....	2,527,205	1.06	2.78	3,216,883	2.82	2.61
Total.....	<u>\$ 9,061,367</u>	2.28 %	0.98 %	<u>\$10,450,673</u>	2.83 %	2.27 %

The average remaining maturity of our pay-fixed and receive-fixed swaps was 19 years and four years, respectively, as of both February 28, 2021 and February 29, 2020.

See “Note 9—Derivative Instruments and Hedging Activities” for additional information on our derivative instruments.

Comparative Swap Curves

The chart below provides comparative swap curves as of February 28, 2021, November 30, 2020, May 31, 2020, February 29, 2020 and May 31, 2019.



Benchmark rates obtained from Bloomberg.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefit expense, general and administrative expenses, gains and losses on the early extinguishment of debt and other miscellaneous expenses.

Table 7 presents the components of non-interest expense recorded in our consolidated statements of operations for the three and nine months ended February 28, 2021 and February 29, 2020.

Table 7: Non-Interest Expense

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Non-interest expense:				
Salaries and employee benefits.....	\$ (14,259)	\$ (12,895)	\$ (41,403)	\$ (38,565)
Other general and administrative expenses.....	(9,303)	(12,374)	(28,958)	(36,802)
Losses on early extinguishment of debt.....	—	(69)	(1,455)	(683)
Other non-interest income (expense).....	(301)	(290)	(956)	6,574
Total non-interest expense.....	<u>\$ (23,863)</u>	<u>\$ (25,628)</u>	<u>\$ (72,772)</u>	<u>\$ (69,476)</u>

Non-interest expense of \$24 million for the current quarter decreased \$2 million from the same prior-year quarter, with a decrease in other general and administrative expenses slightly offsetting an increase in salaries and employee benefits. Non-interest expense of \$73 million for the nine months ended February 28, 2021 increased \$3 million, or 5%, from the same prior year-to-date period, primarily due to the absence of a gain of \$8 million recorded in connection with our sale of land in the same prior year-to-date period and the increase of \$3 million in salaries and benefits, which were partially offset by a reduction in other general and administrative expenses of \$8 million largely due to reduced travel and in-person meeting costs and the cancellation of certain events because of the COVID-19 pandemic.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents 100% of the results of operations of NCSC and RTFC, as the members of NCSC and RTFC own or control 100% of the interest in their respective companies. The fluctuations in net income (loss) attributable to noncontrolling interests are primarily due to changes in the fair value of NCSC's derivative instruments recognized in NCSC's earnings.

We recorded net income attributable to noncontrolling interests of \$1 million and \$2 million for the three and nine months ended February 28, 2021, respectively. In comparison, we recorded net loss attributable to noncontrolling interests of \$1 million and \$3 million for the three and nine months ended February 29, 2020, respectively.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of \$29,415 million as of February 28, 2021 increased \$1,257 million from May 31, 2020, primarily due to growth in our loan portfolio. Total liabilities of \$28,146 million as of February 28, 2021 increased by \$638 million, or 2%, from May 31, 2020, primarily due to debt issuances to fund loan growth. Total equity increased \$620 million to \$1,269 million as of February 28, 2021, attributable to our reported net income of \$684 million for the current year-to-date period, which was partially offset by the retirement of patronage capital of \$60 million authorized by the CFC Board of Directors in July 2020 and paid to members in September 2020, and a decrease to retained earnings of \$4 million from the cumulative-effect adjustment recorded at adoption of the CECL accounting standard on June 1, 2020.

Below is a discussion of changes in the major components of our assets and liabilities during the nine months ended February 28, 2021. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to manage our liquidity requirements and market risk exposure in accordance with our risk appetite framework.

Loan Portfolio

We segregate our loan portfolio into portfolio segments based on the borrower member class, which consists of CFC distribution, CFC power supply, CFC statewide and associate, NCSC and RTFC. We offer both long-term and line of credit loans to our borrowers. Under our long-term loan facilities, a borrower may select a fixed interest rate or a variable interest rate at the time of each loan advance. Line of credit loans are revolving loan facilities and generally have a variable interest rate.

Loans Outstanding

Table 8 summarizes loans to members, by member class and by loan type, as of February 28, 2021 and May 31, 2020. As indicated in Table 8, loans to CFC distribution and power supply borrowers accounted for 96% of total loans to members as of both February 28, 2021 and May 31, 2020, and long-term fixed-rate loans accounted for 90% and 92% of loans to members as of February 28, 2021 and May 31, 2020, respectively.

Table 8: Loans Outstanding by Member Class and Loan Type

(Dollars in millions)	February 28, 2021		May 31, 2020		Change
	Amount	% of Total	Amount	% of Total	
Loans by member class:					
CFC:					
Distribution	\$ 21,878	78 %	\$ 20,770	78 %	\$ 1,108
Power supply	5,188	18	4,732	18	456
Statewide and associate	97	—	106	—	(9)
CFC total	27,163	96	25,608	96	1,555
NCSC	722	3	698	3	24
RTFC	431	1	385	1	46
Total loans outstanding ⁽¹⁾	28,316	100	26,691	100	1,625
Deferred loan origination costs	11	—	11	—	—
Loans to members	<u>\$ 28,327</u>	<u>100 %</u>	<u>\$ 26,702</u>	<u>100 %</u>	<u>\$ 1,625</u>
Loans by type:					
Long-term loans:					
Fixed-rate	\$ 25,443	90 %	\$ 24,472	92 %	\$ 971
Variable-rate	626	2	656	2	(30)
Total long-term loans	26,069	92	25,128	94	941
Line of credit loans	2,247	8	1,563	6	684
Total loans outstanding ⁽¹⁾	28,316	100	26,691	100	1,625
Deferred loan origination costs	11	—	11	—	—
Loans to members	<u>\$ 28,327</u>	<u>100 %</u>	<u>\$ 26,702</u>	<u>100 %</u>	<u>\$ 1,625</u>

⁽¹⁾ Represents the unpaid principal balance, net of charge-offs and recoveries, of loans as of the end of each period.

Loans to members totaled \$28,327 million as of February 28, 2021, an increase of \$1,625 million, or 6%, from May 31, 2020. The increase was driven primarily by an increase in long-term loans and line of credit loans of \$941 million and \$684 million, respectively. We experienced increases in CFC distribution loans, CFC power supply loans, NCSC loans and RTFC loans of \$1,108 million, \$456 million, \$24 million and \$46 million, respectively, and a decrease in CFC statewide and associate loans of \$9 million.

Long-term loan advances totaled \$2,050 million during the nine months ended February 28, 2021, of which approximately 84% was provided to members for capital expenditures and 9% was provided for the refinancing of loans made by other

lenders. In comparison, long-term loan advances totaled \$1,950 million during the same prior year-to-date period, of which approximately 77% was provided to members for capital expenditures and 18% was provided for the refinancing of loans made by other lenders.

We provide additional information about our loan product types in “Item 1. Business—Loan Programs” and “Note 4—Loans” in our 2020 Form 10-K. See “Debt—Collateral Pledged” below for information on encumbered and unencumbered loans and “Credit Risk Management” for information on the credit risk profile of our loan portfolio.

Loan Retention Rate

Table 9 presents a summary of the options selected by borrowers for CFC’s long-term fixed-rate loans that repriced, in accordance with our standard loan repricing provisions, during the nine months ended February 28, 2021 and in fiscal year 2020. At the repricing date, the borrower has the option of (i) selecting CFC’s current long-term fixed rate for a term ranging from one year to the full remaining term of the loan; (ii) selecting CFC’s current long-term variable rate; or (iii) repaying the loan in full.

Table 9: Historical Retention Rate and Repricing Selection⁽¹⁾

(Dollars in thousands)	Nine Months Ended February 28, 2021		Fiscal Year Ended May 31, 2020	
	Amount	% of Total	Amount	% of Total
Loans retained:				
Long-term fixed rate selected.....	\$ 268,044	96 %	\$ 441,165	95 %
Long-term variable rate selected.....	9,200	3	11,446	3
Total loans retained by CFC.....	277,244	99	452,611	98
Loans repaid.....	3,508	1	10,350	2
Total.....	\$ 280,752	100 %	\$ 462,961	100 %

⁽¹⁾Does not include NCSC and RTFC loans.

As displayed in Table 9, of the loans that repriced during the nine months ended February 28, 2021 and fiscal year 2020, the substantial majority of borrowers selected a new long-term fixed or variable rate. The average retention rate, which is calculated based on the election made by the borrower at the repricing date, was 96% for CFC loans that repriced during the three fiscal year period ended May 31, 2020.

Debt

We utilize both short-term borrowings and long-term debt as part of our funding strategy and asset/liability interest rate risk management. We seek to maintain diversified funding sources across products, programs and markets to manage funding concentrations and reduce our liquidity or debt rollover risk. Our funding sources include a variety of secured and unsecured debt securities in a wide range of maturities to our members and affiliates and in the capital markets.

Debt Outstanding

Table 10 displays the composition, by product type, of our outstanding debt as of February 28, 2021 and May 31, 2020. Table 10 also displays the composition of our debt based on several additional selected attributes.

Table 10: Total Debt Outstanding

(Dollars in thousands)	February 28, 2021	May 31, 2020	Change
Debt product type:			
Commercial paper:			
Members, at par	\$ 1,371,796	\$ 1,318,566	\$ 53,230
Dealer, net of discounts	654,988	—	654,988
Total commercial paper	<u>2,026,784</u>	<u>1,318,566</u>	<u>708,218</u>
Select notes to members	1,370,795	1,597,959	(227,164)
Daily liquidity fund notes to members	678,792	508,618	170,174
Medium-term notes:			
Members, at par	629,298	658,959	(29,661)
Dealer, net of discounts	4,355,807	3,068,793	1,287,014
Total medium-term notes	<u>4,985,105</u>	<u>3,727,752</u>	<u>1,257,353</u>
Collateral trust bonds	7,187,933	7,188,553	(620)
Guaranteed Underwriter Program notes payable	6,029,890	6,261,312	(231,422)
Farmer Mac notes payable	2,675,979	3,059,637	(383,658)
Other notes payable	8,223	11,612	(3,389)
Subordinated deferrable debt	986,265	986,119	146
Members' subordinated certificates:			
Membership subordinated certificates	628,589	630,483	(1,894)
Loan and guarantee subordinated certificates	389,265	482,965	(93,700)
Member capital securities	239,170	226,170	13,000
Total members' subordinated certificates	<u>1,257,024</u>	<u>1,339,618</u>	<u>(82,594)</u>
Total debt outstanding	<u>\$ 27,206,790</u>	<u>\$ 25,999,746</u>	<u>\$ 1,207,044</u>
Security type:			
Secured debt	58 %	64 %	
Unsecured debt	42	36	
Total	<u>100 %</u>	<u>100 %</u>	
Funding source:			
Members	20 %	21 %	
Private placement:			
Guaranteed Underwriter Program notes payable	22	24	
Farmer Mac notes payable	10	12	
Total private placement	<u>32</u>	<u>36</u>	
Capital markets	48	43	
Total	<u>100 %</u>	<u>100 %</u>	
Interest rate type:			
Fixed-rate debt	77 %	75 %	
Variable-rate debt	23	25	
Total	<u>100 %</u>	<u>100 %</u>	
Interest rate type, including the impact of swaps:			
Fixed-rate debt ⁽¹⁾	92 %	90 %	
Variable-rate debt ⁽²⁾	8	10	
Total	<u>100 %</u>	<u>100 %</u>	
Maturity classification:⁽³⁾			
Short-term borrowings	16 %	15 %	
Long-term and subordinated debt ⁽⁴⁾	84	85	
Total	<u>100 %</u>	<u>100 %</u>	

- (1) Includes variable-rate debt that has been swapped to a fixed rate, net of any fixed-rate debt that has been swapped to a variable rate.
- (2) Includes fixed-rate debt that has been swapped to a variable rate, net of any variable-rate debt that has been swapped to a fixed rate. Also includes commercial paper notes, which generally have maturities of less than 90 days. The interest rate on commercial paper notes does not change once the note has been issued; however, the interest rate for new commercial paper issuances changes daily.
- (3) Borrowings with an original contractual maturity of one year or less are classified as short-term borrowings. Borrowings with an original contractual maturity of greater than one year are classified as long-term debt.
- (4) Consists of long-term debt, subordinated deferrable debt and total members' subordinated debt reported on our consolidated balance sheets. Maturity classification is based on the original contractual maturity as of the date of issuance of the debt.

We issue debt primarily to fund growth in our loan portfolio. As such, our outstanding debt volume generally increases and decreases in response to member loan demand. Total debt outstanding was \$27,207 million as of February 28, 2021, an increase of \$1,207 million from May 31, 2020, due to an increase in borrowings to fund the increase in loans to members. Debt activity during this period consisted of net increases in outstanding dealer commercial paper of \$655 million and medium-term notes of \$1,257 million which together totaled \$1,912 million. This increase was partially offset by net decreases in Farmer Mac notes payable of \$384 million, borrowings under the Guaranteed Underwriter Program of \$231 million, members' subordinated certificates of \$83 million and member commercial paper, select notes and daily liquidity fund notes of \$4 million, which together totaled \$702 million. Outstanding dealer commercial paper, which totaled \$655 million as of February 28, 2021, was below our targeted maximum threshold of \$1,250 million.

On October 8, 2020, we issued \$400 million aggregate principal amount of 1.35% sustainability collateral trust bonds due March 15, 2031. On February 8, 2021, we issued \$350 million of aggregate principal amount of 1.65% collateral trust bonds due June 15, 2031. In February 2021, we issued dealer medium-term notes totaling \$1,425 million.

On November 19, 2020, we closed on a \$375 million committed loan facility ("Series R") from the Federal Financing Bank under the Guaranteed Underwriter Program. Pursuant to this facility, we may borrow any time before July 15, 2025. Each advance is subject to quarterly amortization and a final maturity not longer than 30 years from the date of the advance.

Member Investments

Debt securities issued to our members represent an important, stable source of funding. Table 11 displays outstanding member debt, by product type, as of February 28, 2021 and May 31, 2020.

Table 11: Member Investments

(Dollars in thousands)	February 28, 2021		May 31, 2020		Change
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	
Member investments:					
Commercial paper.....	\$ 1,371,796	68 %	\$ 1,318,566	100 %	\$ 53,230
Select notes.....	1,370,795	100	1,597,959	100	(227,164)
Daily liquidity fund notes.....	678,792	100	508,618	100	170,174
Medium-term notes.....	629,298	13	658,959	18	(29,661)
Members' subordinated certificates.....	1,257,024	100	1,339,618	100	(82,594)
Total member investments.....	<u>\$ 5,307,705</u>		<u>\$ 5,423,720</u>		<u>\$ (116,015)</u>
Percentage of total debt outstanding.....	20 %		21 %		

(1) Represents outstanding debt attributable to members for each debt product type as a percentage of the total outstanding debt for each debt product type.

Member investments totaled \$5,308 million and accounted for 20% of total debt outstanding as of February 28, 2021, compared with \$5,424 million, or 21% of total debt outstanding as of May 31, 2020. Over the last twelve quarters, debt issued to members has averaged \$4,947 million as of each quarter end.

Short-Term Borrowings

Short-term borrowings consist of borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. Short-term borrowings totaled \$4,408 million and accounted for 16% of total debt outstanding as of February 28, 2021, compared with \$3,962 million, or 15%, of total debt outstanding as of May 31, 2020. See “Liquidity Risk” below and for “Note 6—Short-Term Borrowings” for information on the composition of our short-term borrowings.

Long-Term and Subordinated Debt

Long-term debt, defined as debt with an original contractual maturity term of greater than one year, primarily consists of medium-term notes, collateral trust bonds, notes payable under the Guaranteed Underwriter Program and notes payable under our note purchase agreement with Farmer Mac. Subordinated debt consists of subordinated deferrable debt and members’ subordinated certificates. Our subordinated deferrable debt and members’ subordinated certificates have original contractual maturity terms of greater than one year.

Long-term and subordinated debt together totaled \$22,799 million and accounted for 84% of total debt outstanding as of February 28, 2021, compared with \$22,038 million, or 85% of total debt outstanding as of May 31, 2020. We provide additional information on our long-term debt below under “Liquidity Risk” and in “Note 7—Long-Term Debt” and “Note 8—Subordinated Deferrable Debt.”

Collateral Pledged

We are required to pledge loans or other collateral in transactions under our collateral trust bond indentures, note purchase agreements with Farmer Mac and bond agreements under the Guaranteed Underwriter Program. We are required to maintain pledged collateral equal to at least 100% of the face amount of outstanding borrowings. However, as discussed below, we typically maintain pledged collateral in excess of the required percentage. Under the provisions of our committed bank revolving line of credit agreements, the excess collateral that we are allowed to pledge cannot exceed 150% of the outstanding borrowings under our collateral trust bond indentures, Farmer Mac note purchase agreements or the Guaranteed Underwriter Program. In certain cases, provided that all conditions of eligibility under the different programs are satisfied, we may withdraw excess pledged collateral or transfer collateral from one borrowing program to another to facilitate a new debt issuance.

Table 12 displays the collateral coverage ratios as of February 28, 2021 and May 31, 2020 for the debt agreements noted above that require us to pledge collateral.

Table 12: Collateral Pledged

Debt Agreement	Requirement Coverage Ratios		Actual Coverage Ratios⁽¹⁾	
	Minimum Debt Indentures	Maximum Committed Bank Revolving Line of Credit Agreements	February 28, 2021	May 31, 2020
Collateral trust bonds 1994 indenture.....	100 %	150 %	125 %	114 %
Collateral trust bonds 2007 indenture.....	100	150	117	113
Guaranteed Underwriter Program notes payable.....	100	150	120	120
Farmer Mac notes payable.....	100	150	118	121
Clean Renewable Energy Bonds Series 2009A.....	100	150	132	120

⁽¹⁾ Calculated based on the amount of collateral pledged divided by the face amount of outstanding secured debt.

Of our total debt outstanding of \$27,207 million as of February 28, 2021, \$15,898 million, or 58%, was secured by pledged loans totaling \$19,132 million. In comparison, of our total debt outstanding of \$26,000 million as of May 31, 2020, \$16,515 million, or 64%, was secured by pledged loans totaling \$19,643 million. Total debt outstanding is presented on our

consolidated balance sheets net of unamortized discounts and issuance costs; however, our collateral pledging requirements are based on the face amount of secured outstanding debt, which excludes net unamortized discounts and issuance costs.

Table 13 displays the unpaid principal balance of loans pledged for secured debt, the excess collateral pledged and unencumbered loans as of February 28, 2021 and May 31, 2020.

Table 13: Unencumbered Loans

(Dollars in thousands)	February 28, 2021	May 31, 2020
Total loans outstanding ⁽¹⁾	\$ 28,315,671	\$ 26,690,854
Less: Loans required to be pledged for secured debt ⁽²⁾	(16,162,992)	(16,784,728)
Loans pledged in excess of requirement ⁽²⁾⁽³⁾	(2,969,014)	(2,858,238)
Total pledged loans	(19,132,006)	(19,642,966)
Unencumbered loans	\$ 9,183,665	\$ 7,047,888
Unencumbered loans as a percentage of total loans outstanding	32 %	26 %

⁽¹⁾ Represents the unpaid principal balance of loans as of the end of each period. Excludes unamortized deferred loan origination costs of \$11 million as of both February 28, 2021 and May 31, 2020.

⁽²⁾ Reflects unpaid principal balance of pledged loans.

⁽³⁾ Excludes cash collateral pledged to secure debt. If there is an event of default under most of our indentures, we can only withdraw the excess collateral if we substitute cash or permitted investments of equal value.

As displayed above in Table 13, we had excess loans pledged as collateral totaling \$2,969 million and \$2,858 million as of February 28, 2021 and May 31, 2020, respectively. We typically pledge loans in excess of the required amount for the following reasons: (i) our distribution and power supply loans are typically amortizing loans that require scheduled principal payments over the life of the loan, whereas the debt securities issued under secured indentures and agreements typically have bullet maturities; (ii) distribution and power supply borrowers have the option to prepay their loans; and (iii) individual loans may become ineligible for various reasons, some of which may be temporary.

We provide additional information on our borrowings, including the maturity profile, below in “Liquidity Risk.” Also refer to “Note 5—Short-Term Borrowings,” “Note 7—Long-Term Debt,” “Note 8—Subordinated Deferrable Debt” and “Note 9—Members’ Subordinated Certificates” in our 2020 Form 10-K for a more detailed description of each of our debt product types. See “Note 4—Loans—Pledging of Loans” in this Report for additional information related to pledged collateral.

Equity

Table 14 presents the components of total CFC equity and total equity as of February 28, 2021 and May 31, 2020.

Table 14: Equity

<u>(Dollars in thousands)</u>	<u>February 28, 2021</u>	<u>May 31, 2020</u>	<u>Change</u>
Equity components:			
Membership fees and educational fund:			
Membership fees	\$ 969	\$ 969	\$ —
Educational fund	1,510	2,224	(714)
Total membership fees and educational fund	2,479	3,193	(714)
Patronage capital allocated	834,209	894,066	(59,857)
Members' capital reserve	807,320	807,320	—
Total allocated equity	1,644,008	1,704,579	(60,571)
Unallocated net income (loss):			
Prior fiscal year-end cumulative derivative forward value losses ⁽¹⁾	(1,079,739)	(348,965)	(730,774)
Year-to-date derivative forward value gains (losses) ⁽¹⁾	555,305	(730,774)	1,286,079
Period-end cumulative derivative forward value losses ⁽¹⁾	(524,434)	(1,079,739)	555,305
Other unallocated net income	126,152	3,191	122,961
Unallocated net loss	(398,282)	(1,076,548)	678,266
CFC retained equity	1,245,726	628,031	617,695
Accumulated other comprehensive loss	(1,659)	(1,910)	251
Total CFC equity	1,244,067	626,121	617,946
Noncontrolling interests	24,522	22,701	1,821
Total equity	<u>\$ 1,268,589</u>	<u>\$ 648,822</u>	<u>\$ 619,767</u>

⁽¹⁾Represents derivative forward value gains (losses) for CFC only, as total CFC equity does not include the noncontrolling interests of the variable interest entities NCSC and RTFC, which we are required to consolidate. We present the consolidated total derivative forward value gains (losses) in Table 37 in the "Non-GAAP Financial Measures" section below. Also, see "Note 14—Business Segments" for the statements of operations for CFC.

Total equity increased \$620 million to \$1,269 million as of February 28, 2021, attributable to our reported net income of \$684 million for the nine months ended February 28, 2021, which was partially offset by the retirement of patronage capital of \$60 million authorized by the CFC Board of Directors in July 2020 and paid to members in September 2020, and a decrease to retained earnings of \$4 million from the cumulative-effect adjustment recorded at adoption of the CECL accounting standard on June 1, 2020.

In July 2020, the CFC Board of Directors authorized the allocation of fiscal year 2020 adjusted net income as follows: \$96 million to members in the form of patronage capital; \$48 million to the members' capital reserve; and \$1 million to the cooperative educational fund. The amount of patronage capital allocated each year by CFC's Board of Directors is based on non-GAAP adjusted net income, which excludes the impact of derivative forward value gains (losses). We provide a reconciliation of our adjusted net income to our reported net income and an explanation of the adjustments below in "Non-GAAP Financial Measures."

In July 2020, the CFC Board of Directors also authorized the retirement of patronage capital totaling \$60 million, consisting of \$48 million, which represented 50% of the patronage capital allocation for fiscal year 2020, and \$12 million, which represented the portion of the allocation from fiscal year 1994 net earnings that has been held for 25 years pursuant to the CFC Board of Directors policy. This amount was returned to members in cash in September 2020. The remaining portion of the amount allocated for fiscal year 2020 will be retained by CFC for 25 years under current guidelines adopted by the CFC Board of Directors in June 2009.

The CFC Board of Directors is required to make annual allocations of adjusted net income, if any. CFC has made annual retirements of allocated net earnings in 41 of the last 42 fiscal years; however, future retirements of allocated amounts are determined based on CFC's financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws. See "Item 1. Business—Allocation and Retirement of Patronage Capital" of our 2020 Form 10-K for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in financial transactions that are not presented on our consolidated balance sheets, or may be recorded on our consolidated balance sheets in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements consist primarily of guarantees of member obligations and unadvanced loan commitments intended to meet the financial needs of our members.

Guarantees

We provide guarantees for certain contractual obligations of our members to assist them in obtaining various forms of financing. We use the same credit policies and monitoring procedures in providing guarantees as we do for loans and commitments. If a member defaults on its obligation, we are obligated to pay required amounts pursuant to our guarantees. Meeting our guarantee obligations satisfies the underlying obligation of our member systems and prevents the exercise of remedies by the guarantee beneficiary based upon a payment default by a member. In general, the member is required to repay any amount advanced by us with accrued interest, pursuant to the documents evidencing the member's reimbursement obligation. Table 15 displays the notional amount of our outstanding guarantee obligations, by guarantee type and by company, as of February 28, 2021 and May 31, 2020.

Table 15: Guarantees Outstanding

(Dollars in thousands)	February 28, 2021	May 31, 2020	Change
Guarantee type:			
Long-term tax-exempt bonds ⁽¹⁾	\$ 146,125	\$ 263,875	\$ (117,750)
Letters of credit ⁽²⁾	376,984	413,839	(36,855)
Other guarantees.....	153,276	143,072	10,204
Total.....	\$ 676,385	\$ 820,786	\$ (144,401)
Company:			
CFC ⁽³⁾	\$ 654,079	\$ 810,787	\$ (156,708)
NCSC.....	22,306	9,999	12,307
Total.....	\$ 676,385	\$ 820,786	\$ (144,401)

⁽¹⁾ Represents the outstanding principal amount of long-term fixed-rate and variable-rate guaranteed bonds.

⁽²⁾ Reflects our maximum potential exposure for letters of credit.

⁽³⁾ Includes CFC guarantees to NCSC and RTFC members totaling \$3 million as of both February 28, 2021 and May 31, 2020.

Of the total notional amount of our outstanding guarantee obligations of \$676 million and \$821 million as of February 28, 2021 and May 31, 2020, respectively, 41% and 48%, respectively, were secured by a mortgage lien on substantially all of the assets and future revenue of our member cooperatives for which we provide guarantees.

We were the guarantor and liquidity provider on \$146 million of tax-exempt bonds as of February 28, 2021. As liquidity provider, we may be required to purchase bonds that are tendered or put by investors. Investors provide notice to the remarketing agent that they will tender or put a certain amount of bonds at the next interest rate reset date. If the remarketing agent is unable to sell such bonds to other investors by the next interest rate reset date, we have unconditionally agreed to purchase such bonds. We were not required to perform as liquidity provider pursuant to these obligations during the nine months ended February 28, 2021 or fiscal year 2020.

We had outstanding letters of credit for the benefit of our members totaling \$377 million as of February 28, 2021. These letters of credit relate to obligations for which we may be required to advance funds based on various trigger events specified in the letter of credit agreements. If we are required to advance funds, the member is obligated to repay the advance amount and accrued interest to us. In addition to these letters of credit, we had master letter of credit facilities in place as of February 28, 2021, under which we may be required to issue letters of credit to third parties for the benefit of our members up to an additional \$66 million as of February 28, 2021. All of these master letter of credit facilities were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit under these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and that the borrower is currently in compliance with the letter of credit terms and conditions.

Table 16 presents the maturities of the outstanding notional amount of guarantee obligations of \$676 million as of February 28, 2021, in each fiscal year during the five-year period ended May 31, 2025, and thereafter.

Table 16: Maturities of Guarantee Obligations

(Dollars in thousands)	Outstanding Notional Amount	Maturities of Guarantee Obligations					
		2021	2022	2023	2024	2025	Thereafter
Guarantees.....	\$ 676,385	\$ 18,430	\$ 186,729	\$ 26,695	\$ 52,750	\$ 93,637	\$ 298,144

We recorded a guarantee liability of \$11 million as of both February 28, 2021 and May 31, 2020, for our guarantee and liquidity obligations associated with our members' debt. We provide additional information about our guarantee obligations in "Note 11—Guarantees."

Unadvanced Loan Commitments

Unadvanced loan commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. Our line of credit commitments include both contracts that are subject to material adverse change clauses and contracts that are not subject to material adverse change clauses, while our long-term loan commitments are typically subject to material adverse change clauses.

Table 17 displays the amount of unadvanced loan commitments, which consist of line of credit and long-term loan commitments, as of February 28, 2021 and May 31, 2020.

Table 17: Unadvanced Loan Commitments

(Dollars in thousands)	February 28, 2021		May 31, 2020		Change
	Amount	% of Total	Amount	% of Total	
Line of credit commitments:					
Conditional ⁽¹⁾	\$ 5,385,839	39 %	\$ 5,072,921	38 %	\$ 312,918
Unconditional ⁽²⁾	3,047,263	22	2,857,029	21	190,234
Total line of credit unadvanced commitments.....	8,433,102	61	7,929,950	59	503,152
Total long-term loan unadvanced commitments ⁽¹⁾ ..	5,491,495	39	5,458,676	41	32,819
Total unadvanced loan commitments.....	\$ 13,924,597	100 %	\$ 13,388,626	100 %	\$ 535,971

⁽¹⁾Represents amount related to facilities that are subject to material adverse change clauses.

⁽²⁾Represents amount related to facilities that are not subject to material adverse change clauses.

Table 18 presents the maturities, by loan type, of our total unadvanced loan commitments of \$13,925 million as of February 28, 2021, in each fiscal year during the five-year period ending May 31, 2025, and thereafter.

Table 18: Unadvanced Loan Commitments Maturities of Notional Amount

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Loan Commitments by Fiscal Year					
		2021	2022	2023	2024	2025	Thereafter
Line of credit loans	\$ 8,433,102	\$ 71,079	\$4,352,328	\$1,482,817	\$1,120,063	\$1,054,376	\$ 352,439
Long-term loans	5,491,495	65,531	978,673	806,491	1,646,073	888,679	1,106,048
Total	<u>\$13,924,597</u>	<u>\$ 136,610</u>	<u>\$5,331,001</u>	<u>\$2,289,308</u>	<u>\$2,766,136</u>	<u>\$1,943,055</u>	<u>\$1,458,487</u>

Unadvanced line of credit commitments and unadvanced long-term loan commitments accounted for 61% and 39%, respectively, of total unadvanced loan commitments as of February 28, 2021. Unadvanced line of credit commitments are typically revolving facilities for periods not to exceed five years and generally serve as supplemental back-up liquidity to our borrowers. Historically, borrowers have not drawn the full commitment amount for line of credit facilities, and we have experienced a very low utilization rate on line of credit loan facilities regardless of whether or not we are obligated to fund the facility if a material adverse change exists. Our unadvanced long-term loan commitments generally have a five-year draw period under which a borrower may advance funds prior to the expiration of the commitment. We expect that the majority of the long-term unadvanced loan commitments of \$5,491 million will be advanced prior to the expiration of the commitment.

Because we historically have experienced a very low utilization rate on line of credit loan facilities, which account for the majority of our total unadvanced loan commitments, we believe the unadvanced loan commitment total of \$13,925 million as of February 28, 2021 is not necessarily representative of our future funding requirements.

Unadvanced Loan Commitments—Conditional

The majority of our line of credit commitments and all of our unadvanced long-term loan commitments include material adverse change clauses. Unadvanced loan commitments subject to material adverse change clauses totaled \$10,878 million and \$10,532 million as of February 28, 2021 and May 31, 2020, respectively, and accounted for 78% and 79%, respectively, of the combined total of unadvanced line of credit and long-term loan commitments as of each respective date. Prior to making advances on these facilities, we confirm that there has been no material adverse change in the borrower's business or condition, financial or otherwise, since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by use of proceeds restrictions, imposition of borrower-specific restrictions, or by additional conditions that must be met prior to advancing funds. Since we generally do not charge a fee for the borrower to have an unadvanced amount on a loan facility that is subject to a material adverse change clause, our borrowers tend to request amounts in excess of their immediate estimated loan requirements.

Unadvanced Loan Commitments—Unconditional

Unadvanced loan commitments not subject to material adverse change clauses at the time of each advance consisted of unadvanced committed lines of credit totaling \$3,047 million and \$2,857 million as of February 28, 2021 and May 31, 2020, respectively. For contracts not subject to a material adverse change clause, we are generally required to advance amounts on the committed facilities as long as the borrower is in compliance with the terms and conditions of the facility.

Syndicated loan facilities, where the pricing is set at a spread over a market index rate as agreed upon by all of the participating financial institutions based on market conditions at the time of syndication, accounted for 91% of unconditional line of credit commitments as of February 28, 2021. The remaining 9% represented unconditional committed line of credit loans, for which any new advance would be made at rates determined by us.

Table 19 presents the maturities of our unadvanced committed lines of credit not subject to a material adverse clause of \$3,047 million as of February 28, 2021, in each fiscal year during the five-year period ending May 31, 2025, and thereafter.

Table 19: Unconditional Committed Lines of Credit Maturities of Notional Amount

(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit by Fiscal Year					
		2021	2022	2023	2024	2025	Thereafter
Committed lines of credit...	\$3,047,263	\$ 370	\$ 150,480	\$1,156,586	\$ 658,698	\$ 916,682	\$ 164,447

See “MD&A—Off-Balance Sheet Arrangements” in our 2020 Form 10-K for additional information on our off-balance sheet arrangements.

RISK MANAGEMENT

Overview

We face a variety of risks that can significantly affect our financial performance, liquidity, reputation and ability to meet the expectations of our members, investors and other stakeholders. As a financial services company, the major categories of risk exposures inherent in our business activities include credit risk, liquidity risk, market risk and operational risk. These risk categories are summarized below.

- *Credit risk* is the risk that a borrower or other counterparty will be unable to meet its obligations in accordance with agreed-upon terms.
- *Liquidity risk* is the risk that we will be unable to fund our operations and meet our contractual obligations or that we will be unable to fund new loans to borrowers at a reasonable cost and tenor in a timely manner.
- *Market risk* is the risk that changes in market variables, such as movements in interest rates, may adversely affect the match between the timing of the contractual maturities, re-pricing and prepayments of our financial assets and the related financial liabilities funding those assets.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal controls, processes, systems, human error or external events, including natural disasters or public health emergencies, such as the current COVID-19 pandemic. Operational risk also includes compliance risk, fiduciary risk, reputational risk and litigation risk.

Effective risk management is critical to our overall operations and to achieving our primary objective of providing cost-based financial products to our rural electric members while maintaining the sound financial results required for investment-grade credit ratings on our rated debt instruments. Accordingly, we have a risk-management framework that is intended to govern the principal risks we face in conducting our business and the aggregate amount of risk we are willing to accept, referred to as risk appetite, in the context of CFC’s mission and strategic objectives and initiatives. We provide information on our risk management framework in our 2020 Form 10-K under “Item 7. MD&A—Risk Management—Risk Management Framework.”

CREDIT RISK

Our loan portfolio, which represents the largest component of assets on our balance sheet, accounts for the substantial majority of our credit risk exposure. We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of investment securities and entering into derivative transactions to manage interest rate risk. Our primary credit exposure is to rural electric cooperatives that provide essential electric services to end-users, the majority of which are residential customers. We also have a limited portfolio of loans to not-for-profit and for-profit telecommunication companies. We provide a discussion of our credit-risk management framework and activities undertaken to manage credit risk in our 2020 Form 10-K under “Item 7. MD&A—Credit Risk—Credit Risk Management.”

Loan Portfolio Credit Risk

As a tax-exempt, member-owned finance cooperative, CFC’s principal focus is to provide funding to its rural electric utility cooperative members to assist them in acquiring, constructing and operating electric distribution systems, power supply systems and related facilities. Loans outstanding to electric utility organizations of \$27,885 million and \$26,306 million as of February 28, 2021 and May 31, 2020, respectively, accounted for 99% of total loans outstanding as of each respective date. The remaining loans outstanding in our portfolio were to RTFC members, affiliates and associates in the telecommunications industry.

Because we lend primarily to our rural electric utility cooperative members, we have had a loan portfolio subject to single-industry and single-obligor concentration risks since our inception in 1969. We historically, however, have experienced limited defaults and losses in our electric utility loan portfolio due to several factors. First, the majority of our electric cooperative borrowers operate in states where electric cooperatives are not subject to rate regulation. Thus, they are able to make rate adjustments to pass along increased costs to the end customer without first obtaining state regulatory approval, allowing them to cover operating costs and generate sufficient earnings and cash flows to service their debt obligations. Second, electric cooperatives face limited competition, as they tend to operate in exclusive territories not serviced by public investor-owned utilities. Third, electric cooperatives typically are consumer-owned, not-for-profit entities that provide an essential service to end-users, the majority of which are residential customers. Fourth, electric cooperatives tend to adhere to a conservative business strategy model that has historically resulted in a relatively stable, resilient operating environment and overall strong financial performance and credit strength for the electric cooperative network. Finally, we generally lend to our members on a senior secured basis, which reduces the risk of loss in the event of a borrower default.

Below we provide information on the credit risk profile of our loan portfolio, including security provisions, credit concentration, credit quality indicators and our allowance for credit losses.

Security Provisions

Except when providing line of credit loans, we generally lend to our members on a senior secured basis. Long-term loans are generally secured on parity with other secured lenders (primarily RUS), if any, by all assets and revenue of the borrower with exceptions typical in utility mortgages. Line of credit loans are generally unsecured. In addition to the collateral pledged to secure our loans, distribution and power supply borrowers also are required to set rates charged to customers to achieve certain specified financial ratios.

Table 20 presents, by loan type and by company, the amount and percentage of secured and unsecured loans in our loan portfolio as of February 28, 2021 and May 31, 2020. Of our total loans outstanding, 92% and 94% were secured as of February 28, 2021 and May 31, 2020, respectively.

outstanding loans totaled 891 and 889 as of February 28, 2021 and May 31, 2020, respectively, located in 49 states. Loans outstanding to borrowers in Texas, which accounted for both the largest number of borrowers in any one state and the largest concentration of loans outstanding to borrowers in any one state, represented 17% and 16% of total loans outstanding as of each respective date. Loans outstanding to Texas-based electric utility organizations covered by the Farmer Mac standby repurchase agreement of \$174 million and \$181 million as of February 28, 2021 and May 31, 2020, respectively, reduced our Texas-based exposure to 16% and 15% of total loans outstanding as of each respective date.

Single-Obligor Concentration

Table 21 displays the outstanding loan exposure for our 20 largest borrowers, by company, as of February 28, 2021 and May 31, 2020. The 20 largest borrowers consisted of 11 distribution systems and nine power supply systems as of both February 28, 2021 and May 31, 2020. The largest total exposure to a single borrower or controlled group represented less than 2% of total loans outstanding as of both February 28, 2021 and May 31, 2020.

Table 21: Loan Exposure to 20 Largest Borrowers

(Dollars in thousands)	February 28, 2021		May 31, 2020		Change
	Amount	% of Total	Amount	% of Total	
By company:					
CFC.....	\$ 6,007,377	21 %	\$ 5,661,540	21 %	\$ 345,837
NCSC.....	205,460	1	215,595	1	(10,135)
Total loan exposure to 20 largest borrowers.....	6,212,837	22	5,877,135	22	335,702
Less: Loans covered under Farmer Mac standby purchase commitment.....	(270,788)	(1)	(313,644)	(1)	42,856
Net loan exposure to 20 largest borrowers.....	<u>\$ 5,942,049</u>	<u>21 %</u>	<u>\$ 5,563,491</u>	<u>21 %</u>	<u>\$ 378,558</u>

As part of our strategy in managing credit exposure to large borrowers, we entered into a long-term standby purchase commitment agreement with Farmer Mac during fiscal year 2016. Under this agreement, we may designate certain long-term loans to be covered under the commitment, subject to approval by Farmer Mac, and in the event any such loan later goes into payment default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. The aggregate unpaid principal balance of designated and Farmer Mac approved loans was \$520 million and \$569 million as of February 28, 2021 and May 31, 2020, respectively. Loan exposure to our 20 largest borrowers covered under the Farmer Mac agreement totaled \$271 million and \$314 million as of February 28, 2021 and May 31, 2020, respectively. No loans have been put to Farmer Mac for purchase pursuant to this agreement. Our credit exposure is also mitigated by long-term loans guaranteed by RUS. Guaranteed RUS loans totaled \$141 million and \$147 million as of February 28, 2021 and May 31, 2020, respectively.

Credit Quality Indicators

Assessing the overall credit quality of our loan portfolio and measuring our credit risk is an ongoing process that involves tracking payment status, troubled debt restructurings, nonperforming loans, charge-offs, the internal risk ratings of our borrowers and other indicators of credit risk. We monitor and subject each borrower and loan facility in our loan portfolio to an individual risk assessment based on quantitative and qualitative factors. Payment status trends and internal risk ratings are indicators, among others, of the probability of borrower default and overall credit quality of our loan portfolio.

In mid-February 2021, Texas and several neighboring states experienced a series of severe winter storms and record-low temperatures as a result of the polar vortex. The freezing conditions affected power demand, supply and market prices in Texas, triggering unprecedented increases in electrical power load demand in combination with significant reductions in power supply across Texas, including a loss of almost half of the electric generation within the ERCOT service area. ERCOT raised wholesale electric power prices per megawatt hour to the maximum allowable amount of \$9,000, to spur greater power generation by providing a financial incentive for power generators in the state to remain online. According to ERCOT data, pre-storm wholesale power prices were less than \$50 per megawatt hour. ERCOT also initiated controlled rolling power outages, which impacted millions of residential and commercial customers, to protect and maintain the stability of the Texas electric grid.

The surge in wholesale electricity prices had a direct financial impact primarily on certain electric power supply utilities, including a significant adverse financial impact on two CFC Texas-based electric power supply borrowers that had insufficient generation supply during the February 2021 polar vortex and were forced, at the height of the surge in power prices, to purchase power at peak prices to meet the electric demand of their member distribution system customers. As a result, we downgraded the risk rating for each of these power supply borrowers, which together had loans outstanding of \$465 million as of February 28, 2021, from a previous rating within the pass category to a rating within the criticized category. These downgrades resulted in an increase in our nonperforming and criticized loans as of February 28, 2021. We provide additional information on these two CFC Texas-based power supply borrowers below under “Nonperforming Loans” and “Borrower Risk Ratings.”

Although we experienced an increase in nonperforming and criticized loans due to the downgrade of the two CFC Texas-based electric power supply borrowers during the current quarter, we believe the overall credit quality of our loan portfolio remained strong as of February 28, 2021, as the adverse impact on the credit quality of our loan portfolio from the February 2021 polar vortex is primarily limited to these two Texas-based electric power supply borrowers.

Troubled Debt Restructurings

We actively monitor problem loans and, from time to time, attempt to work with borrowers to manage such exposures through loan workouts or modifications that better align with the borrower’s current ability to pay. A loan restructuring or modification of terms is accounted for as a troubled debt restructuring (“TDR”) if, for economic or legal reasons related to the borrower’s financial difficulties, a concession is granted to the borrower that we would not otherwise consider. TDR loans generally are initially classified as nonperforming and placed on nonaccrual status, although in many cases such loans were already classified as nonperforming prior to modification. These loans may be returned to performing status and the accrual of interest resumed if the borrower performs under the modified terms for an extended period of time, and we expect the borrower to continue to perform in accordance with the modified terms. In certain limited circumstances in which a TDR loan is current at the modification date, the loan may remain on accrual status at the time of modification.

We have not had any loan modifications that were required to be accounted for as TDRs since fiscal year 2016. Table 22 presents the outstanding amount of modified loans accounted for as TDRs in prior periods and the performance status as of February 28, 2021 and May 31, 2020. The TDR loans outstanding for CFC and RTFC each relate to the modification of a loan for one borrower that, at the time of the modification, was experiencing financial difficulty.

Table 22: Troubled Debt Restructured Loans

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding
TDR loans:						
CFC.....	1	\$ 5,379	0.02 %	1	\$ 5,755	0.02 %
RTFC.....	1	4,717	0.02	1	5,092	0.02
Total TDR loans.....	<u>2</u>	<u>\$ 10,096</u>	<u>0.04 %</u>	<u>2</u>	<u>\$ 10,847</u>	<u>0.04 %</u>
Performance status of TDR loans:						
Performing TDR loans.....	2	\$ 10,096	0.04 %	2	10,847	0.04 %
Total TDR loans.....	<u>2</u>	<u>\$ 10,096</u>	<u>0.04 %</u>	<u>2</u>	<u>\$ 10,847</u>	<u>0.04 %</u>

⁽¹⁾ Represents the unpaid principal balance net of charge-offs and recoveries as of the end of each period.

We did not have any TDR loans classified as nonperforming as of either February 28, 2021 or May 31, 2020. Although TDR loans may be returned to performing status if the borrower performs under the modified terms of the loan for an extended period of time, TDR loans are evaluated on an individual basis in estimating lifetime expected credit losses under the CECL model.

Nonperforming Loans

In addition to TDR loans that may be classified as nonperforming, we also may have nonperforming loans that have not been modified as a TDR. Table 23 presents the outstanding balance of nonperforming loans, by member class, as of February 28, 2021 and May 31, 2020.

Table 23: Nonperforming Loans

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding
Nonperforming loans:						
CFC—Power supply ⁽²⁾	2	\$ 230,073	0.81 %	1	\$ 167,708	0.63 %
RTFC.....	2	9,619	0.04	—	—	—
Total nonperforming loans.....	4	\$ 239,692	0.85 %	1	\$ 167,708	0.63 %

⁽¹⁾ Represents the unpaid principal balance net of charge-offs and recoveries as of the end of each period.

⁽²⁾ In addition, we had \$3 million letters of credit outstanding to Brazos as of February 28, 2021.

Nonperforming loans increased \$72 million to \$240 million, or 0.85% of total loans outstanding, as of February 28, 2021, from \$168 million, or 0.63% of total loans outstanding, as of May 31, 2020, primarily due to our classification of the loans outstanding of \$82 million to Brazos, a CFC Texas-based power supply borrower, as nonperforming as a result of its bankruptcy filing.

As discussed above, the elevated wholesale electricity prices during the February 2021 polar vortex had a significant adverse financial impact on two CFC Texas-based electric power supply borrowers. On March 1, 2021, we were informed that Brazos filed for Chapter 11 bankruptcy protection. We had exposure to Brazos totaling \$85 million as of February 28, 2021, consisting of unsecured loans outstanding of \$82 million and letters of credit of \$3 million, pursuant to a \$500 million syndicated revolving credit agreement administered by Bank of America. As a result of draws on the letters of credit in March 2021, subsequent to Brazos' bankruptcy filing, we currently have unsecured loans outstanding to Brazos of \$85 million. We downgraded Brazos' borrower risk rating from a rating within the pass category to doubtful, classified its loans outstanding of \$82 million as of February 28, 2021 as nonperforming, placed the loans on nonaccrual status, and reversed unpaid interest amounts previously accrued and recognized in interest income. In addition to Brazos, we classified loans outstanding to two affiliated RTFC telecommunications borrowers totaling \$10 million as nonperforming as of February 28, 2021.

Under the terms of the syndicated Bank of America revolving credit agreement, in the event of bankruptcy by Brazos, each lending participant is permitted to hold any deposited or investment funds from Brazos, up to the amount of the participant's exposure to Brazos pursuant to the agreement, for set off against such exposure to Brazos. The total so held by all participants is required to be shared among the participants in accordance with the pro rata share of each participant in the agreement. As of the bankruptcy filing date, funds on deposit from or invested by Brazos with participating lenders of the agreement, available for set off against Brazos's obligations, totaled \$117 million. Based on our exposure of \$85 million under the \$500 million syndicated Bank of America agreement, our pro rata share set-off right is 17%, or approximately \$20 million. The set-off rights have been agreed to and confirmed by Brazos and the bankruptcy court, subject only to challenge by parties other than Brazos until May 16, 2021, and subject to extension beyond this date by order of the court. In order to allow Brazos to access such deposited or invested funds, the lenders have been granted adequate protection liens and super-priority claims in an amount equal to the diminution of value of the amount available for set off.

One loan to another CFC power supply borrower, with an outstanding balance of \$148 million and \$168 million as of February 28, 2021 and May 31, 2020, respectively, accounted for the substantial majority of nonperforming loans as of February 28, 2021, and the entire amount of nonperforming loans as of May 31, 2020. Under the terms of this loan, which matures in December 2026, the amount the borrower is required to pay in 2024 and 2025 may vary, as the payments are contingent on the borrower's financial performance in those years. Based on our review and assessment of the borrower's most recent forecast and underlying assumptions provided to us in May 2020, we no longer believed that the future expected

cash payments from the borrower through the maturity of the loan in December 2026 would be sufficient to repay the outstanding loan balance. We therefore classified this loan as nonperforming, placed the loan on nonaccrual status and established an asset-specific allowance for credit losses as of May 31, 2020. We received payments from the borrower on this loan during the current year-to-date period, reducing the outstanding balance to \$148 million as of February 28, 2021. While the borrower is not in default and was current with respect to required payments on the loan as of February 28, 2021, we have continued to report the loan as nonperforming.

Net Charge-Offs

We had no loan charge-offs during the nine months ended February 28, 2021, nor during the same prior year-to-date period. Prior to Brazos' bankruptcy filing, we had not experienced any defaults or charge-offs in our electric utility and telecommunications loan portfolios since fiscal year 2013 and 2017, respectively. In addition, we had no delinquent loans as of either February 28, 2021 or May 31, 2020. However, as a result of its bankruptcy filing, we expect that Brazos will be unable to make future scheduled loan payments without approval of the bankruptcy court.

In its 51-year history, CFC has experienced only 17 defaults in its electric utility loan portfolio, including the most recent default by Brazos. Of the 16 defaults prior to the Brazos default, 10 resulted in no loss, six resulted in cumulative net charge-offs of \$86 million in our electric utility loan portfolio. Of this amount, \$67 million was attributable to electric utility power supply cooperatives and \$19 million was attributable to electric distribution cooperatives. We cite the factors that have historically contributed to the relatively low risk of default by our electric utility cooperatives, our principal lending market, above under "Credit Risk—Loan Portfolio Credit Risk."

In comparison, since inception in 1987, RTFC has experienced 15 defaults and cumulative net charge-offs of \$427 million in our telecommunications loan portfolio, the most significant of which was a charge-off of \$354 million in fiscal year 2011. We recorded this charge-off, which related to loans outstanding to Innovative Communications Corporation ("ICC"), a former RTFC member, pursuant to the transfer of ICC's assets in foreclosure to Caribbean Asset Holdings, LLC.

Borrower Risk Ratings

As part of our management of credit risk, we maintain a credit risk rating framework under which we employ a consistent process for assessing the credit quality of our loan portfolio. We evaluate each borrower and loan facility in our loan portfolio and assign internal borrower and loan facility risk ratings based on consideration of a number of quantitative and qualitative factors. Each risk rating is reassessed annually following the receipt of the borrower's audited financial statements; however, interim risk-rating adjustments may occur as a result of updated information affecting a borrower's ability to fulfill its obligations or other significant developments and trends. We categorize loans in our portfolio based on our internally assigned borrower risk ratings, which are intended to assess the general credit worthiness of the borrower and probability of default. Our borrower risk ratings align with the U.S. federal banking regulatory agencies credit risk definitions of pass and criticized categories, with the criticized category further segmented among special mention, substandard and doubtful. Pass ratings reflect relatively low probability of default, while criticized ratings have a higher probability of default.

We use our internal risk ratings to measure the credit risk of each borrower and loan facility, identify or confirm problem or potential problem loans in a timely manner, differentiate risk within each of our portfolio segments, assess the overall credit quality of our loan portfolio and manage overall risk levels. Our internally assigned borrower risk ratings, which we map to equivalent credit ratings by external credit rating agencies, serve as the primary credit quality indicator for our loan portfolio. Because our internal borrower risk ratings provide important information on the probability of default, they are a key input in estimating our allowance for credit losses.

Criticized loans increased \$645 million to \$1,016 million as of February 28, 2021, from \$371 million and May 31, 2020, representing approximately 4% and 1% of total loans outstanding as of each respective date. The increase was primarily due to material current quarter borrower risk rating downgrades of Brazos and an additional CFC Texas-based electric power supply borrower, which had loans outstanding of \$82 million and \$383 million, respectively, as of February 28, 2021. As discussed above, these electric power supply borrowers had insufficient generation supply during the February 2021 polar vortex and were forced, at the height of the surge in power prices, to purchase power at peak prices to meet the electric demand of their member distribution customers, resulting in a bankruptcy filing by Brazos in March 2021. As a result, we

downgraded the risk rating for each of these Texas-based electric power supply borrowers from a previous rating within the pass category to a rating within the criticized category. The increase also reflects the impact of a risk rating downgrade of an electric distribution borrower, which had outstanding loans of \$190 million as of February 28, 2021, from pass to criticized in the second quarter of fiscal year 2021. The downgrade of this electric distribution borrower was attributable to the adverse financial impact from restoration costs incurred to repair damage caused by two successive hurricanes. Each of these borrowers was current with regard to scheduled principal and interest amounts due as of February 28, 2021. However, as a result of its bankruptcy filing, we expect that Brazos will be unable to make future scheduled loan payments without approval of the bankruptcy court.

We provide additional information on our borrower risk rating classifications, including the loans outstanding amount in each of the criticized loan categories of special mention, substandard and doubtful, in “Note 1—Summary of Significant Accounting” and “Note 4—Loans.”

Allowance for Credit Losses

As discussed above, we adopted the CECL accounting standard on June 1, 2020, which resulted in an increase in our allowance for credit losses for our loan portfolio of \$4 million and a corresponding decrease to retained earnings of \$4 million recorded through a cumulative-effect adjustment. The impact on the reserve for credit losses for our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees was not material. Under CECL, we are required to maintain an allowance based on a current estimate of credit losses that are expected to occur over the remaining contractual term of the loans in our portfolio. Prior to the adoption of CECL on June 1, 2020, we maintained an allowance based on an estimate of probable incurred losses inherent in our loan portfolio as of each balance sheet date.

Table 24 summarizes changes in the allowance for credit losses for the three and nine months ended February 28, 2021 and February 29, 2020, and presents the allowance components and allowance coverage ratios as of February 28, 2021 and May 31, 2020. The changes in the allowance and the allowance components prior to our adoption of CECL on June 1, 2020 are based on the incurred loss model for estimating the allowance for credit losses. The allowance components, which consist of a collective allowance and an asset-specific allowance, are based on the evaluation method used to measure our loans for credit losses. Loans that share similar risk characteristics are evaluated on a collective basis in measuring credit losses, while loans that do not share similar risk characteristics with other loans in our portfolio are evaluated on an individual basis.

Table 24: Allowance for Credit Losses

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Beginning balance	\$ 58,989	\$ 16,520	\$ 53,125	\$ 17,535
Cumulative-effect adjustment from adoption of CECL accounting standard	—	—	3,900	—
Beginning balance, adjusted	58,989	16,520	57,025	17,535
Provision for credit losses	33,023	2,382	34,987	1,367
Ending balance	<u>\$ 92,012</u>	<u>\$ 18,902</u>	<u>\$ 92,012</u>	<u>\$ 18,902</u>
			February 28, 2021	May 31, 2020
Allowance for credit losses by company:				
CFC			\$ 83,844	\$ 47,438
NCSC			1,657	806
RTFC			6,511	4,881
Total allowance for credit losses			<u>\$ 92,012</u>	<u>\$ 53,125</u>
Allowance components:				
Collective allowance			\$ 50,085	\$ 18,292
Asset-specific allowance			41,927	34,833
Total allowance for credit losses			<u>\$ 92,012</u>	<u>\$ 53,125</u>
Loans outstanding:				
Collectively evaluated loans			\$ 28,065,883	\$ 26,512,298
Individually evaluated loans			249,788	178,556
Total loans outstanding ⁽¹⁾			<u>\$ 28,315,671</u>	<u>\$ 26,690,854</u>
Allowance coverage ratios:				
Collective allowance coverage ratio ⁽²⁾			0.18 %	0.07 %
Asset-specific allowance coverage ratio ⁽³⁾			16.79	19.51
Total allowance coverage ratio ⁽⁴⁾			0.32	0.20
Percentage of TDR loans ⁽⁵⁾			911.37	489.77
Percentage of nonperforming loans ⁽⁶⁾			38.39	31.68
Percentage of nonaccrual loans ⁽⁷⁾			38.39	31.68

⁽¹⁾Represents the unpaid principal balance, net of charge-offs and recoveries, of loans as of each period end. Excludes unamortized deferred loan origination costs of \$11 million as of both February 28, 2021 and May 31, 2020.

⁽²⁾Calculated based on the collective allowance component at period end divided by collectively evaluated loans outstanding at period end.

⁽³⁾Calculated based on the asset-specific allowance component at period end divided by individually evaluated loans outstanding at period end.

⁽⁴⁾Calculated based on the total allowance for credit losses at period end divided by total loans outstanding at period end.

⁽⁵⁾Calculated based on the total allowance for credit losses at period end divided by TDR loans outstanding at period end.

⁽⁶⁾Calculated based on the total allowance for credit losses at period end divided by loans outstanding classified as nonperforming at period end.

⁽⁷⁾Calculated based on the total allowance for credit losses at period end divided by loans outstanding on nonaccrual status at period end.

As discussed above in “Executive Summary—Credit Quality,” the allowance for credit losses and allowance coverage ratio increased to \$92 million and 0.32%, respectively, as of February 28, 2021, from \$53 million and 0.20%, respectively, as of May 31, 2020, primarily due to the current quarter addition to the allowance of \$33 million attributable to a significant adverse financial impact on two CFC Texas-based electric power supply members due to their exposure to elevated power costs during the February 2021 polar vortex. In addition, at adoption of CECL on June 1, 2020, we recorded an increase in the allowance for credit losses of \$4 million.

We discuss our methodology for estimating the allowance for credit losses under CECL in “Note 1—Summary of Significant Accounting Policies.” See “Note 4—Loans” and “Note 5—Allowance for Credit Losses” for additional information.

Counterparty Credit Risk

We are exposed to counterparty credit risk related to the performance of the parties with which we enter into financial transactions, primarily for derivative instruments, cash and time deposit accounts and our investment security holdings. To mitigate this risk, we only enter into these transactions with financial institutions with investment-grade ratings. Our cash and time deposits with financial institutions generally have an original maturity of less than one year.

We manage our derivative counterparty credit risk by monitoring the overall credit worthiness of each counterparty based on our internal counterparty credit risk scoring model; using counterparty-specific credit risk limits; executing master netting arrangements; and diversifying our derivative transactions among multiple counterparties. We also require that our derivative counterparties be a participant in one of our committed bank revolving line of credit agreements. Our active derivative counterparties had credit ratings ranging from Aa2 to Baa2 by Moody’s and from AA- to A- by S&P as of February 28, 2021. Our largest counterparty exposure, based on the outstanding notional amount, represented approximately 24% and 25% of the total outstanding notional amount of derivatives as of February 28, 2021 and May 31, 2020, respectively.

Credit Risk-Related Contingent Features

Our derivative contracts typically contain mutual early-termination provisions, generally in the form of a credit rating trigger. Under the mutual credit rating trigger provisions, either counterparty may, but is not obligated to, terminate and settle the agreement if the credit rating of the other counterparty falls below a level specified in the agreement. If a derivative contract is terminated, the amount to be received or paid by us would be equal to the prevailing fair value, as defined in the agreement, as of the termination date.

Our senior unsecured credit ratings from Moody’s, S&P, and Fitch were A2, A and A, respectively, as of February 28, 2021. Moody’s, S&P and Fitch had our ratings on stable outlook as of February 28, 2021. As discussed below under “Liquidity Risk—Credit Ratings,” on March 5, 2021, S&P downgraded our senior unsecured credit ratings from A to A- with a negative outlook. No action on our ratings had been taken by Moody’s or Fitch as of the date of this Report. Table 25 displays the outstanding notional amounts of our derivative contracts with rating triggers as of February 28, 2021, and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty’s unsecured credit ratings below A3/A-, below Baa1/BBB+, to or below Baa2/BBB, or to or below Ba2/BB+ by Moody’s or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the counterparty’s master netting agreements. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

Table 25: Rating Triggers for Derivatives

(Dollars in thousands)	Notional Amount	Payable Due From CFC	Receivable Due to CFC	Net Payable
Impact of rating downgrade trigger:				
Falls below A3/A- ⁽¹⁾	\$ 41,080	\$ (8,915)	\$ —	\$ (8,915)
Falls below Baa1/BBB+.....	6,078,270	(347,307)	—	(347,307)
Falls to or below Baa2/BBB ⁽²⁾	412,095	(16,592)	—	(16,592)
Total.....	<u>\$ 6,531,445</u>	<u>\$ (372,814)</u>	<u>\$ —</u>	<u>\$ (372,814)</u>

⁽¹⁾ Rating trigger for CFC falls below A3/A-, while rating trigger for counterparty falls below Baa1/BBB+ by Moody’s or S&P, respectively.

⁽²⁾ Rating trigger for CFC falls to or below Baa2/BBB, while rating trigger for counterparty falls to or below Ba2/BB+ by Moody’s or S&P, respectively.

Table 25 does not include an interest rate swap agreement with one counterparty that is subject to a ratings trigger and early termination provision in the event of a downgrade of CFC's senior unsecured credit ratings below Baa3, BBB- or BBB- by Moody's, S&P or Fitch. The outstanding notional amount of interest rate swaps with this counterparty totaled \$221 million as of February 28, 2021, and the swaps were in an unrealized loss position of \$26 million as of February 28, 2021.

The aggregate fair value amount, including the credit valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was \$389 million as of February 28, 2021, compared with \$798 million as of May 31, 2020. There were no counterparties that fell below the rating trigger levels in our interest swap contracts as of February 28, 2021. If a counterparty has a credit rating that falls below the rating trigger level specified in the interest swap contract, we have the option to terminate all derivatives with the counterparty. However, we generally do not terminate such agreements prior to maturity because our interest rate swaps are critical to our matched funding strategy to mitigate interest rate risk.

See "Item 1A. Risk Factors" in our 2020 Form 10-K and "Item 1A. Risk Factors" in this Report for additional information about credit risks related to our business.

LIQUIDITY RISK

We define liquidity as the ability to convert assets into cash quickly and efficiently, maintain access to readily available funding and to roll-over or issue new debt under normal operating conditions and periods of CFC-specific and/or market stress, to ensure that we can meet borrower loan requests, pay current and future obligations and fund our operations on a cost-effective basis. Our primary sources of liquidity include cash flows from operations, debt securities held in our investment portfolio, member loan repayments, committed bank revolving lines of credit, committed loan facilities under the Guaranteed Underwriter Program, revolving note purchase agreements with Farmer Mac and our ability to issue debt in the capital markets, to our members and in private placements. We provide information on our liquidity risk-management framework and activities undertaken to manage liquidity risk under "Item 7. MD&A—Liquidity Risk—Liquidity Risk Management" in our 2020 Form 10-K.

Available Liquidity

As part of our strategy in managing liquidity risk and meeting our liquidity objectives, we seek to maintain a substantial level of on-balance sheet and off-balance sheet sources of liquidity that are readily available for access to meet our near-term liquidity needs. Table 26 presents the sources of available liquidity as of February 28, 2021 and May 31, 2020.

Table 26: Available Liquidity

(Dollars in millions)	February 28, 2021			May 31, 2020		
	Total	Accessed	Available	Total	Accessed	Available
Liquidity sources:						
Cash and cash equivalents	\$ 170	\$ —	\$ 170	\$ 671	\$ —	\$ 671
Debt securities investment portfolio ⁽¹⁾	575	—	575	309	—	309
Committed bank revolving line of credit agreements—unsecured ⁽²⁾	2,725	3	2,722	2,725	3	2,722
Guaranteed Underwriter Program committed facilities—secured ⁽³⁾	8,173	6,898	1,275	7,798	6,898	900
Farmer Mac revolving note purchase agreement dated March 24, 2011, as amended—secured ⁽⁴⁾	5,500	2,676	2,824	5,500	3,060	2,440
Total available liquidity	<u>\$ 17,143</u>	<u>\$ 9,577</u>	<u>\$ 7,566</u>	<u>\$ 17,003</u>	<u>\$ 9,961</u>	<u>\$ 7,042</u>

⁽¹⁾Our portfolio of equity securities consists primarily of preferred stock securities that are not as readily redeemable; therefore, we have excluded our portfolio of equity securities from our sources of available liquidity.

⁽²⁾The committed bank revolving line of credit agreements consist of a three-year and a five-year revolving line of credit agreement. The accessed amount of \$3 million as of both February 28, 2021 and May 31, 2020, relates to letters of credit issued pursuant to the five-year revolving line of credit agreement.

⁽³⁾The committed facilities under the Guaranteed Underwriter Program are not revolving.

⁽⁴⁾Availability subject to market conditions.

Borrowing Capacity Under Current Facilities

Following is a discussion of our borrowing capacity and key terms and conditions under our revolving line of credit agreements with banks and committed loan facilities under the Guaranteed Underwriter Program and revolving note purchase agreements with Farmer Mac.

Committed Bank Revolving Line of Credit Agreements—Unsecured

Our committed bank revolving lines of credit may be used for general corporate purposes; however, we generally rely on them as a backup source of liquidity for our member and dealer commercial paper. We had \$2,725 million of commitments under committed bank revolving line of credit agreements as of February 28, 2021. Under our current committed bank revolving line of credit agreements, we have the ability to request up to \$300 million of letters of credit, which would result in a reduction in the remaining available amount under the facilities.

Table 27 presents the total commitment amount under our committed bank revolving line of credit agreements, outstanding letters of credit and the amount available for access as of February 28, 2021. We did not have any outstanding borrowings under our bank revolving line of credit agreements as of February 28, 2021.

Table 27: Committed Bank Revolving Line of Credit Agreements

(Dollars in millions)	February 28, 2021			Maturity	Annual Facility Fee ⁽¹⁾
	Total Commitment	Letters of Credit Outstanding	Available Amount		
3-year agreement.....	\$ 1,315	\$ —	\$ 1,315	November 28, 2022	7.5 bps
5-year agreement.....	1,410	3	1,407	November 28, 2023	10 bps
Total.....	<u>\$ 2,725</u>	<u>\$ 3</u>	<u>\$ 2,722</u>		

⁽¹⁾Facility fee based on CFC’s senior unsecured credit ratings in accordance with the established pricing schedules at the inception of the related agreement.

Our committed bank revolving line of credit agreements do not contain a material adverse change clause or rating triggers that would limit the banks’ obligations to provide funding under the terms of the agreements; however, we must be in compliance with the covenants to draw on the facilities. We have been and expect to continue to be in compliance with the covenants under our committed bank revolving line of credit agreements. As such, we could draw on these facilities to repay dealer or member commercial paper that cannot be rolled over. See “Financial Ratios and Debt Covenants” below for additional information, including the specific financial ratio requirements under our committed bank revolving line of credit agreements.

Guaranteed Underwriter Program Committed Facilities—Secured

Under the Guaranteed Underwriter Program, we can borrow from the Federal Financing Bank and use the proceeds to make new loans and refinance existing indebtedness. As part of the program, we pay fees, based on outstanding borrowings supporting the USDA Rural Economic Development Loan and Grant program. The borrowings under this program are guaranteed by RUS.

On November 19, 2020, we closed on a \$375 million committed loan facility (“Series R”) from the Federal Financing Bank under the Guaranteed Underwriter Program. Pursuant to this facility, we may borrow any time before July 15, 2025. Each advance is subject to quarterly amortization and a final maturity not longer than 30 years from the date of the advance. This new commitment increases total funding available to CFC under committed loan facilities from the FFB to \$1,275 million. Of this amount, \$400 million is available for advance through July 15, 2023, \$500 million is available for advance through July 15, 2024 and \$375 million is available for advance through July 15, 2025.

The notes payable to the Federal Financing Bank and guaranteed by RUS under the Guaranteed Underwriter Program contain a provision that if during any portion of the fiscal year, our senior secured credit ratings do not have at least two of the following ratings: (i) A3 or higher from Moody's, (ii) A- or higher from S&P, (iii) A- or higher from Fitch or (iv) an equivalent rating from a successor rating agency to any of the above rating agencies, we may not make cash patronage capital distributions in excess of 5% of total patronage capital.

We are required to pledge eligible distribution system loans or power supply system loans as collateral in an amount at least equal to the total outstanding borrowings under the Guaranteed Underwriter Program. See "Consolidated Balance Sheet Analysis—Debt—Collateral Pledged" and "Note 4—Loans" for additional information on pledged collateral.

Farmer Mac Revolving Note Purchase Agreement—Secured

As indicated in Table 26, we have a revolving note purchase agreement with Farmer Mac, dated March 24, 2011, as amended, under which we can borrow up to \$5,500 million from Farmer Mac at any time, subject to market conditions, through January 11, 2022. This date automatically extends on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides us with a notice that the draw period will not be extended beyond the remaining term. Pursuant to the terms of the Farmer Mac revolving note purchase agreement, we can borrow, repay and re-borrow funds at any time through maturity, as market conditions permit, provided that the outstanding principal amount at any time does not exceed the total available under the agreement. Under this agreement, we had outstanding secured notes payable totaling \$2,676 million and \$3,060 million as of February 28, 2021 and May 31, 2020, respectively. We borrowed \$125 million under this note purchase agreement with Farmer Mac during the current quarter. The amount available for borrowing under this agreement was \$2,824 million as of February 28, 2021.

We are required to pledge eligible electric distribution system or electric power supply system loans as collateral in an amount at least equal to the total principal amount of notes outstanding under this agreement. See "Consolidated Balance Sheet Analysis—Debt—Collateral Pledged" and "Note 4—Loans" for additional information on pledged collateral.

Short-Term Borrowings and Long-Term and Subordinated Debt

Additional funding is provided by short-term borrowings and issuances of long-term and subordinated debt. We rely on short-term borrowings as a source to meet our daily, near-term funding needs. Long-term and subordinated debt represents the most significant component of our funding. The issuance of long-term debt allows us to reduce our reliance on short-term borrowings and effectively manage our refinancing and interest rate risk.

Short-Term Borrowings

Our short-term borrowings consist of commercial paper, which we offer to members and dealers, select notes and daily liquidity fund notes offered to members, and bank-bid notes and medium-term notes offered to members and dealers. Short-term borrowings increased \$446 million to \$4,408 million as of February 28, 2021, driven by higher member investments and issuances of dealer commercial paper.

Table 28 displays the composition, by funding source, of our short-term borrowings as of February 28, 2021 and May 31, 2020. Member borrowings accounted for 85% of total short-term borrowings as of February 28, 2021, compared with 94% of total short-term borrowings as of May 31, 2020.

Table 28: Short-Term Borrowings—Funding Sources

(Dollars in thousands)	February 28, 2021		May 31, 2020	
	Amount Outstanding	% of Total Short-Term Borrowings	Amount Outstanding	% of Total Short-Term Borrowings
Funding source:				
Members	\$ 3,752,969	85 %	\$ 3,711,985	94 %
Private placement—Farmer Mac notes payable	—	—	250,000	6
Capital markets	654,988	15	—	—
Total	<u>\$ 4,407,957</u>	<u>100 %</u>	<u>\$ 3,961,985</u>	<u>100 %</u>

Table 29 displays the composition, by product type, of short-term borrowings as of February 28, 2021 and May 31, 2020.

Table 29: Short-Term Borrowings

(Dollars in thousands)	February 28, 2021		May 31, 2020	
	Amount Outstanding	% of Total Debt Outstanding	Amount Outstanding	% of Total Debt Outstanding
Short-term borrowings:				
Commercial paper:				
Commercial paper to dealers, net of discounts	\$ 654,988	2 %	\$ —	— %
Commercial paper to members, at par	1,371,796	5	1,318,566	5
Total commercial paper	2,026,784	7	1,318,566	5
Select notes to members	1,370,795	5	1,597,959	6
Daily liquidity fund notes to members	678,792	3	508,618	2
Medium-term notes sold to members	331,586	1	286,842	1
Farmer Mac notes payable	—	—	250,000	1
Total short-term borrowings	<u>\$ 4,407,957</u>	<u>16 %</u>	<u>\$ 3,961,985</u>	<u>15 %</u>

Our short-term borrowings of \$4,408 million accounted for 16% of total debt outstanding as of February 28, 2021, compared with \$3,962 million and 15% of total debt outstanding as of May 31, 2020. Our intent is to manage our short-term wholesale funding risk by maintaining outstanding dealer commercial paper at an amount below \$1,250 million for the foreseeable future. Outstanding dealer commercial paper totaled \$655 million as of February 28, 2021, which was below our target threshold. We had no outstanding dealer commercial paper as of May 31, 2020.

Long-Term and Subordinated Debt

In addition to access to private debt facilities, we also issue debt in the public capital markets. Pursuant to Rule 405 of the Securities Act, we are classified as a “well-known seasoned issuer.” Under our effective shelf registration statements filed with the SEC, we may offer and issue the following debt securities:

- an unlimited amount of collateral trust bonds until October 2023;
- an unlimited amount of senior and subordinated debt securities, including medium-term notes, member capital securities and subordinated deferrable debt, until October 2023; and
- daily liquidity fund notes up to \$20,000 million in the aggregate—with a \$3,000 million limit on the aggregate principal amount outstanding at any time—until March 2022.

As discussed in “Consolidated Balance Sheet Analysis—Debt,” long-term and subordinated debt of \$22,799 million and \$22,038 million as of February 28, 2021 and May 31, 2020, respectively, accounted for 84% and 85% of total debt outstanding as of each respective date. Table 30 summarizes long-term and subordinated debt issuances and repayments during the nine months ended February 28, 2021.

Table 30: Long-Term and Subordinated Debt Issuances and Repayments

(Dollars in thousands)	Nine Months Ended February 28, 2021		
	Issuances	Repayments ⁽¹⁾	Change
Long-term and subordinated debt activity:			
Collateral trust bonds	\$ 750,000	\$ 755,000	\$ (5,000)
Guaranteed Underwriter Program notes payable	—	231,422	(231,422)
Farmer Mac notes payable	125,000	258,657	(133,657)
Medium-term notes sold to members	89,512	163,917	(74,405)
Medium-term notes sold to dealers	1,430,931	141,184	1,289,747
Other notes payable	—	3,564	(3,564)
Members’ subordinated certificates	14,287	82,291	(68,004)
Total	<u>\$ 2,409,730</u>	<u>\$ 1,636,035</u>	<u>\$ 773,695</u>

⁽¹⁾ Repayments include principal maturities, scheduled amortization payments, repurchases and redemptions.

Table 31 summarizes the scheduled amortization and maturities of the principal amount of long-term debt, subordinated deferrable debt and members’ subordinated certificates outstanding as of February 28, 2021, in each fiscal year during the five-year period ending May 31, 2025, and thereafter.

Table 31: Long-Term and Subordinated Debt Principal Maturity and Amortization

(Dollars in thousands)	Scheduled Amortization ⁽¹⁾	% of Total
Fiscal year ending May 31:		
2021	\$ 608,058	3 %
2022	2,622,027	11
2023	1,595,245	7
2024	1,647,935	7
2025	837,741	4
Thereafter	15,787,022	68
Total	<u>\$ 23,098,028</u>	<u>100 %</u>

⁽¹⁾ Member loan subordinated certificates totaling \$192 million amortize annually based on the unpaid principal balance of the related loan.

We provide additional information on our financing activities above under “Consolidated Balance Sheet Analysis—Debt.”

Debt Securities Investment Portfolio

We have an investment portfolio of debt securities, which are classified as trading, that serves as an additional source of liquidity. Our debt securities investment portfolio increased \$265 million to \$575 million as of February 28, 2021, from \$309 million as of May 31, 2020, largely due to the purchase of additional securities during the current year-to-date period. During the fourth quarter of fiscal year 2020, we executed a plan for the orderly liquidation of a portion of our debt securities from our investment portfolio due to volatility in the financial markets in mid-March 2020 and the potential for future disruptions caused by the COVID-19 pandemic. As volatility across financial markets stabilized during the first quarter of our fiscal year 2021, we gradually purchased additional securities to restore the amount of our investment portfolio to a level more comparable with the level prior to the liquidation.

Our debt securities investment portfolio is unencumbered and structured so that the securities generally have active secondary or resale markets under normal market conditions. The objective of the portfolio is to achieve returns commensurate with the level of risk assumed subject to CFC’s investment policy and guidelines and liquidity requirements. Pursuant to our investment policy and guidelines, all fixed-income debt securities, at the time of purchase, must be rated at least investment grade and on stable outlook based on external credit ratings from at least two of the leading global credit rating agencies, when available, or the corresponding equivalent, when not available. Securities rated investment grade, that is those rated Baa3 or higher by Moody’s or BBB- or higher by S&P or BBB- or higher by Fitch, are generally considered by the rating agencies to be of lower credit risk than non-investment grade securities.

We provide additional information on our investment securities in “Note 3—Investment Securities.”

Projected Near-Term Sources and Uses of Liquidity

As discussed above, our primary sources of liquidity include cash flows from operations, member loan repayments, committed bank revolving lines of credit, committed loan facilities, short-term borrowings and funds from the issuance of long-term and subordinated debt. Our primary uses of liquidity include loan advances to members, principal and interest payments on borrowings, periodic settlement payments related to derivative contracts, and operating expenses.

Table 32 below displays our projected sources and uses of cash from debt and investment activity, by quarter, over the next six quarters through the quarter ending August 31, 2022. Our assumptions also include the following: (i) the estimated issuance of long-term debt, including collateral trust bonds and private placement of term debt, is based on maintaining a matched funding position within our loan portfolio with our bank revolving lines of credit serving as a backup liquidity facility for commercial paper and on maintaining outstanding dealer commercial paper at an amount below \$1,250 million; (ii) long-term loan scheduled amortization payments represent the scheduled long-term loan payments for loans outstanding as of February 28, 2021, and our current estimate of long-term loan prepayments, which the amount and timing of are subject to change; (iii) other loan repayments and other loan advances primarily relate to line of credit repayments and advances; (iv) long-term debt maturities reflect scheduled maturities of outstanding term debt for the periods presented; and (v) long-term loan advances reflect our current estimate of member demand for loans, the amount and timing of which are subject to change.

Table 32: Projected Sources and Uses of Liquidity from Debt and Investment Activity⁽¹⁾

	Projected Sources of Liquidity				Projected Uses of Liquidity					
	Long-Term Debt Issuance	Anticipated Long-Term Loan Repayments ⁽²⁾	Other Long-Term Repayments ⁽³⁾	Total Projected Sources of Liquidity	Long-Term Debt Maturities ⁽⁴⁾	Long-Term Loan Advances	Other Loan Advances ⁽⁵⁾	Total Projected Uses of Liquidity	Other Sources/ (Uses) of Liquidity ⁽⁶⁾	
4Q FY2021...	\$ 300	\$ 354	\$ 132	\$ 786	\$ 707	\$ 544	\$ 268	\$ 1,519	\$ 608	
1Q FY2022...	683	353	20	1,056	548	663	116	1,327	262	
2Q FY2022...	357	339	60	756	398	424	103	925	116	
3Q FY2022...	1,821	403	30	2,254	1,352	607	95	2,054	(230)	
4Q FY2022...	207	336	225	768	549	396	87	1,032	196	
1Q FY2023...	233	346	—	579	292	527	—	819	249	
Total.....	\$ 3,601	\$ 2,131	\$ 467	\$ 6,199	\$ 3,846	\$ 3,161	\$ 669	\$ 7,676	\$ 1,201	

⁽¹⁾ The dates presented represent the end of each quarterly period through the quarter ended August 31, 2022.

⁽²⁾ Anticipated long-term loan repayments include scheduled long-term loan amortizations, anticipated cash repayments at repricing date and loan sales.

⁽³⁾ Other loan repayments include anticipated short-term loan repayments.

⁽⁴⁾ Long-term debt maturities also include medium-term notes with an original maturity of one year or less and expected early redemptions of debt.

⁽⁵⁾Other loan advances include anticipated short-term loan advances.

⁽⁶⁾Includes net increase or decrease to dealer commercial paper, member commercial paper and select notes, and purchases and maturity of investments.

As displayed in Table 32, we currently project long-term advances of \$2,238 million over the next 12 months, which we anticipate will exceed anticipated long-term loan repayments over the same period of \$1,449 million by approximately \$789 million. The estimates presented above are developed at a particular point in time based on our expected future business growth and funding. Our actual results and future estimates may vary, perhaps significantly, from the current projections, as a result of changes in market conditions, management actions or other factors.

Credit Ratings

Our funding and liquidity, borrowing capacity, ability to access capital markets and other sources of funds and the cost of these funds are partially dependent on our credit ratings. Rating agencies base their ratings on numerous factors, including liquidity, funding diversity, capital adequacy, industry position, member support, management, asset quality, earnings stability and the probability of systemic support. Significant changes in these factors could result in different ratings.

On March 5, 2021, S&P issued a downgrade of our long-term issuer credit rating, citing a shift from “Strong” to “Adequate” in its view of CFC’s risk position due to CFC’s loan portfolio concentration in the State of Texas. S&P also revised its outlook on CFC to negative based on the potential for additional elevated credit stress posed by Texas electric cooperatives due to the February 2021 polar vortex. The downgrade of CFC’s long-term issuer credit rating by S&P resulted in a downgrade of: (i) our senior secured and senior unsecured debt ratings to A- from A; (ii) our subordinated debt rating to BBB from BBB+; and (iii) our short-term issuer credit and commercial paper ratings to A-2 from A-1, each with a negative outlook. Table 33 displays our credit ratings as of February 28, 2021, and as of the date of the filing of this Report. Our credit ratings by Moody’s and Fitch remain unchanged from May 31, 2020, and as of the date of this Report.

Table 33: Credit Ratings

	February 28, 2021			April 13, 2021		
	Moody’s	S&P	Fitch	Moody’s	S&P	Fitch
Long-term issuer credit rating ⁽¹⁾	A2	A	A	A2	A-	A
Senior secured debt ⁽²⁾	A1	A	A+	A1	A-	A+
Senior unsecured debt ⁽³⁾	A2	A	A	A2	A-	A
Subordinated debt.....	A3	BBB+	BBB+	A3	BBB	BBB+
Commercial paper.....	P-1	A-1	F1	P-1	A-2	F1
Outlook.....	Stable	Stable	Stable	Stable	Negative	Stable

⁽¹⁾Based on our senior unsecured debt rating.

⁽²⁾Applies to our collateral trust bonds.

⁽³⁾Applies to our medium-term notes.

The current split ratings have no impact on the pricing of our bank revolving credit facilities, and we do not believe that the current split ratings have a material impact on our access to the commercial paper markets or on our ability to issue long-term debt in the capital markets. We have, however, experienced a slight increase in the cost of our commercial paper issuances and we also may experience a slight increase in the cost of long-term debt issuances.

See “Credit Risk—Counterparty Credit Risk—Credit Risk-Related Contingent Features” above for information on credit rating provisions related to our derivative contracts.

Financial Ratios

Our debt-to-equity ratio decreased to 22.19 as of February 28, 2021, from 42.40 as of May 31, 2020, primarily due to an increase in equity from our reported net income of \$684 million, which was partially offset by a decrease in equity from the retirement of patronage capital of \$60 million authorized by the CFC Board of Directors in July 2020 and paid to members in September 2020.

Our adjusted debt-to-equity ratio increased above our targeted threshold of 6.00-to-1 to 6.21 as of February 28, 2021, from 5.85 as of May 31, 2020. The increase was primarily attributable to an increase in adjusted liabilities due to additional borrowings to fund growth in our loan portfolio.

Debt Covenants

As part of our short-term and long-term borrowing arrangements, we are subject to various financial and operational covenants. If we fail to maintain specified financial ratios, such failure could constitute a default by CFC of certain debt covenants under our committed bank revolving line of credit agreements and senior debt indentures. We believe we were in compliance with all covenants and conditions under our committed bank revolving line of credit agreements and senior debt indentures as of February 28, 2021.

As discussed above in “Summary of Selected Financial Data,” the financial covenants set forth in our committed bank revolving line of credit agreements and senior debt indentures are based on adjusted financial measures, including adjusted TIER. We provide a reconciliation of adjusted TIER and other non-GAAP measures disclosed in this Report to the most comparable GAAP measures below in “Non-GAAP Financial Measures.” See “Item 7. MD&A—Non-GAAP Measures” in our 2020 Form 10-K for a discussion of each of our non-GAAP measures and an explanation of the adjustments to derive these measures.

MARKET RISK

Interest rate risk represents our primary source of market risk. Interest rate risk is the risk to current or anticipated earnings or equity arising primarily from movements in interest rates. This risk results from differences between the timing of cash flows on our assets and the liabilities funding those assets. The timing of cash flows of our assets is impacted by re-pricing characteristics, prepayments and contractual maturities. Our interest rate risk exposure is primarily related to the funding of the fixed-rate loan portfolio. We provide a discussion of how we manage interest rate risk in our 2020 Form 10-K under “Item 7. MD&A—Market Risk—Market Risk Management.”

LIBOR Transition

In 2017, the United Kingdom’s Financial Conduct Authority (“FCA”), which regulates the LIBOR index, announced that the FCA intends to stop requesting banks to submit the rates required to calculate LIBOR after the 2021 calendar year.

In November 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation issued a joint statement encouraging financial institutions to cease entering into new contracts that use U.S. dollar-denominated (“USD”) LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, in order to facilitate an orderly, safe and sound LIBOR transition. The joint statement indicated that new contracts entered into before December 31, 2021 should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR’s discontinuation.

In March 2021, the FCA and the Intercontinental Exchange (“ICE”) Benchmark Administration, the administrator for LIBOR, concurrently confirmed the intention to stop requesting banks to submit the rates required to calculate LIBOR after the 2021 calendar year and announced firm target dates for the phase out of various LIBOR tenors. Pursuant to the announcement, one week and two-month LIBOR will cease to be published or lose representativeness immediately after December 31, 2021, and all remaining USD LIBOR tenors will cease to be published or lose representativeness immediately after June 30, 2023.

We established a cross-functional LIBOR working group to identify CFC's exposure, assess the potential risks related to the transition from LIBOR to a new index and develop a strategic transition plan. The LIBOR working group has been closely monitoring and assessing developments with respect to the LIBOR transition and providing regular reports to our Chief Financial Officer and the CFC Board of Directors. An initial assessment of all of CFC's LIBOR-based contracts and financial instruments and the systems, models and processes that may be impacted has been completed. We have confirmed CFC's adherence to the International Swaps and Derivatives Association, Inc. 2020 LIBOR Fallbacks Protocol for our derivative instruments. We plan to stop originating new LIBOR-based loans prior to December 31, 2021, and we have been working to ensure that new LIBOR-based loans and existing LIBOR-based loans otherwise being amended include hardwired fallback language.

We discuss the risks related to the uncertainty as to the nature of potential changes and other reforms associated with the transition away from and expected replacement of LIBOR as a benchmark interest rate in our 2020 Form 10-K under "Item 1A. Risk Factors."

Matched Funding Objective

Our funding objective is to manage the matched funding of asset and liability repricing terms within a range of adjusted total assets (calculated by excluding derivative assets from total assets) deemed appropriate by the Asset Liability Committee based on the current environment and extended outlook for interest rates. We refer to the difference between fixed-rate loans scheduled for amortization or repricing and the fixed-rate liabilities and equity funding those loans as our interest rate gap. Our primary strategies for managing our interest rate risk include the use of derivatives and limiting the amount of fixed-rate assets that can be funded by variable-rate debt to a specified percentage of adjusted total assets based on market conditions. We provide our members with many options on loans with regard to interest rates, the term for which the selected interest rate is in effect and the ability to convert or prepay the loan. Long-term loans generally have maturities of up to 35 years. Borrowers may select fixed interest rates for periods of one year through the life of the loan. We do not match fund the majority of our fixed-rate loans with a specific debt issuance at the time the loans are advanced. We generally fund the amount of fixed-rate assets that exceed fixed-rate debt and members' equity with short-term debt, primarily commercial paper.

Interest Rate Gap Analysis

As part of our asset-liability management, we perform a monthly interest rate gap analysis that provides a comparison between the timing of cash flows, by year, for fixed-rate assets scheduled for amortization and repricing and for fixed-rate liabilities and members' equity maturing. This gap analysis is a useful tool in measuring, monitoring and mitigating the interest rate risk inherent in the funding of fixed-rate assets with variable-rate debt and also helpful in assessing liquidity risk.

Table 34 displays the scheduled amortization and repricing of fixed-rate assets and outstanding fixed-rate liabilities and equity as of February 28, 2021. We exclude variable-rate loans from our interest rate gap analysis, as we do not consider the interest rate risk on these loans to be significant because they are subject to repricing at least monthly. Loans with variable interest rates accounted for 10% and 8% of our total loan portfolio as of February 28, 2021 and May 31, 2020, respectively. Fixed-rate liabilities include debt issued at a fixed rate, as well as variable-rate debt swapped to a fixed rate using interest rate swaps. Fixed-rate debt swapped to a variable rate using interest rate swaps is excluded from the analysis because it is used to match fund our variable-rate loans. With the exception of members' subordinated certificates, which are generally issued with extended maturities, and commercial paper, our liabilities have average maturities that closely match the repricing terms (but not the maturities) of our fixed-rate loans.

Table 34: Interest Rate Gap Analysis

(Dollars in millions)	Prior to 5/31/21	Two Years 6/1/21 to 5/31/23	Two Years 6/1/23 to 5/31/25	Five Years 6/1/25 to 5/31/30	10 Years 6/1/30 to 5/31/40	6/1/40 and Thereafter	Total
Asset amortization and repricing	\$ 407	\$ 3,438	\$ 3,115	\$ 6,519	\$ 8,323	\$ 3,934	\$ 25,736
Liabilities and members' equity:							
Long-term debt ⁽¹⁾⁽²⁾	\$ 738	\$ 4,350	\$ 2,874	\$ 6,911	\$ 6,108	\$ 1,905	\$ 22,886
Subordinated deferrable debt and subordinated certificates ⁽²⁾⁽³⁾	3	396	222	411	159	834	2,025
Members' equity ⁽⁴⁾	—	25	33	117	334	1,194	1,703
Total liabilities and members' equity	<u>\$ 741</u>	<u>\$ 4,771</u>	<u>\$ 3,129</u>	<u>\$ 7,439</u>	<u>\$ 6,601</u>	<u>\$ 3,933</u>	<u>\$ 26,614</u>
Gap ⁽⁵⁾	\$ (334)	\$(1,333)	\$ (14)	\$ (920)	\$ 1,722	\$ 1	\$ (878)
Cumulative gap	(334)	(1,667)	(1,681)	(2,601)	(879)	(878)	
Cumulative gap as a % of total assets	(1.14)%	(5.67)%	(5.71)%	(8.84)%	(2.99)%	(2.98)%	
Cumulative gap as a % of adjusted total assets ⁽⁶⁾ ..	(1.14)	(5.69)	(5.74)	(8.88)	(3.00)	(3.00)	

⁽¹⁾Includes long-term fixed-rate debt and the net impact of our interest rate swaps.

⁽²⁾The maturity presented for debt is based on the call date.

⁽³⁾Represents the amount of subordinated deferrable debt and subordinated certificates allocated to fund fixed-rate assets.

⁽⁴⁾Represents the portion of members' equity and allowance for credit losses allocated to fund fixed-rate assets. See Table 39: Members' Equity below under "Non-GAAP Financial Measures" for a reconciliation of total CFC equity to members' equity.

⁽⁵⁾Calculated based on the amount of assets scheduled for amortization and repricing less total liabilities and members' equity funding those assets.

⁽⁶⁾Adjusted total assets represents total assets reported in our consolidated balance sheets less derivative assets.

When the amount of the cash flows related to fixed-rate assets scheduled for amortization and repricing exceeds the amount of cash flows related to the fixed-rate debt and equity funding those assets, we refer to the difference, or gap, as "warehousing." When the amount of the cash flows related to fixed-rate assets scheduled for amortization and repricing is less than the amount of the cash flows related to the fixed-rate debt and equity funding those assets, we refer to the gap as "prefunding." The amount of the gap is an indication of our interest rate and liquidity risk exposure. Our goal is to maintain an unmatched position related to the cash flows for fixed-rate financial assets within a targeted range of adjusted total assets.

Because the substantial majority of our financial assets are fixed-rate, amortizing loans and these loans are primarily funded with bullet debt and equity, our interest rate gap analysis typically reflects a warehouse position. When we are in a warehouse position, we utilize some short-term borrowings to fund the scheduled amortization and repricing of our financial assets. However, we limit the extent to which we fund our long-term, fixed-rate loans with short-term, variable-rate debt because it exposes us to higher interest rate and liquidity risk.

As indicated above in Table 34, we were in a prefunded position of \$878 million as of February 28, 2021, rather than our typical warehouse position. The prefunded position was primarily attributable to our issuances in February 2021 of long-term fixed-rate debt at an attractive coupon rate.

NON-GAAP FINANCIAL MEASURES

As discussed above in the section “Summary of Selected Financial Data,” in addition to financial measures determined in accordance with GAAP, management evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Below we provide a reconciliation of our adjusted measures presented in this Report to the most comparable GAAP measures. See “Item 7. MD&A—Non-GAAP Measures” in our 2020 Form 10-K for a discussion of each of our non-GAAP measures and an explanation of the adjustments to derive these measures.

Adjusted Operational Financial Measures

Table 35 provides a reconciliation of adjusted interest expense, adjusted net interest income, adjusted total revenue and adjusted net income to the comparable GAAP measures for the three and nine months ended February 28, 2021 and February 29, 2020. These adjusted measures are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 35: Adjusted Financial Measures—Income Statement

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Adjusted interest expense:				
Interest expense	\$ (173,040)	\$ (203,040)	\$ (527,438)	\$ (624,182)
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted interest expense	<u>\$ (202,775)</u>	<u>\$ (217,394)</u>	<u>\$ (613,945)</u>	<u>\$ (663,729)</u>
Adjusted net interest income:				
Net interest income	\$ 105,132	\$ 84,155	\$ 306,817	\$ 240,065
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted net interest income	<u>\$ 75,397</u>	<u>\$ 69,801</u>	<u>\$ 220,310</u>	<u>\$ 200,518</u>
Adjusted total revenue:				
Total revenue	\$ 108,951	\$ 87,802	\$ 320,484	\$ 258,495
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted total revenue	<u>\$ 79,216</u>	<u>\$ 73,448</u>	<u>\$ 233,977</u>	<u>\$ 218,948</u>
Adjusted net income:				
Net income (loss)	\$ 378,947	\$ (276,969)	\$ 684,055	\$ (359,448)
Exclude: Derivative forward value gains (losses) ⁽²⁾	359,931	(323,582)	558,266	(510,664)
Adjusted net income	<u>\$ 19,016</u>	<u>\$ 46,613</u>	<u>\$ 125,789</u>	<u>\$ 151,216</u>

⁽¹⁾Represents the net periodic contractual interest amount on our interest-rate swaps during the reporting period.

⁽²⁾Represents the change in fair value of our interest rate swaps during the reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts.

We primarily fund our loan portfolio through the issuance of debt. However, we use derivatives as economic hedges as part of our strategy to manage the interest rate risk associated with funding our loan portfolio. We therefore consider the interest expense incurred on our derivatives to be part of funding cost in addition to the interest expense on our debt. As such, we add derivative cash settlements interest expense to our reported interest expense to derive our adjusted interest expense and adjusted net interest income. We exclude the unrealized derivative forward value gains and losses from our adjusted total revenue and adjusted net income.

TIER and Adjusted TIER

Table 36 displays the calculation of our TIER and adjusted TIER for the three and nine months ended February 28, 2021 and February 29, 2020.

Table 36: TIER and Adjusted TIER

	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
TIER ⁽¹⁾	3.19	—	2.30	0.42
Adjusted TIER ⁽²⁾	1.09	1.21	1.20	1.23

⁽¹⁾ TIER is calculated based on our net income (loss) plus interest expense for the period divided by interest expense for the period.

⁽²⁾ Adjusted TIER is calculated based on adjusted net income (loss) plus adjusted interest expense for the period divided by adjusted interest expense for the period.

Debt-to-Equity and Adjusted Debt-to-Equity

Table 37 provides a reconciliation between our total liabilities and total equity and the adjusted amounts used in the calculation of our adjusted debt-to-equity ratio as of February 28, 2021 and May 31, 2020. As indicated in Table 37, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

Table 37: Adjusted Financial Measures—Balance Sheet

(Dollars in thousands)	February 28, 2021	May 31, 2020
Total liabilities	\$ 28,146,399	\$ 27,508,783
Exclude:		
Derivative liabilities	655,749	1,258,459
Debt used to fund loans guaranteed by RUS	141,077	146,764
Subordinated deferrable debt	986,265	986,119
Subordinated certificates	1,257,024	1,339,618
Adjusted total liabilities	\$ 25,106,284	\$ 23,777,823
Total equity	\$ 1,268,589	\$ 648,822
Exclude:		
Prior fiscal year-end cumulative derivative forward value losses ⁽¹⁾	(1,088,982)	(354,704)
Year-to-date derivative forward value gains (losses) ⁽¹⁾	558,266	(734,278)
Period-end cumulative derivative forward value losses ⁽¹⁾	(530,716)	(1,088,982)
Accumulated other comprehensive income attributable to derivatives ⁽²⁾	1,817	2,130
Subtotal	(528,899)	(1,086,852)
Include:		
Subordinated deferrable debt	986,265	986,119
Subordinated certificates	1,257,024	1,339,618
Subtotal	2,243,289	2,325,737
Adjusted total equity	\$ 4,040,777	\$ 4,061,411

⁽¹⁾ Represents consolidated total derivative forward value gains (losses).

⁽²⁾ Represents the AOCI amount related to derivatives. See “Note 10—Equity” for the additional components of AOCI.

Table 38 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of February 28, 2021 and May 31, 2020.

Table 38: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	February 28, 2021	May 31, 2020
Debt-to equity ratio:		
Total liabilities	\$ 28,146,399	\$ 27,508,783
Total equity	1,268,589	648,822
Debt-to-equity ratio ⁽¹⁾	22.19	42.40
Adjusted debt-to-equity ratio:		
Adjusted total liabilities ⁽²⁾	\$ 25,106,284	\$ 23,777,823
Adjusted total equity ⁽²⁾	4,040,777	4,061,411
Adjusted debt-to-equity ratio ⁽³⁾	6.21	5.85

⁽¹⁾ Calculated based on total liabilities at period end divided by total equity at period end.

⁽²⁾ See Table 37 above for details on the calculation of these non-GAAP adjusted measures and the reconciliation to the most comparable GAAP measures.

⁽³⁾ Calculated based on adjusted total liabilities at period end divided by adjusted total equity at period end.

Members' Equity

Members' equity represents equity attributable to CFC members. Table 39 provides a reconciliation of members' equity to total CFC equity as of February 28, 2021 and May 31, 2020.

Table 39: Members' Equity

(Dollars in thousands)	February 28, 2021	May 31, 2020
Members' equity:		
Total CFC equity	\$ 1,244,067	\$ 626,121
Exclude:		
Accumulated other comprehensive loss	(1,659)	(1,910)
Period-end cumulative derivative forward value losses attributable to CFC ⁽¹⁾	(524,434)	(1,079,739)
Subtotal	(526,093)	(1,081,649)
Members' equity	\$ 1,770,160	\$ 1,707,770

⁽¹⁾ Represents period-end cumulative derivative forward value losses for CFC only, as total CFC equity does not include the noncontrolling interests of the variable interest entities NCSC and RTFC, which we are required to consolidate. We report the separate results of operations for CFC in "Note 14—Business Segments." The period-end cumulative derivative forward value total loss amounts as of February 28, 2021 and May 31, 2020 are presented above in Table 37.

Item 1. Financial Statements

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Interest income	\$ 278,172	\$ 287,195	\$ 834,255	\$ 864,247
Interest expense	(173,040)	(203,040)	(527,438)	(624,182)
Net interest income	105,132	84,155	306,817	240,065
Provision for credit losses	(33,023)	(2,382)	(34,987)	(1,367)
Net interest income after provision for credit losses	<u>72,109</u>	<u>81,773</u>	<u>271,830</u>	<u>238,698</u>
Non-interest income:				
Fee and other income	3,819	3,647	13,667	18,430
Derivative gains (losses)	330,196	(337,936)	471,759	(550,211)
Investment securities gains (losses)	(2,807)	749	491	2,255
Total non-interest income	<u>331,208</u>	<u>(333,540)</u>	<u>485,917</u>	<u>(529,526)</u>
Non-interest expense:				
Salaries and employee benefits	(14,259)	(12,895)	(41,403)	(38,565)
Other general and administrative expenses	(9,303)	(12,374)	(28,958)	(36,802)
Losses on early extinguishment of debt	—	(69)	(1,455)	(683)
Other non-interest expense	(301)	(290)	(956)	6,574
Total non-interest expense	<u>(23,863)</u>	<u>(25,628)</u>	<u>(72,772)</u>	<u>(69,476)</u>
Income (loss) before income taxes	<u>379,454</u>	<u>(277,395)</u>	<u>684,975</u>	<u>(360,304)</u>
Income tax benefit (expense)	(507)	426	(920)	856
Net income (loss)	<u>378,947</u>	<u>(276,969)</u>	<u>684,055</u>	<u>(359,448)</u>
Less: Net (income) loss attributable to noncontrolling interests	(1,213)	1,405	(1,889)	3,054
Net income (loss) attributable to CFC	<u>\$ 377,734</u>	<u>\$ (275,564)</u>	<u>\$ 682,166</u>	<u>\$ (356,394)</u>

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Net income (loss)	\$ 378,947	\$ (276,969)	\$ 684,055	\$ (359,448)
Other comprehensive income (loss):				
Reclassification of derivative gains to earnings...	(101)	(109)	(313)	(335)
Defined benefit plan adjustments	188	146	564	437
Other comprehensive income	87	37	251	102
Total comprehensive income (loss)	379,034	(276,932)	684,306	(359,346)
Less: Total comprehensive (income) loss attributable to noncontrolling interests.....	(1,213)	1,405	(1,889)	3,054
Total comprehensive income (loss) attributable to CFC	\$ 377,821	\$ (275,527)	\$ 682,417	\$ (356,292)

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in thousands)	February 28, 2021	May 31, 2020
Assets:		
Cash and cash equivalents	\$ 170,047	\$ 671,372
Restricted cash ⁽¹⁾	7,406	8,647
Total cash, cash equivalents and restricted cash	<u>177,453</u>	<u>680,019</u>
Investment securities:		
Equity securities, at fair value	32,434	60,735
Debt securities trading, at fair value	574,820	309,400
Total investment securities	<u>607,254</u>	<u>370,135</u>
Loans to members	28,327,481	26,702,380
Less: Allowance for credit losses	(92,012)	(53,125)
Loans to members, net	<u>28,235,469</u>	<u>26,649,255</u>
Accrued interest receivable	111,821	117,138
Other receivables	37,896	41,099
Fixed assets, net	89,305	89,137
Derivative assets	128,439	173,195
Other assets	27,351	37,627
Total assets	<u>\$ 29,414,988</u>	<u>\$ 28,157,605</u>
Liabilities:		
Accrued interest payable	\$ 175,624	\$ 139,619
Debt outstanding:		
Short-term borrowings	4,407,957	3,961,985
Long-term debt	20,555,544	19,712,024
Subordinated deferrable debt	986,265	986,119
Members' subordinated certificates:		
Membership subordinated certificates	628,589	630,483
Loan and guarantee subordinated certificates	389,265	482,965
Member capital securities	239,170	226,170
Total members' subordinated certificates	<u>1,257,024</u>	<u>1,339,618</u>
Total debt outstanding	<u>27,206,790</u>	<u>25,999,746</u>
Deferred income	53,486	59,303
Derivative liabilities	655,749	1,258,459
Other liabilities	54,750	51,656
Total liabilities	<u>28,146,399</u>	<u>27,508,783</u>
Equity:		
CFC equity:		
Retained equity	1,245,726	628,031
Accumulated other comprehensive loss	(1,659)	(1,910)
Total CFC equity	<u>1,244,067</u>	<u>626,121</u>
Noncontrolling interests	24,522	22,701
Total equity	<u>1,268,589</u>	<u>648,822</u>
Total liabilities and equity	<u>\$ 29,414,988</u>	<u>\$ 28,157,605</u>

⁽¹⁾ Restricted cash consists primarily of member funds held in escrow for certain specifically designed cooperative programs.

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

Three Months Ended February 28, 2021									
(Dollars in thousands)	Membership Fees and Educational Fund	Patronage Capital Allocated	Members' Capital Reserve	Unallocated Net Income (Loss)	CFC Retained Equity	Accumulated Other Comprehensive Income (Loss)	Total CFC Equity	Non-controlling Interests	Total Equity
Balance as of November 30, 2020.....	\$ 2,551	\$ 834,209	\$ 807,320	\$ (776,016)	\$ 868,064	\$ (1,746)	\$ 866,318	\$ 25,401	\$ 891,719
Net income.....	—	—	—	377,734	377,734	—	377,734	1,213	378,947
Other comprehensive income.....	—	—	—	—	—	87	87	—	87
Patronage capital retirement.....	—	—	—	—	—	—	—	(2,054)	(2,054)
Other.....	(72)	—	—	—	(72)	—	(72)	(38)	(110)
Balance as of February 28, 2021.....	<u>\$ 2,479</u>	<u>\$ 834,209</u>	<u>\$ 807,320</u>	<u>\$ (398,282)</u>	<u>\$ 1,245,726</u>	<u>\$ (1,659)</u>	<u>\$ 1,244,067</u>	<u>\$ 24,522</u>	<u>\$ 1,268,589</u>
Nine Months Ended February 28, 2021									
Balance as of May 31, 2020.....	\$ 3,193	\$ 894,066	\$ 807,320	\$ (1,076,548)	\$ 628,031	\$ (1,910)	\$ 626,121	\$ 22,701	\$ 648,822
Cumulative effect from adoption of new accounting standard.....	—	—	—	(3,900)	(3,900)	—	(3,900)	—	(3,900)
Balance as of June 1, 2020.....	3,193	894,066	807,320	(1,080,448)	624,131	(1,910)	622,221	22,701	644,922
Net income.....	—	—	—	682,166	682,166	—	682,166	1,889	684,055
Other comprehensive income.....	—	—	—	—	—	251	251	—	251
Patronage capital retirement.....	—	(59,857)	—	—	(59,857)	—	(59,857)	(2,054)	(61,911)
Other.....	(714)	—	—	—	(714)	—	(714)	1,986	1,272
Balance as of February 28, 2021.....	<u>\$ 2,479</u>	<u>\$ 834,209</u>	<u>\$ 807,320</u>	<u>\$ (398,282)</u>	<u>\$ 1,245,726</u>	<u>\$ (1,659)</u>	<u>\$ 1,244,067</u>	<u>\$ 24,522</u>	<u>\$ 1,268,589</u>
Three Months Ended February 29, 2020									
(Dollars in thousands)	Membership Fees and Educational Fund	Patronage Capital Allocated	Members' Capital Reserve	Unallocated Net Income (Loss)	CFC Retained Equity	Accumulated Other Comprehensive Income (Loss)	Total CFC Equity	Non-controlling Interests	Total Equity
Balance as of November 30, 2019.....	\$ 2,443	\$ 797,756	\$ 759,097	\$ (426,605)	\$ 1,132,691	\$ (82)	\$ 1,132,609	\$ 25,285	\$ 1,157,894
Net loss.....	—	—	—	(275,564)	(275,564)	—	(275,564)	(1,405)	(276,969)
Other comprehensive income.....	—	—	—	—	—	37	37	—	37
Patronage capital retirement.....	—	—	—	—	—	—	—	—	—
Other.....	(177)	—	—	—	(177)	—	(177)	(44)	(221)
Balance as of February 29, 2020.....	<u>\$ 2,266</u>	<u>\$ 797,756</u>	<u>\$ 759,097</u>	<u>\$ (702,169)</u>	<u>\$ 856,950</u>	<u>\$ (45)</u>	<u>\$ 856,905</u>	<u>\$ 23,836</u>	<u>\$ 880,741</u>
Nine Months Ended February 29, 2020									
Balance as of May 31, 2019.....	\$ 2,982	\$ 860,578	\$ 759,097	\$ (345,775)	\$ 1,276,882	\$ (147)	\$ 1,276,735	\$ 27,147	\$ 1,303,882
Net loss.....	—	—	—	(356,394)	(356,394)	—	(356,394)	(3,054)	(359,448)
Other comprehensive income.....	—	—	—	—	—	102	102	—	102
Patronage capital retirement.....	—	(62,822)	—	—	(62,822)	—	(62,822)	(1,933)	(64,755)
Other.....	(716)	—	—	—	(716)	—	(716)	1,676	960
Balance as of February 29, 2020.....	<u>\$ 2,266</u>	<u>\$ 797,756</u>	<u>\$ 759,097</u>	<u>\$ (702,169)</u>	<u>\$ 856,950</u>	<u>\$ (45)</u>	<u>\$ 856,905</u>	<u>\$ 23,836</u>	<u>\$ 880,741</u>

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended	
	February 28, 2021	February 29, 2020
Cash flows from operating activities:		
Net income (loss)	\$ 684,055	\$ (359,448)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees	(7,144)	(6,999)
Amortization of debt issuance costs and deferred charges	8,224	6,870
Amortization of discount on long-term debt	8,832	8,029
Amortization of issuance costs for bank revolving lines of credit	3,317	3,854
Depreciation and amortization	5,825	7,219
Provision for credit losses	34,987	1,367
Loss on early extinguishment of debt	1,455	683
Gain on sale of land	—	(7,713)
Unrealized gains on equity and debt securities	(36)	(2,255)
Derivative forward value (gains) losses	(558,266)	510,664
Changes in operating assets and liabilities:		
Accrued interest receivable	5,317	9,248
Accrued interest payable	36,005	31,631
Deferred income	1,327	2,112
Other	(3,100)	(5,310)
Net cash provided by operating activities	220,798	199,952
Cash flows from investing activities:		
Advances on loans, net	(1,624,817)	(905,437)
Investment in fixed assets, net	(5,156)	(8,153)
Proceeds from sale of land	—	21,268
Purchase of trading securities	(350,899)	—
Proceeds from sales and maturities of trading securities	84,271	—
Proceeds from redemption of equity securities	30,000	25,000
Purchases of held-to-maturity debt securities	—	(76,339)
Proceeds from maturities of held-to-maturity debt securities	—	69,726
Net cash used in investing activities	(1,866,601)	(873,935)
Cash flows from financing activities:		
Proceeds from short-term borrowings, net	779,124	618,527
Proceeds from short-term borrowings with original maturity > 90 days	2,260,900	1,920,660
Repayments of short-term borrowings with original maturity > 90 days	(2,594,052)	(1,871,525)
Payments for issuance costs for revolving bank lines of credit	—	(1,025)
Proceeds from issuance of long-term debt, net of discount and issuance costs	2,380,354	1,499,236
Payments for retirement of long-term debt	(1,553,744)	(1,534,099)
Payments made for early extinguishment of debt	(1,455)	(683)
Payments for issuance costs for subordinated deferrable debt	—	(84)
Proceeds from issuance of members' subordinated certificates	14,288	2,993
Payments for retirement of members' subordinated certificates	(82,291)	(19,749)
Payments for retirement of patronage capital	(59,888)	(63,035)
Additions (repayments) for membership fees, net	1	(9)
Net cash provided by financing activities	1,143,237	551,207
Net decrease in cash, cash equivalents and restricted cash	(502,566)	(122,776)
Beginning cash, cash equivalents and restricted cash	680,019	186,204
Ending cash, cash equivalents and restricted cash	\$ 177,453	\$ 63,428
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 467,621	\$ 566,567
Cash paid for income taxes	156	18

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution systems, electric generation and transmission (“power supply”) systems and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These consolidated financial statements include the accounts of CFC, variable interest entities (“VIEs”) where CFC is the primary beneficiary and subsidiary entities created and controlled by CFC to hold foreclosed assets. National Cooperative Services Corporation (“NCSC”) and Rural Telephone Finance Cooperative (“RTFC”) are VIEs that are required to be consolidated by CFC. NCSC is a taxable member-owned cooperative that may provide financing to members of CFC, government or quasi-government entities which own electric utility systems that meet the Rural Electrification Act definition of “rural,” and for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. RTFC is a taxable Subchapter T cooperative association that provides financing for its rural telecommunications members and their affiliates. CFC has not had entities that held foreclosed assets since fiscal year 2017. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and related disclosures during the period. Management’s most significant estimates and assumptions involve determining the allowance for credit losses and the fair value of financial assets and liabilities. Actual results could differ from these estimates. We believe these financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations in the interim financial statements are not necessarily indicative of results that may be expected for the full fiscal year. Certain reclassifications have been made to prior periods to conform to the current presentation. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities.

Risks and Uncertainties

The novel strain of coronavirus that causes coronavirus disease 2019 (“COVID-19”) continues to persist. While several U.S. industry sectors have been severely affected by the COVID-19 pandemic, we believe that we have thus far been able to navigate the challenges of the pandemic. Although we continue to closely monitor developments, we cannot predict the future impact of COVID-19 on our operational and financial performance. We expect that this impact will depend on several factors, including, among others, the extent to which the manufacturing and distribution of recently developed COVID-19 vaccines are successful in mitigating the severity and duration of the virus over time, potential further economic deterioration and additional, or extended, federal, state and local government orders and regulations that might be imposed, additional federal stimulus efforts, and the specific ways the pandemic uniquely impacts our members, all of which continue to involve uncertainties.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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New Accounting Standards Adopted in Fiscal Year 2021

Fair Value Measurement—Changes to the Disclosure Requirements for Fair Value Measurement

On June 1, 2020, we adopted Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which removes, adds and modifies certain disclosure requirements on fair value measurements. The adoption of this guidance, which resulted only in certain changes to the fair value measurement disclosures presented in “Note 12—Fair Value Measurement” did not otherwise affect our consolidated financial statements.

Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments

On June 1, 2020, we adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology for estimating credit losses with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) model. The incurred loss model delayed the recognition of credit losses until it was probable that a loss had occurred, while the CECL model requires the immediate recognition of expected credit losses over the contractual term, adjusted as appropriate for estimated prepayments, for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects our estimates of the allowance for credit losses for our loan portfolio and our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees. In measuring lifetime expected credit losses, management is required to take into consideration relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of the financial instrument.

The adoption of CECL resulted in an increase in our allowance for credit losses for our loan portfolio of \$4 million and a corresponding decrease to retained earnings of \$4 million recorded as a cumulative-effect adjustment. The impact on the allowance for credit losses for our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees was not material. The increase in the allowance for credit losses for our loan portfolio was attributable to the transition to measuring the allowance based on expected credit losses over the remaining contractual term of loans in our portfolio as required under the CECL model, whereas the allowance under the incurred model did not consider the remaining contractual term of our loans. The transition adjustment was primarily driven by an increase in the allowances for CFC distribution and CFC power supply loans, which have a longer remaining contractual term than the estimated loss emergence period of five years we used in estimating probable losses in our loan portfolio under the incurred loss model.

While CECL had no impact on our earnings at adoption on June 1, 2020, subsequent estimates of lifetime expected credit losses for newly recognized loans, unadvanced loan commitments and financial guarantees, as well as changes during the period in our estimate of lifetime expected credit losses for existing financial instruments subject to CECL, are now recognized in earnings. In connection with our adoption of CECL, we have provided an update to certain of our significant accounting policies below under “Updates to Significant Accounting Policies.” We present the expanded credit quality disclosures required under CECL for financial instruments measured at amortized cost in “Note 4—Loans” and “Note 5—Allowance for Credit Losses.” Amounts in periods prior to our adoption of CECL on June 1, 2020 continue to be reported in accordance with previously applicable GAAP.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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New Accounting Standards Issued But Not Yet Adopted

Reference Rate Reform

On March 12, 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions for applying GAAP on contracts, hedging relationships and other transactions subject to modification due to the expected discontinuance of the London Interbank Offered Rate (“LIBOR”) and other reference rate reform changes to ease the potential accounting and financial burdens related to the expected transition in market reference rates. This guidance permits entities to elect not to apply certain modification accounting requirements to contracts affected by reference rate transition, if certain criteria are met. An entity that makes this election would not be required to remeasure modified contracts at the modification date or reassess a previous accounting determination. The guidance was effective upon issuance on March 12, 2020, and can generally be applied through December 31, 2022. We expect to apply certain of the practical expedients and are in the process of evaluating the timing and application of those elections. Based on our current assessment, we do not believe that the application of this guidance will have a material impact on our consolidated financial statements.

Updates to Significant Accounting Policies

Pursuant to our June 1, 2020 adoption of the CECL accounting standard, we have provided an update to the significant accounting policies presented below.

Loans to Members

We originate loans to members and classify loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff as held for investment. Loans classified as held for investment are reported based on the unpaid principal balance, net of principal charge-offs, and deferred loan origination costs.

As permitted by CECL, we elected to continue reporting accrued interest on loans separately on our consolidated balance sheets as a component of the line item accrued interest receivable rather than as a component of loans to members. Accrued interest receivable amounts generally represent six months or less of accrued interest on loans outstanding. Because our policy is to write off past due accrued interest receivable in a timely manner, we elected not to measure an allowance for credit losses for accrued interest receivable on loans outstanding, which totaled \$96 million as of both February 28, 2021 and May 31, 2020. We also elected to exclude accrued interest receivable from the credit quality disclosures required under CECL.

Interest Income

Interest income on performing loans is accrued and recognized as interest income based on the contractual rate of interest. Loan origination costs and nonrefundable loan fees that meet the definition of loan origination fees are deferred and generally recognized in interest income as yield adjustments over the period to maturity of the loan using the effective interest method.

Troubled Debt Restructurings

A loan modification is considered a troubled debt restructuring (“TDR”) if the borrower is experiencing financial difficulties and a concession is granted to the borrower that we would not otherwise consider. Under CECL, we are required to estimate an allowance for lifetime expected credit losses for TDR loans. As discussed below under “Allowance for Credit Losses— Loan Portfolio— Asset-specific allowance,” TDR loans are evaluated on an individual basis in estimating expected credit losses. Credit losses for anticipated TDRs are accounted for similarly to TDRs and are identified when there is a reasonable

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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expectation that a TDR will be executed with the borrower and when we expect the modification to affect the timing or amount of payments and/or the payment term.

We generally classify TDR loans as nonperforming and place the loan on nonaccrual status, although in many cases such loans were already classified as nonperforming prior to modification. These loans may be returned to performing status and the accrual of interest resumed if the borrower performs under the modified terms for an extended period of time, and we expect the borrower to continue to perform in accordance with the modified terms. In certain limited circumstances in which a TDR loan is current at the modification date, the loan may remain on accrual status at the time of modification.

Nonperforming Loans

We classify loans as nonperforming when contractual principal or interest is 90 days past due or when we believe the collection of principal and interest in full is not reasonably assured. When a loan is classified as nonperforming, we generally place the loan on nonaccrual status. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against current period interest income. Interest income on nonaccrual loans is subsequently recognized only upon the receipt of cash payments. However, if we believe the ultimate collectability of the loan principal is in doubt, cash received is applied against the principal balance of the loan. Nonaccrual loans generally are returned to accrual status when principal and interest becomes and remains current for a specified period and repayment of the remaining contractual principal and interest is reasonably assured.

Charge-Offs

We charge off loans or a portion of a loan when we determine that the loan is uncollectible. The charge-off of uncollectible principal amounts result in a reduction to the allowance for credit losses for our loan portfolio. Recoveries of previously charged off principal amounts result in an increase to the allowance.

Allowance for Credit Losses—Loan Portfolio

We maintain an allowance for credit losses for our loan portfolio that represents management's current estimate of expected credit losses over the remaining contractual term, adjusted as appropriate for estimated prepayments, of loans in our loan portfolio as of each balance sheet date. The allowance for our loan portfolio is reported on our consolidated balance sheet as a valuation account that is deducted from loans to members to present the net amount we expect to collect over the life of our loans. We are required to immediately recognize an allowance for expected credit losses upon origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses for existing loans, or for newly originated loans, are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations.

We estimate our allowance for lifetime expected credit losses for our loan portfolio using a probability of default/loss given default methodology. Our allowance for credit losses consists of a collective allowance and an asset-specific allowance. The collective allowance is established for loans in our portfolio that share similar risk characteristics and are therefore evaluated on a collective, or pool, basis in measuring expected credit losses. The asset-specific allowance is established for loans in our portfolio that do not share similar risk characteristics with other loans in our portfolio and are therefore evaluated on an individual basis in measuring expected credit losses. Expected credit losses are estimated based on historical experience, current conditions and forecasts, if applicable, that affect the collectibility of the reported amount.

Since inception in 1969, CFC has experienced limited defaults and losses as the utility sector generally tends to be less sensitive to changes in the economy than other sectors largely due to the essential nature of the service provided. The losses we have incurred were not tied to economic factors, but rather to distinct operating issues related to each borrower. Given that our loss experience has not correlated to specific underlying macroeconomic variables, such as U.S. unemployment rates or gross domestic product ("GDP") growth, we have not made adjustments to our historical loss rates for any

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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forecasted period. We consider the need, however, to adjust our historical loss information for differences in the specific characteristics of our existing loan portfolio based on an evaluation of relative qualitative factors, such as differences in the composition of our loan portfolio, our underwriting standards, problem loan trends, the quality of our credit review function, the regulatory environment and other pertinent external factors.

Collective Allowance

We employ a quantitative methodology and a qualitative framework to measure the collective component of our allowance for expected credit losses. The first element in our quantitative methodology involves the segmentation of our loan into loan pools that share similar risk characteristics. We divide our portfolio into segments that reflect the member borrower type, which is based on the utility sector of the borrower because the key operational, infrastructure, regulatory, environmental, customer and financial risks of each sector are similar in nature. Our primary member borrower types consist of CFC electric distribution, CFC electric power supply, CFC statewide and associate, NCSC and RTFC telecommunications. Our portfolio segments align with the sectors generally seen in the utilities industry. We further stratify each portfolio into loan pools based on our internal borrower risk ratings, as our borrower risk ratings provide important information on the collectibility of each of our loan portfolio segments. We then apply loss factors, consisting of the probability of default and loss given default, to the scheduled loan-level amortization amounts over the life of the loans for each of our loan pools. Below we discuss the source and basis for the key inputs, which include borrower risk ratings and the loss factors, in measuring expected credit losses for our loan portfolio.

- *Borrower Risk Ratings*: We evaluate each borrower and loan facility in our loan portfolio and assign internal borrower and loan facility risk ratings based on consideration of a number of quantitative and qualitative factors. Each risk rating is reassessed annually following the receipt of the borrower's audited financial statements; however, interim risk-rating adjustments may occur as a result of updated information affecting a borrower's ability to fulfill its obligations or other significant developments and trends. Our internally assigned borrower risk ratings are intended to assess the general credit worthiness of the borrower and probability of default. We use our internal borrower risk ratings, which we map to the equivalent credit ratings by external rating agencies, to differentiate risk within each of our portfolio segments and loan pools. We provide additional information on our borrower risk ratings below in "Note 4—Loans."
- *Probability of Default*: The probability of default, or default rate, represents the likelihood that a borrower will default over a particular time horizon. Because of our limited default history, we utilize third-party default data for the utility sector as a proxy to estimate default rates for each of our loan pools. The third-party default data provides historical default rates, based on credit ratings and remaining maturities of outstanding bonds, for the utility sector. Based on the mapping and alignment of our internal borrower risk ratings to equivalent credit ratings provided in the third-party utility default table, we apply the corresponding cumulative default rates to the scheduled amortization amounts over the remaining term of the loans in each of our loan pools.
- *Loss Given Default*: The loss given default, or loss severity, represents the estimated loss, net of recoveries, on a loan that would be realized in the event of a borrower default. While we utilize third-party default data, we utilize our lifetime historical loss experience to estimate loss given default, or the recovery rate, for each of our loan portfolio segments. We believe our internal historical loss severity rates provide a more reliable estimate than third-party loss severity data due to the organizational structure and operating environment of rural utility cooperatives, our lending practice of generally requiring a senior security position on the assets and revenues of borrowers for long-term loans, the investment our member borrowers have in CFC and therefore the collaborative approach we generally take in working with members in the event that a default occurs.

In addition to the quantitative methodology used in our collective measurement of expected credit losses, management performs a qualitative evaluation and analyses of relevant factors, such as changes in risk-management practices, current and past underwriting standards, specific industry issues and trends and other subjective factors. Based on our assessment, we

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did not make a qualitative adjustment to the collective allowance for credit losses measured under our quantitative methodology as of February 28, 2021 or at adoption of CECL on June 1, 2020.

Asset-Specific Allowance

We generally consider nonperforming loans as well as loans that have been or are anticipated to be modified under a troubled debt restructuring for individual evaluation given the risk characteristics of such loans. Factors we consider in measuring the extent of expected credit loss include the payment status, the collateral value, the borrower's financial condition, guarantor support, the probability of collecting scheduled principal and interest payments when due, anticipated modifications of payment structure or term for troubled borrowers, and recoveries if they can be reasonably estimated. We measure the expected credit loss as the difference between the amortized cost basis in the loan and the present value of the expected future cash flows from the borrower which is generally discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan is collateral dependent.

Reserve for Credit Losses—Off-Balance Sheet Credit Exposures

We also maintain a reserve for credit losses for our off-balance sheet credit exposures related to unadvanced loan commitments and financial guarantees. Because our business processes and credit risks associated with our off-balance sheet credit exposures are essentially the same as for our loans, we utilize similar processes to measure expected credit losses over the contractual period of our exposure to credit risk arising from these obligations. We include the reserve for expected credit losses for our off-balance sheet credit exposures as a component of other liabilities on our consolidated balance sheets.

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NOTE 2—INTEREST INCOME AND INTEREST EXPENSE

The following table presents the components of interest income, by interest-earning asset type, and interest expense, by debt product type, presented on our consolidated statements of operations for the three and nine months ended February 28, 2021 and February 29, 2020.

Table 2.1: Interest Income and Interest Expense

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Interest income:				
Long-term fixed-rate loans ⁽¹⁾	\$ 262,379	\$ 261,036	\$ 787,763	\$ 780,228
Long-term variable-rate loans.....	3,435	7,552	11,431	25,439
Line of credit loans.....	8,605	13,378	23,841	42,089
Troubled debt restructuring (“TDR”) loans.....	194	210	597	628
Other, net ⁽²⁾	(348)	(419)	(1,027)	(990)
Total loans.....	274,265	281,757	822,605	847,394
Cash, time deposits and investment securities.....	3,907	5,438	11,650	16,853
Total interest income	278,172	287,195	834,255	864,247
Interest expense: ⁽³⁾⁽⁴⁾				
Short-term borrowings.....	3,473	21,185	11,217	66,119
Medium-term notes.....	27,751	30,860	86,765	94,376
Collateral trust bonds.....	61,903	62,914	186,119	192,818
Guaranteed Underwriter Program notes payable.....	41,426	39,708	125,007	119,927
Farmer Mac notes payable.....	12,079	21,220	38,618	68,948
Other notes payable.....	51	97	193	581
Subordinated deferrable debt.....	12,886	12,881	38,669	38,647
Subordinated certificates.....	13,471	14,175	40,850	42,766
Total interest expense	173,040	203,040	527,438	624,182
Net interest income	\$ 105,132	\$ 84,155	\$ 306,817	\$ 240,065

⁽¹⁾Includes loan conversion fees, which are generally deferred and recognized in interest income over the period to maturity using the effective interest method.

⁽²⁾Consists of late payment fees, commitment fees and net amortization of deferred loan fees and loan origination costs.

⁽³⁾Includes amortization of debt discounts and debt issuance costs, which are generally deferred and recognized as interest expense over the period to maturity using the effective interest method. Issuance costs related to dealer commercial paper, however, are recognized in interest expense immediately as incurred.

⁽⁴⁾Includes fees related to funding arrangements, such as up-front fees paid to banks participating in our committed bank revolving line of credit agreements. Based on the nature of the fees, the amount is either recognized immediately as incurred or deferred and recognized in interest expense ratably over the term of the arrangement.

Deferred income reported on our consolidated balance sheets of \$53 million and \$59 million as of February 28, 2021 and May 31, 2020, respectively, consists primarily of deferred loan conversion fees, which totaled \$47 million and \$53 million as of each respective date. Deferred loan conversion fees are recognized in interest income over the remaining period to maturity of loans using the effective interest method.

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NOTE 3—INVESTMENT SECURITIES

We maintain a portfolio of equity and debt securities that is intended to serve as a supplemental source of liquidity. We generally record purchases and sales of securities on the trade date. Our current equity security holdings have readily determinable fair values. Therefore, we report these securities at fair value with changes in fair value recognized in earnings as a component of non-interest income in our consolidated statements of operations. In the fourth quarter of fiscal year 2020, we transferred our debt securities from held-to-maturity to trading. As a result, our debt securities were classified as trading as of both February 28, 2021 and May 31, 2020. Debt securities classified as trading are reported at fair value with changes in fair value recognized in earnings as a component of non-interest income on our consolidated statements of operations.

Equity Securities

The following table presents the composition of our equity security holdings and the fair value as of February 28, 2021 and May 31, 2020.

Table 3.1: Investments in Equity Securities, at Fair Value

<u>(Dollars in thousands)</u>	<u>February 28, 2021</u>	<u>May 31, 2020</u>
Equity securities, at fair value:		
Farmer Mac—Series A non-cumulative preferred stock.....	\$ —	\$ 30,240
Farmer Mac—Series C non-cumulative preferred stock.....	26,240	25,400
Farmer Mac—Class A common stock.....	6,194	5,095
Total equity securities, at fair value.....	<u>\$ 32,434</u>	<u>\$ 60,735</u>

On September 19, 2020, Farmer Mac redeemed all of the outstanding shares of its 5.875% Series A non-cumulative preferred stock at a redemption price of \$25.00 per share, plus any declared and unpaid dividends through and including the redemption date. We held 1.2 million shares of Farmer Mac’s Series A non-cumulative preferred stock at an amortized cost of \$25 per share as of the redemption date, which was equal to the per share redemption price.

We recognized net unrealized gains on our equity securities of less than \$1 million and \$2 million for the three and nine months ended February 28, 2021, respectively. We recognized net unrealized gains on our equity securities of \$1 million and \$2 million during the three and nine months ended February 29, 2020, respectively.

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Debt Securities

The following table presents the composition of our investments in debt securities and the fair value as of February 28, 2021 and May 31, 2020.

Table 3.2: Investments in Debt Securities, at Fair Value

(Dollars in thousands)	February 28, 2021	May 31, 2020
Debt securities, at fair value:		
Certificates of deposit.....	\$ 1,000	\$ 5,585
Commercial paper.....	14,444	—
Corporate debt securities.....	499,882	253,153
Commercial mortgage-backed securities (“MBS”):		
Agency.....	8,092	7,655
Non-agency.....	1,326	3,207
Total commercial MBS.....	9,418	10,862
U.S. state and municipality debt securities.....	9,944	8,296
Foreign government debt securities.....	398	—
Other asset-backed securities ⁽¹⁾	39,734	31,504
Total debt securities, at fair value.....	<u>\$ 574,820</u>	<u>\$ 309,400</u>

⁽¹⁾Consists primarily of securities backed by auto lease loans, equipment-backed loans, auto loans and credit card loans.

We did not sell any debt investment securities during the three months ended February 28, 2021. We had sales of debt securities of \$6 million during the nine months ended February 28, 2021 and recorded realized losses related to the sale of these securities of less than \$1 million during the nine months ended February 28, 2021. We recognized net unrealized losses on our debt securities of \$3 million and \$2 million for the three and nine months ended February 28, 2021, respectively.

NOTE 4—LOANS

We segregate our loan portfolio into portfolio segments based on the borrower member class, which consists of CFC distribution, CFC power supply, CFC statewide and associate, NCSC and RTFC. We offer both long-term and line of credit loans to our borrowers. Under our long-term loan facilities, a borrower may select a fixed interest rate or a variable interest rate at the time of each loan advance. Line of credit loans are revolving loan facilities and generally have a variable interest rate.

Loans to Members

Loans to members consists of total loans outstanding, which reflects the unpaid principal balance, net of charge-offs and recoveries, of loans and deferred loan origination costs. The following table presents loans to members and unadvanced loan commitments, by member class and by loan type, as of February 28, 2021 and May 31, 2020.

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Table 4.1: Loans to Members by Member Class and Loan Type

(Dollars in thousands)	February 28, 2021		May 31, 2020	
	Loans Outstanding	Unadvanced Commitments ⁽¹⁾	Loans Outstanding	Unadvanced Commitments ⁽¹⁾
Member class:				
CFC:				
Distribution.....	\$ 21,878,524	\$ 9,182,179	\$ 20,769,653	\$ 8,992,457
Power supply.....	5,187,586	3,737,294	4,731,506	3,409,227
Statewide and associate.....	96,717	165,905	106,498	153,626
Total CFC.....	27,162,827	13,085,378	25,607,657	12,555,310
NCSC.....	721,894	556,887	697,862	551,674
RTFC.....	430,950	282,332	385,335	281,642
Total loans outstanding ⁽²⁾	28,315,671	13,924,597	26,690,854	13,388,626
Deferred loan origination costs.....	11,810	—	11,526	—
Loans to members.....	\$ 28,327,481	\$ 13,924,597	\$ 26,702,380	\$ 13,388,626
Loan type:				
Long-term loans:				
Fixed rate.....	\$ 25,443,254	\$ —	\$ 24,472,003	\$ —
Variable rate.....	625,699	5,491,495	655,704	5,458,676
Total long-term loans.....	26,068,953	5,491,495	25,127,707	5,458,676
Lines of credit.....	2,246,718	8,433,102	1,563,147	7,929,950
Total loans outstanding ⁽²⁾	28,315,671	13,924,597	26,690,854	13,388,626
Deferred loan origination costs.....	11,810	—	11,526	—
Loans to members.....	\$ 28,327,481	\$ 13,924,597	\$ 26,702,380	\$ 13,388,626

⁽¹⁾The interest rate on unadvanced loan commitments is not set until an advance is made; therefore, all unadvanced long-term loan commitments are reported as variable rate. However, the borrower may select either a fixed or a variable rate when an advance is drawn under a loan commitment.

⁽²⁾Represents the unpaid principal balance, net of charge-offs and recoveries, of loans as of the end of each period.

Unadvanced Loan Commitments

Unadvanced loan commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. The following table displays, by loan type, the available balance under unadvanced loan commitments as of February 28, 2021, and the related maturities in each fiscal year during the five-year period ended May 31, 2025, and thereafter.

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Table 4.2: Unadvanced Loan Commitments

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Loan Commitments					
		2021	2022	2023	2024	2025	Thereafter
Line of credit loans....	\$ 8,433,102	\$ 71,079	\$ 4,352,328	\$ 1,482,817	\$ 1,120,063	\$ 1,054,376	\$ 352,439
Long-term loans.....	5,491,495	65,531	978,673	806,491	1,646,073	888,679	1,106,048
Total.....	<u>\$13,924,597</u>	<u>\$ 136,610</u>	<u>\$ 5,331,001</u>	<u>\$ 2,289,308</u>	<u>\$ 2,766,136</u>	<u>\$ 1,943,055</u>	<u>\$1,458,487</u>

Unadvanced line of credit commitments accounted for 61% of total unadvanced loan commitments as of February 28, 2021, while unadvanced long-term loan commitments accounted for 39% of total unadvanced loan commitments. Unadvanced line of credit commitments are typically revolving facilities for periods not to exceed five years. Unadvanced line of credit commitments generally serve as supplemental back-up liquidity to our borrowers. Historically, borrowers have not drawn the full commitment amount for line of credit facilities, and we have experienced a very low utilization rate on line of credit loan facilities regardless of whether or not we are obligated to fund the facility where a material adverse change exists.

Our unadvanced long-term loan commitments have a five-year draw period under which a borrower may draw funds prior to the expiration of the commitment. We expect that the majority of the long-term unadvanced loan commitments of \$5,491 million will be advanced prior to the expiration of the commitment.

Because we historically have experienced a very low utilization rate on line of credit loan facilities, which account for the majority of our total unadvanced loan commitments, we believe the unadvanced loan commitment total of \$13,925 million as of February 28, 2021 is not necessarily representative of our future funding requirements.

Unadvanced Loan Commitments—Conditional

The substantial majority of our line of credit commitments and all of our unadvanced long-term loan commitments include material adverse change clauses. Unadvanced loan commitments subject to material adverse change clauses totaled \$10,878 million and \$10,532 million as of February 28, 2021 and May 31, 2020, respectively. Prior to making an advance on these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by the designated purpose, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

Unadvanced Loan Commitments—Unconditional

Unadvanced loan commitments not subject to material adverse change clauses at the time of each advance consisted of unadvanced committed lines of credit totaling \$3,047 million and \$2,857 million as of February 28, 2021 and May 31, 2020, respectively. As such, we are required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the facility. The table below displays the amount available for advance under unconditional committed lines of credit as of February 28, 2021, and the maturities in each fiscal year during the five-year period ended May 31, 2025, and thereafter.

Table 4.3: Unconditional Committed Lines of Credit—Available Balance

(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit					
		2021	2022	2023	2024	2025	Thereafter
Committed lines of credit....	\$ 3,047,263	\$ 370	\$ 150,480	\$ 1,156,586	\$ 658,698	\$ 916,682	\$ 164,447

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Loan Sales

We transfer, from time to time, whole loans and participating interests to third parties. We sold CFC loans, at par for cash, totaling \$126 million and \$87 million during the nine months ended February 28, 2021 and February 29, 2020, respectively. We recorded immaterial losses on the sale of these loans attributable to the unamortized deferred loan origination costs associated with the transferred loans.

Pledged Loans

We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt. The following table summarizes loans outstanding pledged as collateral to secure our collateral trust bonds, notes payable under the United States Department of Agriculture (“USDA”) Guaranteed Underwriter Program (“Guaranteed Underwriter Program”), notes payable under the revolving note purchase agreement with Farmer Mac and Clean Renewable Energy Bonds, and the corresponding debt outstanding as of February 28, 2021 and May 31, 2020. See “Note 6—Short-Term Borrowings” and “Note 7—Long-Term Debt” for information on our borrowings.

Table 4.4: Pledged Loans

(Dollars in thousands)	February 28, 2021	May 31, 2020
Collateral trust bonds:		
2007 indenture:		
Distribution system mortgage notes pledged	\$ 8,549,575	\$ 8,244,202
RUS-guaranteed loans qualifying as permitted investments	123,381	128,361
Total pledged collateral	<u>\$ 8,672,956</u>	<u>\$ 8,372,563</u>
Collateral trust bonds outstanding	7,422,711	7,422,711
1994 indenture:		
Distribution system mortgage notes pledged	<u>\$ 37,478</u>	<u>\$ 39,785</u>
Collateral trust bonds outstanding	30,000	35,000
Guaranteed Underwriter Program:		
Distribution and power supply system mortgage notes pledged	<u>\$ 7,259,421</u>	<u>\$ 7,535,931</u>
Notes payable outstanding	6,029,890	6,261,312
Farmer Mac:		
Distribution and power supply system mortgage notes pledged	<u>\$ 3,156,344</u>	<u>\$ 3,687,418</u>
Notes payable outstanding	2,675,979	3,059,637
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes pledged	\$ 5,807	\$ 7,269
Cash	—	395
Total pledged collateral	<u>\$ 5,807</u>	<u>\$ 7,664</u>
Notes payable outstanding	4,412	6,068

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Credit Concentration

Concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or in geographic areas that would cause them to be similarly impacted by economic or other conditions or when there are large exposures to single borrowers. As a tax-exempt, member-owned finance cooperative, CFC's principal focus is to provide funding to its rural electric utility cooperative members to assist them in acquiring, constructing and operating electric distribution systems, power supply systems and related facilities. Because we lend primarily to our rural electric utility cooperative members, we have had a loan portfolio subject to single-industry and single-obligor concentration risks since our inception in 1969. Loans outstanding to electric utility organizations of \$27,885 million and \$26,306 million as of February 28, 2021 and May 31, 2020, respectively, accounted for 99% of total loans outstanding as of each respective date. The remaining loans outstanding in our portfolio were to RTFC members, affiliates and associates in the telecommunications industry.

Geographic Concentration

Although our organizational structure and mission results in single-industry concentration, we serve a geographically diverse group of electric and telecommunications borrowers throughout the United States. The number of borrowers with outstanding loans totaled 891 and 889 as of February 28, 2021 and May 31, 2020, respectively, located in 49 states. Texas accounted for the largest number of borrowers in any one state as of each respective date. In addition, loans to Texas-based borrowers accounted for approximately 17% and 16% of total loans outstanding as of February 28, 2021 and May 31, 2020, respectively, representing the largest concentration of loans outstanding to borrowers in any one state. Loans to Texas-based electric utility organizations covered by the Farmer Mac standby repurchase agreement totaled \$174 million and \$181 million as of February 28, 2021 and May 31, 2020, respectively, reducing our Texas-based exposure to 16% and 15% of total loans outstanding as of each respective date.

Single-Obligor Concentration

The outstanding loan exposure for our 20 largest borrowers totaled \$6,213 million and \$5,877 million as of February 28, 2021 and May 31, 2020, respectively, representing 22% of total loans outstanding as of each respective date. The 20 largest borrowers consisted of 11 distribution systems and nine power supply systems as of both February 28, 2021 and May 31, 2020. The largest total outstanding exposure to a single borrower or controlled group represented less than 2% of total loans outstanding as of both February 28, 2021 and May 31, 2020.

As part of our strategy in managing credit exposure to large borrowers, we entered into a long-term standby purchase commitment agreement with Farmer Mac during fiscal year 2016. Under this agreement, we may designate certain long-term loans to be covered under the commitment, subject to approval by Farmer Mac, and in the event any such loan later goes into payment default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We are required to pay Farmer Mac a monthly fee based on the unpaid principal balance of loans covered under the purchase commitment. The aggregate unpaid principal balance of designated and Farmer Mac approved loans was \$520 million and \$569 million as of February 28, 2021 and May 31, 2020, respectively. Loan exposure to our 20 largest borrowers covered under the Farmer Mac agreement totaled \$271 million and \$314 million as of February 28, 2021 and May 31, 2020, respectively. We have had no loan defaults for loans covered under this agreement; therefore, no loans had been put to Farmer Mac for purchase pursuant to the standby purchase agreement as of February 28, 2021. Our credit exposure is also mitigated by long-term loans guaranteed by the Rural Utilities Service ("RUS") of the USDA. Guaranteed RUS loans totaled \$141 million and \$147 million as of February 28, 2021 and May 31, 2020, respectively.

Credit Quality Indicators

Assessing the overall credit quality of our loan portfolio and measuring our credit risk is an ongoing process that involves tracking payment status, troubled debt restructurings, nonperforming loans, charge-offs, the internal risk ratings of our borrowers and other indicators of credit risk. We monitor and subject each borrower and loan facility in our loan portfolio to

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an individual risk assessment based on quantitative and qualitative factors. Payment status trends and internal risk ratings are indicators, among others, of the probability of borrower default and overall credit quality of our loan portfolio.

Payment Status of Loans

Loans are considered delinquent when contractual principal or interest amounts become past due 30 days or more following the scheduled payment due date. Loans are placed on nonaccrual status when payment of principal or interest is 90 days or more past due or management determines that the full collection of principal and interest is doubtful. The following table presents the payment status, by member class, of loans outstanding as of February 28, 2021 and May 31, 2020.

Table 4.5: Payment Status of Loans Outstanding

(Dollars in thousands)	February 28, 2021					
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Outstanding	Nonaccrual Loans
CFC:						
Distribution	\$ 21,878,524	\$ —	\$ —	\$ —	\$ 21,878,524	\$ —
Power supply	5,187,586	—	—	—	5,187,586	230,073
Statewide and associate ..	96,717	—	—	—	96,717	—
CFC total	27,162,827	—	—	—	27,162,827	230,073
NCSC	721,894	—	—	—	721,894	—
RTFC	430,950	—	—	—	430,950	9,619
Total loans outstanding	<u>\$ 28,315,671</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,315,671</u>	<u>\$ 239,692</u>
Percentage of total loans	100.00 %	— %	— %	— %	100.00 %	0.85 %
(Dollars in thousands)	May 31, 2020					
	Current	30-89 Days Past Due	90 Days or More Past Due ⁽¹⁾	Total Past Due	Total Loans Outstanding	Nonaccrual Loans
CFC:						
Distribution	\$ 20,769,653	\$ —	\$ —	\$ —	\$ 20,769,653	\$ —
Power supply	4,731,506	—	—	—	4,731,506	167,708
Statewide and associate ..	106,498	—	—	—	106,498	—
CFC total	25,607,657	—	—	—	25,607,657	167,708
NCSC	697,862	—	—	—	697,862	—
RTFC	385,335	—	—	—	385,335	—
Total loans outstanding	<u>\$ 26,690,854</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 26,690,854</u>	<u>\$ 167,708</u>
Percentage of total loans	100.00 %	— %	— %	— %	100.00 %	0.63 %

While we had no delinquent loans as of February 28, 2021 or May 31, 2020, loans outstanding on nonaccrual status increased \$72 million to \$240 million as of February 28, 2021. No interest income was recognized on nonaccrual loans during the nine months ended February 28, 2021 and February 29, 2020. See “Nonperforming Loans” below for additional information.

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Troubled Debt Restructurings

We did not have any loan modifications that were required to be accounted for as a TDR during the nine months ended February 28, 2021, nor have we had any TDR loan modifications since fiscal year 2016. The following table presents the outstanding balance of modified loans accounted for as TDRs in prior periods and the performance status, by member class, of these loans as of February 28, 2021 and May 31, 2020.

Table 4.6: Trouble Debt Restructurings

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding
TDR loans:						
CFC—Distribution.....	1	\$ 5,379	0.02 %	1	\$ 5,755	0.02 %
RTFC.....	1	4,717	0.02	1	5,092	0.02
Total TDR loans.....	<u>2</u>	<u>\$ 10,096</u>	<u>0.04 %</u>	<u>2</u>	<u>\$ 10,847</u>	<u>0.04 %</u>
Performance status of TDR loans:...						
Performing TDR loans.....	2	\$ 10,096	0.04 %	2	\$ 10,847	0.04 %
Total TDR loans.....	<u>2</u>	<u>\$ 10,096</u>	<u>0.04 %</u>	<u>2</u>	<u>\$ 10,847</u>	<u>0.04 %</u>

⁽¹⁾ Represents the unpaid principal balance net of charge-offs and recoveries as of the end of each period.

The outstanding TDR loans for CFC and RTFC each relate to the modification of a loan for one borrower that, at the time of the modification, was experiencing financial difficulty. There were no unadvanced commitments related to these loans as of February 28, 2021 and May 31, 2020. We did not have any TDR loans classified as nonperforming as of February 28, 2021 or May 31, 2020.

Nonperforming Loans

In addition to TDR loans that may be classified as nonperforming, we also may have nonperforming loans that have not been modified as a TDR. The following table presents the outstanding balance of nonperforming loans, by member class, as of February 28, 2021 and May 31, 2020.

Table 4.7: Nonperforming Loans

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding	Number of Borrowers	Outstanding Amount ⁽¹⁾	% of Total Loans Outstanding
Nonperforming loans:						
CFC—Power supply ⁽²⁾	2	\$ 230,073	0.81 %	1	\$ 167,708	0.63 %
RTFC.....	2	9,619	0.04	—	—	—
Total nonperforming loans.....	<u>4</u>	<u>\$ 239,692</u>	<u>0.85 %</u>	<u>1</u>	<u>\$ 167,708</u>	<u>0.63 %</u>

⁽¹⁾ Represents the unpaid principal balance net of charge-offs and recoveries as of the end of each period.

⁽²⁾ In addition, we had \$3 million letters of credit outstanding to Brazos as of February 28, 2021.

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Nonperforming loans increased \$72 million to \$240 million, or 0.85%, of total loans outstanding as of February 28, 2021, from \$168 million, or 0.63%, of total loans outstanding as of May 31, 2020, primarily due to our classification of the loans outstanding of \$82 million to Brazos Electric Power Cooperative, Inc. (“Brazos”), a CFC Texas-based power supply borrower, as nonperforming as a result of its bankruptcy filing as described below.

In mid-February 2021, Texas and several neighboring states experienced a series of severe winter storms and record-low temperatures as a result of the polar vortex. The freezing conditions affected power demand, supply and market prices in Texas, triggering unprecedented increases in electrical power load demand in combination with significant reductions in power supply across Texas, including a loss of almost half of the electric generation within the Electric Reliability Council of Texas (“ERCOT”) service area. ERCOT raised wholesale electric power prices per megawatt hour to the maximum allowable amount of \$9,000, to spur greater power generation by providing a financial incentive for power generators in the state to remain online. According to ERCOT data, pre-storm wholesale power prices were less than \$50 per megawatt hour. ERCOT also initiated controlled rolling power outages, which impacted millions of residential and commercial customers, to protect and maintain the stability of the Texas electric grid.

The surge in wholesale electricity prices had a direct financial impact primarily on certain electric power supply utilities, including a significant adverse financial impact on two CFC Texas-based electric power supply borrowers that had insufficient generation supply during the February 2021 polar vortex and were forced, at the height of the surge in power prices, to purchase power at elevated prices to meet the electric demand of their member distribution system customers. On March 1, 2021, we were informed that Brazos filed for Chapter 11 bankruptcy protection. We had exposure to Brazos totaling \$85 million as of February 28, 2021, consisting of unsecured loans outstanding of \$82 million and letters of credit of \$3 million, pursuant to a \$500 million syndicated revolving credit agreement administered by Bank of America. As a result of draws on the letters of credit in March 2021, subsequent to Brazos’ bankruptcy filing, we currently have unsecured loans outstanding to Brazos of \$85 million. We downgraded Brazos’ borrower risk rating from a rating within the pass category to doubtful, classified its loans outstanding of \$82 million as of February 28, 2021 as nonperforming, placed the loans on nonaccrual status, and reversed unpaid interest amounts previously accrued and recognized in interest income. In addition to Brazos, we classified loans outstanding to two affiliated RTFC telecommunications borrowers totaling \$10 million as nonperforming as of February 28, 2021.

Under the terms of the syndicated Bank of America revolving credit agreement, in the event of bankruptcy by Brazos, each lending participant is permitted to hold any deposited or investment funds from Brazos, up to the amount of the participant’s exposure to Brazos pursuant to the agreement, for set off against such exposure to Brazos. The total so held by all participants is required to be shared among the participants in accordance with the pro rata share of each participant in the agreement. As of the bankruptcy filing date, funds on deposit from or invested by Brazos with participating lenders of the agreement, available for set off against Brazos’s obligations, totaled \$117 million. Based on our exposure of \$85 million under the \$500 million syndicated Bank of America agreement, our pro rata share set-off right is 17%, or approximately \$20 million. The set-off rights have been agreed to and confirmed by Brazos and the bankruptcy court, subject only to challenge by parties other than Brazos until May 16, 2021, and subject to extension beyond this date by order of the court. In order to allow Brazos to access such deposited or invested funds, the lenders have been granted adequate protection liens and super-priority claims in an amount equal to the diminution of value of the amount available for set off.

One loan to another CFC power supply borrower, with an outstanding balance of \$148 million and \$168 million as of February 28, 2021 and May 31, 2020, respectively, accounted for the substantial majority of nonperforming loans as of February 28, 2021, and the entire amount of nonperforming loans as of May 31, 2020. Under the terms of this loan, which matures in December 2026, the amount the borrower is required to pay in 2024 and 2025 may vary, as the payments are contingent on the borrower’s financial performance in those years. Based on our review and assessment of the borrower’s most recent forecast and underlying assumptions provided to us in May 2020, we no longer believed that the future expected cash payments from the borrower through the maturity of the loan in December 2026 would be sufficient to repay the outstanding loan balance. We therefore classified this loan as nonperforming, placed the loan on nonaccrual status and established an asset-specific allowance for credit losses as of May 31, 2020. We received payments from the borrower on

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this loan during the current year-to-date period, reducing the outstanding balance to \$148 million as of February 28, 2021. While the borrower is not in default and was current with respect to required payments on the loan as of February 28, 2021, we have continued to report the loan as nonperforming.

Net Charge-Offs

We had no loan charge-offs during the nine months ended February 28, 2021, nor during the same prior year-to-date period. Prior to Brazos' bankruptcy filing, we had not experienced any defaults or charge-offs in our electric utility and telecommunications loan portfolios since fiscal year 2013 and 2017, respectively. In addition, we had no delinquent loans as of either February 28, 2021 or May 31, 2020. However, as a result of its bankruptcy filing, we expect that Brazos will be unable to make future scheduled loan payments without approval of the bankruptcy court.

Borrower Risk Ratings

As part of our management of credit risk, we maintain a credit risk rating framework under which we employ a consistent process for assessing the credit quality of our loan portfolio. We evaluate each borrower and loan facility in our loan portfolio and assign internal borrower and loan facility risk ratings based on consideration of a number of quantitative and qualitative factors. Each risk rating is reassessed annually following the receipt of the borrower's audited financial statements; however, interim risk-rating adjustments may occur as a result of updated information affecting a borrower's ability to fulfill its obligations or other significant developments and trends. We categorize loans in our portfolio based on our internally assigned borrower risk ratings, which are intended to assess the general credit worthiness of the borrower and probability of default. Our borrower risk ratings align with the U.S. federal banking regulatory agencies credit risk definitions of pass and criticized categories, with the criticized category further segmented among special mention, substandard and doubtful. Pass ratings reflect relatively low probability of default, while criticized ratings have a higher probability of default. Following is a description of the borrower risk rating categories.

- *Pass*: Borrowers that are not experiencing difficulty and/or not showing a potential or well-defined credit weakness.
- *Special Mention*: Borrowers that may be characterized by a potential credit weakness or deteriorating financial condition that is not sufficiently serious to warrant a classification of substandard or doubtful.
- *Substandard*: Borrowers that display a well-defined credit weakness that may jeopardize the full collection of principal and interest.
- *Doubtful*: Borrowers that have a well-defined credit weakness or weaknesses that make full collection of principal and interest, on the basis of currently known facts, conditions and collateral values, highly questionable and improbable.

We use our internal risk ratings to measure the credit risk of each borrower and loan facility, identify or confirm problem or potential problem loans in a timely manner, differentiate risk within each of our portfolio segments, assess the overall credit quality of our loan portfolio and manage overall risk levels. Our internally assigned borrower risk ratings, which we map to equivalent credit ratings by external credit rating agencies, serve as the primary credit quality indicator for our loan portfolio. Because our internal borrower risk ratings provide important information on the probability of default, they are a key input in estimating our allowance for credit losses.

The following table displays total loans outstanding, by borrower risk rating category and borrower member type, as of February 28, 2021 and May 31, 2020. The borrower risk rating categories of loans outstanding presented below correspond to the borrower risk rating categories used in calculating the collective allowance for credit losses. If a parent company provides a guarantee of full repayment of loans of a subsidiary borrower, we include the loans outstanding in the borrower risk rating category of the guarantor parent company rather than the risk rating category of the subsidiary borrower for purposes of calculating the collective allowance.

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In connection with our adoption of CECL, we present term loans outstanding as of February 28, 2021, by fiscal year of origination for each year during the five-year annual reporting period beginning in fiscal year 2017, and in the aggregate for periods prior to fiscal year 2017. The origination period represents the date CFC advances funds to a borrower, rather than the execution date of a loan facility for a borrower. Revolving loans are presented separately due to the nature of revolving loans. The substantial majority of loans in our portfolio represent fixed-rate advances under secured long-term facilities with terms up to 35 years, and as indicated in the table below, \$16,088 million, or 57%, of total loans outstanding of \$28,316 million as of February 28, 2021 represent term-loan advances made to borrowers prior to fiscal year 2017. Our long-term loans, which represent 92% of total loans outstanding, have an average remaining maturity of 18 years as of February 28, 2021.

As discussed above, as a tax-exempt, member-owned finance cooperative, CFC's principal focus is to provide funding to its rural electric utility cooperative members to assist them in acquiring, constructing and operating electric distribution systems, power supply systems and related facilities. As such, since our inception in 1969 we have had an extended repeat lending and repayment history with substantially all of member borrowers through our various loan programs. Our secured long-term loan commitment facilities typically provide a five-year draw period under which a borrower may draw funds prior to the expiration of the commitment. Because our electric utility cooperative borrowers must make substantial annual capital investments to maintain operations and ensure delivery of the essential service provided by electric utilities, they require a continuous inflow of funds to finance infrastructure upgrades and new asset purchases. Due to the funding needs of electric utility cooperatives, a CFC borrower generally has multiple loans outstanding under advances drawn in different years. While the number of borrowers with loans outstanding was 891 borrowers as of February 28, 2021, the number of loans outstanding was 16,593 as of February 28, 2021, resulting in an average of 19 loans outstanding per borrower. Our borrowers, however, are subject to cross-default under the terms of our loan agreements. Therefore, if a borrower defaults on one loan, the borrower is considered in default on all outstanding loans. Due to these factors, we historically have not observed a correlation between the year of origination of our loans and default risk. Instead, default risk on our loans has typically been more closely correlated to the risk rating of our borrowers.

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Table 4.8: Loans Outstanding by Borrower Risk Ratings and Origination Year

(Dollars in thousands)	February 28, 2021								
	Term Loans by Fiscal Year of Origination						Revolving Loans	Total	May 31, 2020
	YTD Q3 2021	2020	2019	2018	2017	Prior			
Pass									
CFC:									
Distribution	\$1,362,961	\$1,948,601	\$1,243,580	\$1,508,703	\$1,532,026	\$12,754,846	\$1,231,123	\$21,581,840	\$20,643,737
Power supply	537,504	204,251	352,543	252,833	253,714	2,518,555	379,097	4,498,497	4,516,595
Statewide and associate	999	22,871	3,784	—	605	24,559	27,910	80,728	90,274
CFC total	1,901,464	2,175,723	1,599,907	1,761,536	1,786,345	15,297,960	1,638,130	26,161,065	25,250,606
NCSC	16,120	243,819	4,454	58,337	14,701	257,556	126,907	721,894	697,862
RTFC	81,286	70,550	12,649	28,618	65,335	134,995	23,181	416,614	371,507
Total pass	<u>\$1,998,870</u>	<u>\$2,490,092</u>	<u>\$1,617,010</u>	<u>\$1,848,491</u>	<u>\$1,866,381</u>	<u>\$15,690,511</u>	<u>\$1,788,218</u>	<u>\$27,299,573</u>	<u>\$26,319,975</u>
Special mention									
CFC:									
Distribution	\$ 5,070	\$ —	\$ 5,220	\$ 954	\$ 4,644	\$ 110,302	\$ 170,494	\$ 296,684	\$ 7,743
Power supply	23,600	—	87,822	2,339	8,193	132,502	204,560	459,016	—
Statewide and associate	—	—	5,000	4,000	5,815	1,174	—	15,989	16,224
CFC total	28,670	—	98,042	7,293	18,652	243,978	375,054	771,689	23,967
RTFC	—	—	—	—	—	—	—	—	8,736
Total special mention	<u>\$ 28,670</u>	<u>\$ —</u>	<u>\$ 98,042</u>	<u>\$ 7,293</u>	<u>\$ 18,652</u>	<u>\$ 243,978</u>	<u>\$ 375,054</u>	<u>\$ 771,689</u>	<u>\$ 32,703</u>
Substandard									
CFC:									
Distribution	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 118,173
Power supply	—	—	—	—	—	—	—	—	47,203
CFC total	—	—	—	—	—	—	—	—	165,376
RTFC	—	—	—	—	—	4,717	—	4,717	5,092
Total substandard	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,717</u>	<u>\$ —</u>	<u>\$ 4,717</u>	<u>\$ 170,468</u>
Doubtful									
CFC:									
Power supply	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 148,477	\$ 81,596	\$ 230,073	\$ 167,708
CFC total	—	—	—	—	—	148,477	81,596	230,073	167,708
RTFC	—	—	1,473	3,078	3,218	—	1,850	9,619	—
Total doubtful	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,473</u>	<u>\$ 3,078</u>	<u>\$ 3,218</u>	<u>\$ 148,477</u>	<u>\$ 83,446</u>	<u>\$ 239,692</u>	<u>\$ 167,708</u>
Total criticized loans	<u>\$ 28,670</u>	<u>\$ —</u>	<u>\$ 99,515</u>	<u>\$ 10,371</u>	<u>\$ 21,870</u>	<u>\$ 397,172</u>	<u>\$ 458,500</u>	<u>\$ 1,016,098</u>	<u>\$ 370,879</u>
Total loans outstanding	<u><u>\$2,027,540</u></u>	<u><u>\$2,490,092</u></u>	<u><u>\$1,716,525</u></u>	<u><u>\$1,858,862</u></u>	<u><u>\$1,888,251</u></u>	<u><u>\$16,087,683</u></u>	<u><u>\$2,246,718</u></u>	<u><u>\$28,315,671</u></u>	<u><u>\$26,690,854</u></u>

Criticized loans increased \$645 million to \$1,016 million as of February 28, 2021, from \$371 million as of May 31, 2020, representing approximately 4% and 1% of total loans outstanding as of each respective date. The increase was attributable to increases in loans outstanding in the special mention and doubtful categories, partially offset by a decrease in loans outstanding in the substandard category. Each of the borrowers with loans outstanding in the criticized category was current

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with regard to all principal and interest amounts due as of February 28, 2021. However, as a result of its bankruptcy filing, we expect that Brazos will be unable to make future scheduled loan payments without approval of the bankruptcy court.

Special Mention and Substandard

Loans outstanding to one CFC Texas-based electric power supply borrower totaling \$383 million, one CFC electric distribution borrower totaling \$190 million, and one CFC electric distribution borrower and its subsidiary totaling \$148 million accounted for the substantial majority of the special mention loan category amount of \$772 million as of February 28, 2021.

The Texas-based electric power supply borrower with loans outstanding of \$383 million as of February 28, 2021 was downgraded to special mention in the third quarter of fiscal year 2021, from a rating within the pass category as of May 31, 2020. The downgrade was attributable to the significant adverse financial impact from exposure to the elevated power costs during the February 2021 polar vortex.

The CFC electric distribution borrower with loans outstanding of \$190 million as of February 28, 2021 was downgraded to special mention in the second quarter of fiscal year 2021, from a rating within the pass category as of May 31, 2020. The downgrade was attributable to an adverse financial impact from restoration costs incurred to repair damage caused by two successive hurricanes. We expect that the borrower will receive grant funds from the Federal Emergency Management Agency and the state where it is located for reimbursement of the hurricane damage-related restoration costs.

The CFC electric distribution borrower and its subsidiary with loans outstanding of \$148 million as of February 28, 2021 was upgraded to special mention in the first quarter of fiscal year 2021, from substandard as of May 31, 2020. The upgrade in the risk rating was based on the borrower's improved financial performance.

Doubtful

The increase in loans outstanding in the doubtful category to \$240 million as of February 28, 2021, from \$168 million as of May 31, 2020 was attributable to the current quarter downgrades in the borrower risk ratings of Brazos and two affiliated RTFC telecommunications borrowers and classification of loans outstanding to these borrowers of \$82 million and \$10 million, respectively, as nonperforming as of February 28, 2021, discussed above under "Nonperforming Loans."

NOTE 5—ALLOWANCE FOR CREDIT LOSSES

Upon adoption of CECL on June 1, 2020, we recorded an increase in our allowance for credit losses for our loan portfolio of \$4 million. The impact on the reserve for expected credit losses for our off-balance credit exposures related to unadvanced loan commitments and financial guarantees was not material. Additional information on our adoption of CECL is provided in "Note 1—Summary of Significant Accounting Policies."

Allowance for Credit Losses—Loan Portfolio

The following tables summarize changes in the allowance for credit losses for our loan portfolio and present the allowance components for the three and nine months ended February 28, 2021 and February 29, 2020. The changes in the allowance and the allowance components prior to our adoption of CECL on June 1, 2020 are based on the incurred loss model. The allowance components, which consist of a collective allowance and an asset-specific allowance, are based on the evaluation method used to measure our loans for credit losses. Loans that share similar risk characteristics are evaluated on a collective basis in measuring credit losses, while loans that do not share similar risk characteristics with other loans in our portfolio are evaluated on an individual basis.

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Table 5.1: Changes in Allowance for Credit Losses

	Three Months Ended February 28, 2021			
(Dollars in thousands)	CFC	NCSC	RTFC	Total
Balance as of November 30, 2020.....	\$ 54,409	\$ 1,341	\$ 3,239	\$ 58,989
Provision for credit losses.....	29,435	316	3,272	33,023
Balance as of February 28, 2021.....	<u>\$ 83,844</u>	<u>\$ 1,657</u>	<u>\$ 6,511</u>	<u>\$ 92,012</u>

	Three Months Ended February 29, 2020			
(Dollars in thousands)	CFC	NCSC	RTFC	Total
Balance as of November 30, 2019.....	\$ 13,076	\$ 810	\$ 2,634	\$ 16,520
Provision for credit losses.....	153	47	2,182	2,382
Balance as of February 29, 2020.....	<u>\$ 13,229</u>	<u>\$ 857</u>	<u>\$ 4,816</u>	<u>\$ 18,902</u>

	Nine Months Ended February 28, 2021			
(Dollars in thousands)	CFC	NCSC	RTFC	Total
Balance as of May 31, 2020.....	\$ 47,438	\$ 806	\$ 4,881	\$ 53,125
Cumulative-effect adjustment from adoption of CECL accounting standard.....	5,645	(15)	(1,730)	3,900
Balance as of June 1, 2020.....	53,083	791	3,151	57,025
Provision for credit losses.....	30,761	866	3,360	34,987
Balance as of February 28, 2021.....	<u>\$ 83,844</u>	<u>\$ 1,657</u>	<u>\$ 6,511</u>	<u>\$ 92,012</u>

	Nine Months Ended February 29, 2020			
(Dollars in thousands)	CFC	NCSC	RTFC	Total
Balance as of May 31, 2019.....	\$ 13,120	\$ 2,007	\$ 2,408	\$ 17,535
Provision (benefit) for credit losses.....	109	(1,150)	2,408	1,367
Balance as of February 29, 2020.....	<u>\$ 13,229</u>	<u>\$ 857</u>	<u>\$ 4,816</u>	<u>\$ 18,902</u>

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The following tables present, by company, the components of our allowance for loan losses as of February 28, 2021 and May 31, 2020.

Table 5.2: Allowance for Credit Losses Components

(Dollars in thousands)	February 28, 2021			
	CFC	NCSC	RTFC	Total
Allowance components:				
Collective allowance.....	\$ 46,684	\$ 1,657	\$ 1,744	\$ 50,085
Asset-specific allowance ⁽¹⁾	37,160	—	4,767	41,927
Total allowance for credit losses.....	<u>\$ 83,844</u>	<u>\$ 1,657</u>	<u>\$ 6,511</u>	<u>\$ 92,012</u>
Loans outstanding: ⁽²⁾				
Collectively evaluated loans.....	\$ 26,927,375	\$ 721,894	\$ 416,614	\$ 28,065,883
Individually evaluated loans ⁽¹⁾	235,452	—	14,336	249,788
Total loans outstanding.....	<u>\$ 27,162,827</u>	<u>\$ 721,894</u>	<u>\$ 430,950</u>	<u>\$ 28,315,671</u>
Allowance ratios:				
Collective allowance coverage ratio ⁽³⁾	0.17 %	0.23 %	0.42 %	0.18 %
Asset-specific allowance coverage ratio ⁽⁴⁾	15.78	—	33.25	16.79
Total allowance coverage ratio ⁽⁵⁾	0.31	0.23	1.51	0.32
May 31, 2020				
(Dollars in thousands)	CFC	NCSC	RTFC	Total
Allowance components:				
Collective allowance.....	\$ 13,584	\$ 806	\$ 3,902	\$ 18,292
Asset-specific allowance.....	33,854	—	979	34,833
Total allowance for credit losses.....	<u>\$ 47,438</u>	<u>\$ 806</u>	<u>\$ 4,881</u>	<u>\$ 53,125</u>
Loans outstanding: ⁽²⁾				
Collectively evaluated loans.....	\$ 25,434,193	\$ 697,862	\$ 380,243	\$ 26,512,298
Individually evaluated loans.....	173,464	—	5,092	178,556
Total loans outstanding.....	<u>\$ 25,607,657</u>	<u>\$ 697,862</u>	<u>\$ 385,335</u>	<u>\$ 26,690,854</u>
Allowance coverage ratios:				
Collective allowance coverage ratio ⁽³⁾	0.05 %	0.12 %	1.03 %	0.07 %
Asset-specific allowance coverage ratio ⁽⁴⁾	19.52	—	19.23	19.51
Total allowance coverage ratio ⁽⁵⁾	0.19	0.12	1.27	0.20

⁽¹⁾In addition, we had \$3 million letters of credit outstanding to Brazos, for which the reserve is included asset-specific allowance as of February 28, 2021.

⁽²⁾Represents the unpaid principal amount of loans as of the end of each period. Excludes unamortized deferred loan origination costs of \$11 million as of both February 28, 2021 and May 31, 2020.

⁽³⁾Calculated based on the collective allowance component at period end divided by collectively evaluated loans outstanding at period end.

⁽⁴⁾Calculated based on the asset-specific allowance component at period end divided by individually evaluated loans outstanding at period end.

⁽⁵⁾Calculated based on the total allowance for credit losses at period end divided by total loans outstanding at period end.

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Individually Impaired Loans Under Incurred Loss Methodology

Prior to our adoption of CECL on June 1, 2020, we assessed loan impairment on a collective basis unless we considered a loan to be impaired. We assessed loan impairment on an individual basis when, based on current information, it was probable that we would not receive all principal and interest amounts due in accordance with the contractual terms of the original loan agreement. In connection with our adoption of CECL, we no longer provide information on impaired loans. The following table provides information on loans previously classified as individually impaired under the incurred loss model for determining the allowance for credit losses.

Table 5.3: Individually Impaired Loans—Incurred Loss Model

<u>(Dollars in thousands)</u>	<u>May 31, 2020</u>			
	<u>Recorded Invested</u>	<u>Related Allowance</u>	<u>With Specific Allowance</u>	<u>With No Specific Allowance</u>
Individually impaired loans:				
CFC.....	\$ 173,463	\$ 33,854	\$ 167,708	\$ 5,755
RTFC.....	5,092	979	5,092	—
Total.....	<u>\$ 178,555</u>	<u>\$ 34,833</u>	<u>\$ 172,800</u>	<u>\$ 5,755</u>

The following tables present, by company, the components of our recorded investment and interest income recognized during the three and nine months ended February 29, 2020.

Table 5.4: Average Recorded Investment and Interest Income Recognized on Individually Impaired Loans—Incurred Loss Model

<u>(Dollars in thousands)</u>	<u>Three Months Ended February 29, 2020</u>		<u>Nine Months Ended February 29, 2020</u>	
	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Individually impaired loans:				
CFC.....	\$ 5,755	\$ 143	\$ 5,918	\$ 424
RTFC.....	5,300	67	5,423	204
Total.....	<u>\$ 11,055</u>	<u>\$ 210</u>	<u>\$ 11,341</u>	<u>\$ 628</u>

Reserve for Credit Losses—Unadvanced Loan Commitments

In addition to the allowance for credit losses for our loan portfolio, we maintain an allowance for credit losses for unadvanced loan commitments, which we refer to as our reserve for credit losses because this amount is reported as a component of other liabilities on our consolidated balance sheets. Upon adoption of CECL on June 1, 2020, we began measuring the reserve for credit losses for unadvanced loan commitments based on expected credit losses over the contractual period of our exposure to credit risk arising from our obligation to extend credit, unless that obligation is unconditionally cancellable by us. The reserve for credit losses related to our off-balance sheet exposure for unadvanced loan commitments was less than \$1 million as of both February 28, 2021 and May 31, 2020.

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NOTE 6—SHORT-TERM BORROWINGS

Short-term borrowings consist of borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. Our short-term borrowings totaled \$4,408 million and accounted for 16% of total debt outstanding as of February 28, 2021, compared with \$3,962 million and 15% of total debt outstanding as of May 31, 2020. The following table provides comparative information on our short-term borrowings as of February 28, 2021 and May 31, 2020.

Table 6.1: Short-Term Borrowings Sources

(Dollars in thousands)	February 28, 2021	May 31, 2020
Short-term borrowings:		
Commercial paper:		
Commercial paper sold through dealers, net of discounts	\$ 654,988	\$ —
Commercial paper sold directly to members, at par	1,371,796	1,318,566
Total commercial paper	<u>2,026,784</u>	<u>1,318,566</u>
Select notes to members	1,370,795	1,597,959
Daily liquidity fund notes	678,792	508,618
Medium-term notes sold to members	331,586	286,842
Farmer Mac notes payable ⁽¹⁾	—	250,000
Total short-term borrowings	<u>\$ 4,407,957</u>	<u>\$ 3,961,985</u>

⁽¹⁾ Advanced under the revolving purchase agreement with Farmer Mac dated March 24, 2011. See “Note 7—Long-Term Debt” for additional information on this revolving note purchase agreement.

Committed Bank Revolving Line of Credit Agreements

The total commitment amount under our committed bank revolving line of credit agreements was \$2,725 million as of both February 28, 2021 and May 31, 2020. These agreements allow us to request up to \$300 million of letters of credit, which, if requested, results in a reduction in the total amount available for our use. The following table presents the amount available for access under our bank revolving line of credit agreements as of February 28, 2021 and May 31, 2020.

Table 6.2: Committed Bank Revolving Line of Credit Agreements Available Amounts

(Dollars in millions)	February 28, 2021			May 31, 2020			Maturity	Annual Facility Fee ⁽¹⁾
	Total Commitment	Letters of Credit Outstanding	Available Amount	Total Commitment	Letters of Credit Outstanding	Available Amount		
3-year agreement ..	\$ 1,315	\$ —	\$ 1,315	\$ 1,315	\$ —	\$ 1,315	November 28, 2022	7.5 bps
5-year agreement ..	1,410	3	1,407	1,410	3	1,407	November 28, 2023	10 bps
Total	<u>\$ 2,725</u>	<u>\$ 3</u>	<u>\$ 2,722</u>	<u>\$ 2,725</u>	<u>\$ 3</u>	<u>\$ 2,722</u>		

⁽¹⁾ Facility fee determined by CFC’s senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

As indicated in the table above, we had no borrowings outstanding under our committed bank revolving line of credit agreements as of February 28, 2021 or May 31, 2020. We were in compliance with all covenants and conditions under the agreements as of each respective date.

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NOTE 7—LONG-TERM DEBT

The following table displays, by debt product type, long-term debt outstanding as of February 28, 2021 and May 31, 2020. Long-term debt outstanding totaled \$20,556 million and accounted for 76% of total debt outstanding as of February 28, 2021, compared with \$19,712 million and 76% of total debt outstanding as of May 31, 2020.

Table 7.1: Long-Term Debt by Debt Product Type

(Dollars in thousands)	February 28, 2021	May 31, 2020
Secured long-term debt:		
Collateral trust bonds.....	\$ 7,452,711	\$ 7,457,711
Unamortized discount.....	(229,946)	(236,461)
Debt issuance costs.....	(34,832)	(32,697)
Total collateral trust bonds.....	<u>7,187,933</u>	<u>7,188,553</u>
Guaranteed Underwriter Program notes payable.....	6,029,890	6,261,312
Farmer Mac notes payable.....	2,675,979	2,809,637
Other secured notes payable.....	4,412	6,068
Debt issuance costs.....	(26)	(117)
Total other secured notes payable.....	<u>4,386</u>	<u>5,951</u>
Total secured notes payable.....	<u>8,710,255</u>	<u>9,076,900</u>
Total secured long-term debt.....	<u>15,898,188</u>	<u>16,265,453</u>
Unsecured long-term debt:		
Medium-term notes sold through dealers.....	4,376,480	3,086,733
Medium-term notes sold to members.....	297,712	372,117
Subtotal medium-term notes.....	<u>4,674,192</u>	<u>3,458,850</u>
Unamortized discount.....	(2,492)	(997)
Debt issuance costs.....	(18,181)	(16,943)
Total unsecured medium-term notes.....	<u>4,653,519</u>	<u>3,440,910</u>
Unsecured notes payable.....	3,886	5,794
Unamortized discount.....	(43)	(107)
Debt issuance costs.....	(6)	(26)
Total unsecured notes payable.....	<u>3,837</u>	<u>5,661</u>
Total unsecured long-term debt.....	<u>4,657,356</u>	<u>3,446,571</u>
Total long-term debt.....	<u>\$ 20,555,544</u>	<u>\$ 19,712,024</u>

Medium-Term Notes

Medium-term notes represent unsecured obligations that may be issued through dealers in the capital markets or directly to our members.

On February 8, 2021, we issued \$500 million aggregate principal amount of 0.35% dealer medium-term notes due February 8, 2024. On February 16, 2021, we issued \$250 million aggregate principal amount of 3-month LIBOR dealer medium-term notes due February 16, 2023. On February 24, 2021, we issued \$600 million aggregate principal amount of 1.00% dealer

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medium-term notes due June 15, 2026. On February 24, 2021, we also issued \$75 million aggregate principal amount of 0.25% dealer medium-term notes due February 24, 2023.

Secured Debt

Long-term secured debt of \$15,898 million and \$16,265 million as February 28, 2021 and May 31, 2020, respectively, represented 77% and 83% of total long-term debt outstanding as of each respective date. The decrease in long-term secured debt of \$367 million during the nine months ended February 28, 2021 was primarily attributable to a reduction in notes payable under the Guaranteed Underwriter Program and notes payable under the Farmer Mac revolving note purchase agreement. We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt. We believe we were in compliance with all covenants and conditions under our debt indentures as of February 28, 2021 and May 31, 2020. See “Note 4—Loans” for information on pledged collateral under our secured debt agreements.

Collateral Trust Bonds

Collateral trust bonds outstanding decreased \$1 million to \$7,188 million as of February 28, 2021. In June 2020, we redeemed all \$400 million outstanding principal amount of our 2.35% collateral trust bonds due June 15, 2020. In October 2020, we redeemed all \$350 million outstanding principal amount of our 2.30% collateral trust bonds, due November 1, 2020. On October 8, 2020, we issued \$400 million aggregate principal amount of 1.35% sustainability collateral trust bonds due March 15, 2031. On February 8, 2021, we issued \$350 million of aggregate principal amount of 1.65% collateral trust bonds due June 15, 2031.

Guaranteed Underwriter Program Notes Payable

Notes payable outstanding under the Guaranteed Underwriter Program decreased \$231 million to \$6,030 million as of February 28, 2021. On November 19, 2020, we closed on a \$375 million committed loan facility (“Series R”) from the Federal Financing Bank under the Guaranteed Underwriter Program. Pursuant to this facility, we may borrow any time before July 15, 2025. Each advance is subject to quarterly amortization and a final maturity not longer than 30 years from the date of the advance. On January 15, 2021, we redeemed \$125 million of Series D notes payable outstanding under the Guaranteed Underwriter Program, with an original maturity of 2040. We had up to \$1,275 million available for access under the Guaranteed Underwriter Program as of February 28, 2021.

Farmer Mac Notes Payable

We have a revolving note purchase agreement with Farmer Mac, dated March 24, 2011, as amended, under which we can borrow up to \$5,500 million from Farmer Mac at any time, subject to market conditions, through January 11, 2022. The amount outstanding under this agreement included \$2,676 million of long-term debt as of February 28, 2021. On January 15, 2021, we advanced two notes payable totaling \$125 million under the Farmer Mac Note purchase agreement. The amount available for borrowing totaled \$2,824 million as of February 28, 2021.

See “Note 7—Long-Term Debt” in our 2020 Form 10-K for additional information on our various long-term debt product types.

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NOTE 8—SUBORDINATED DEFERRABLE DEBT

Subordinated deferrable debt represents long-term debt that is subordinated to all debt other than subordinated certificates held by our members. The following table presents, by issuance, subordinated deferrable debt outstanding as of February 28, 2021 and May 31, 2020.

Table 8.1: Subordinated Deferrable Debt Outstanding

(Dollars in thousands)	Outstanding Amount		Maturity and Call Dates		
	February 28, 2021	May 31, 2020	Term in Years	Maturity	Call Date
Issuances of subordinated notes:					
4.75% issuance 2013	\$ 400,000	\$ 400,000	30	2043	April 30, 2023
5.25% issuance 2016	350,000	350,000	30	2046	April 20, 2026
5.50% issuance 2019	250,000	250,000	45	2064	May 15, 2024
Total aggregate principal amount	1,000,000	1,000,000			
Debt issuance costs	(13,735)	(13,881)			
Total subordinated deferrable debt ...	\$ 986,265	\$ 986,119			

See “Note 8—Subordinated Deferrable Debt” in our 2020 Form 10-K for additional information on the terms and conditions of our subordinated deferrable debt outstanding.

NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are an end user of derivative financial instruments and do not engage in derivative trading. Derivatives may be privately negotiated contracts, which are often referred to as over-the-counter (“OTC”) derivatives, or they may be listed and traded on an exchange. We generally engage in OTC derivative transactions. Our derivative instruments are an integral part of our interest rate risk management strategy. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. The derivative instruments we use primarily include interest rate swaps, which we typically hold to maturity. In addition, we may on occasion use Treasury Locks to manage the interest rate risk associated with future debt issuance or debt that is scheduled to reprice in the future.

Accounting for Derivatives

In accordance with the accounting standards for derivatives and hedging activities, all derivative instruments are recorded at fair value on our consolidated balance sheets and classified as either derivative assets or derivative liabilities. Derivatives in a gain position are reported as derivative assets, while derivatives in a loss position are reported as derivative liabilities. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master netting agreements or collateral netting. Our derivatives transactions are not collateralized and do not include collateralization agreements with counterparties. Accrued interest related to derivative transactions is reported on our consolidated balance sheets as a component of either accrued interest receivable or accrued interest payable.

If we do not elect hedge accounting treatment, changes in the fair value of derivative instruments, which consist of net accrued periodic derivative cash settlements expense and derivative forward value amounts, are recognized in our consolidated statements of operations under derivative gains (losses). If we elect hedge accounting treatment for derivatives, we formally document, designate and assess the effectiveness of the hedge relationship. Changes in the fair value of derivatives designated as qualifying fair value hedges are recognized in the same line item on our consolidated statements of

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operations as the earnings effect of the related hedged item. Changes in the fair value of derivatives designated as qualifying cash flow hedges are recorded as a component of accumulated other comprehensive income (“AOCI”). Those amounts are reclassified into earnings in the same period during which the forecasted transaction impacts earnings and presented in the same line item on our consolidated statements of operations as the earnings effect of the related hedged item.

We generally do not designate our interest rate swaps for hedge accounting. Therefore, changes in the fair value of our interest rate swaps are reported on our consolidated statements of operations under derivative gains (losses). If we enter into a Treasury Lock, we typically designate the Treasury Lock as a cash flow hedge. We did not have any derivatives designated as accounting hedges as of February 28, 2021 or May 31, 2020.

Outstanding Notional Amount of Derivatives Not Designated as Accounting Hedges

The notional amount is used only as the basis on which interest payments are determined and is not the amount exchanged, nor recorded on our consolidated balance sheets. The following table shows the outstanding notional amounts and the weighted-average rate paid and received for our interest rate swaps, by type, as of February 28, 2021 and May 31, 2020. The substantial majority of our interest rate swaps use an index based on LIBOR for either the pay or receive leg of the swap agreement.

Table 9.1: Derivative Notional Amount and Weighted Average Rates

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,658,319	2.65 %	0.24 %	\$ 6,604,808	2.78 %	0.88 %
Receive-fixed swaps.....	2,399,000	0.95	2.80	2,699,000	1.54	2.75
Total interest rate swaps.....	9,057,319	2.20	0.92	9,303,808	2.42	1.42
Forward pay-fixed swaps.....	—			3,000		
Total.....	<u>\$ 9,057,319</u>			<u>\$ 9,306,808</u>		

Impact of Derivatives on Consolidated Balance Sheets

The following table displays the fair value of the derivative assets and derivative liabilities, by derivatives type, recorded on our consolidated balance sheets and the related outstanding notional amount as of February 28, 2021 and May 31, 2020.

Table 9.2: Derivative Assets and Liabilities at Fair Value

(Dollars in thousands)	February 28, 2021		May 31, 2020	
	Fair Value	Notional Amount	Fair Value	Notional Amount ⁽¹⁾
Derivative assets:				
Interest rate swaps.....	\$ 128,439	\$ 2,806,205	\$ 173,195	\$ 2,699,000
Derivative liabilities:				
Interest rate swaps.....	\$ 655,749	\$ 6,251,114	\$ 1,258,459	\$ 6,607,808

⁽¹⁾The notional amount includes \$3 million notional amount of forward starting swaps, as shown above in Table 9.1: Derivative Notional Amount and Weighted Average Rates, with an effective start date of June 5, 2020, outstanding as of May 31, 2020. The fair value of these swaps as of May 31, 2020 is included in the above table and in our consolidated financial statements.

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All of our master swap agreements include netting provisions that allow for offsetting of all contracts with a given counterparty in the event of default by one of the two parties. However, as indicated above, we report derivative asset and liability amounts on a gross basis by individual contracts. The following table presents the gross fair value of derivative assets and liabilities reported on our consolidated balance sheets as of February 28, 2021 and May 31, 2020, and provides information on the impact of netting provisions and collateral pledged, if any.

Table 9.3: Derivative Gross and Net Amounts

(Dollars in thousands)	February 28, 2021					
	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps	\$ 128,439	\$ —	\$ 128,439	\$ 128,439	\$ —	\$ —
Derivative liabilities:						
Interest rate swaps	655,749	—	655,749	128,439	—	527,310
	May 31, 2020					
(Dollars in thousands)	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps	\$ 173,195	\$ —	\$ 173,195	\$ 173,195	\$ —	\$ —
Derivative liabilities:						
Interest rate swaps	1,258,459	—	1,258,459	173,195	—	1,085,264

Impact of Derivatives on Consolidated Statements of Operations

The primary factors affecting the fair value of our derivatives and the derivative gains (losses) recorded in our consolidated statements of operations include changes in interest rates, the shape of the swap curve and the composition of our derivative portfolio. We generally record derivative losses when interest rates decline and derivative gains when interest rates rise, as our derivative portfolio consists of a higher proportion of pay-fixed swaps than receive-fixed swaps.

The following table presents the components of the derivative gains (losses) reported in our consolidated statements of operations for the three and nine months ended February 28, 2021 and February 29, 2020. Derivative cash settlements interest expense represents the net periodic contractual interest amount for our interest-rate swaps during the reporting period. Derivative forward value gains (losses) represent the change in fair value of our interest rate swaps during the reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts. We classify the derivative cash settlement amounts for the net periodic contractual interest expense on our interest rate swaps as an operating activity in our consolidated statements of cash flows.

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Table 9.4: Derivative Gains (Losses)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Derivative gains (losses) attributable to:				
Derivative cash settlements interest expense.....	\$ (29,735)	\$ (14,354)	\$ (86,507)	\$ (39,547)
Derivative forward value gains (losses).....	<u>359,931</u>	<u>(323,582)</u>	<u>558,266</u>	<u>(510,664)</u>
Derivative gains (losses).....	<u>\$ 330,196</u>	<u>\$ (337,936)</u>	<u>\$ 471,759</u>	<u>\$ (550,211)</u>

Credit Risk-Related Contingent Features

Our derivative contracts typically contain mutual early-termination provisions, generally in the form of a credit rating trigger. Under the mutual credit rating trigger provisions, either counterparty may, but is not obligated to, terminate and settle the agreement if the credit rating of the other counterparty falls below a level specified in the agreement. If a derivative contract is terminated, the amount to be received or paid by us would be equal to the prevailing fair value, as defined in the agreement, as of the termination date.

Our senior unsecured credit ratings from Moody's, S&P and Fitch were A2, A and A, respectively, as of February 28, 2021. Moody's, S&P and Fitch had our ratings on stable outlook as of February 28, 2021. Subsequent to the end of the current quarter, on March 5, 2021, S&P downgraded our senior unsecured credit ratings from A to A- with a negative outlook. As of the date of the filing of this Report, no action has been taken by Moody's and Fitch on our ratings. The following table displays the notional amounts of our derivative contracts with rating triggers as of February 28, 2021, and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings below A3/A-, below Baa1/BBB+, to or below Baa2/BBB, or to or below Ba2/BB+ by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assume that amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements with the counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

Table 9.5: Derivative Credit Rating Trigger Exposure

(Dollars in thousands)	Notional Amount	Payable Due from CFC	Receivable Due to CFC	Net Payable
Impact of rating downgrade trigger:				
Falls below A3/A- ⁽¹⁾	\$ 41,080	\$ (8,915)	\$ —	\$ (8,915)
Falls below Baa1/BBB+.....	6,078,270	(347,307)	—	(347,307)
Falls to or below Baa2/BBB ⁽²⁾	<u>412,095</u>	<u>(16,592)</u>	<u>—</u>	<u>(16,592)</u>
Total.....	<u>\$ 6,531,445</u>	<u>\$ (372,814)</u>	<u>\$ —</u>	<u>\$ (372,814)</u>

⁽¹⁾ Rating trigger for CFC falls below A3/A-, while rating trigger for counterparty falls below Baa1/BBB+ by Moody's or S&P, respectively.

⁽²⁾ Rating trigger for CFC falls to or below Baa2/BBB, while rating trigger for counterparty falls to or below Ba2/BB+ by Moody's or S&P, respectively.

We have interest rate swaps with one counterparty that are subject to a ratings trigger and early termination provision in the event of a downgrade of CFC's senior unsecured credit ratings below Baa3, BBB- or BBB- by Moody's, S&P or Fitch, respectively. The outstanding notional amount of these swaps, which is not included in the above table, totaled \$221 million as of February 28, 2021. These swaps were in an unrealized loss position of \$26 million as of February 28, 2021.

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Our largest counterparty exposure, based on the outstanding notional amount, accounted for approximately 24% and 25% of the total outstanding notional amount of derivatives as of February 28, 2021 and May 31, 2020, respectively. The aggregate fair value amount, including the credit valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was \$389 million as of February 28, 2021.

NOTE 10—EQUITY

Total equity increased \$620 million to \$1,269 million as of February 28, 2021, attributable to the combined impact of our reported net income of \$684 million for the nine months ended February 28, 2021, which was partially offset by the retirement of patronage capital of \$60 million authorized by the CFC Board of Directors in July 2020 and paid to members in September 2020, and the decrease to retained earnings of \$4 million from the cumulative-effect adjustment recorded at adoption of the CECL accounting standard on June 1, 2020.

Allocation of Earnings and Retirement of Patronage Capital

In July 2020, the CFC Board of Directors authorized the allocation of fiscal year 2020 net earnings as follows: \$96 million to members in the form of patronage capital, \$48 million to the members' capital reserve and \$1 million to the cooperative educational fund. The amount of patronage capital allocated each year by CFC's Board of Directors is based on adjusted net income, which excludes the impact of derivative forward value gains (losses). See "MD&A—Non-GAAP Financial Measures" for information on adjusted net income.

In July 2020, the CFC Board of Directors authorized the retirement of allocated net earnings totaling \$60 million, consisting of \$48 million, which represented 50% of the patronage capital allocation for fiscal year 2020, and \$12 million, which represented the portion of the allocation from fiscal year 1995 net earnings that has been held for 25 years pursuant to the CFC Board of Directors policy. The authorized patronage capital retirement amount of \$60 million was returned to members in cash in September 2020. The remaining portion of the amount allocated for fiscal year 2020 will be retained by CFC for 25 years under current guidelines adopted by the CFC Board of Directors in June 2009.

Accumulated Other Comprehensive Income (Loss)

The following table presents, by component, changes in AOCI for the three and nine months ended February 28, 2021 and February 29, 2020 and the balance of each component as of the end of each respective period.

Table 10.1: Changes in Accumulated Other Comprehensive Income (Loss)

(Dollars in thousands)	Three Months Ended					
	February 28, 2021			February 29, 2020		
	Derivatives Unrealized Gains ⁽¹⁾	Defined Benefit Plans Unrealized Losses ⁽²⁾	Total	Derivatives Unrealized Gains ⁽¹⁾	Defined Benefit Plans Unrealized Losses ⁽²⁾	Total
Beginning balance	\$ 1,918	\$ (3,664)	\$ (1,746)	\$ 2,345	\$ (2,427)	\$ (82)
(Gains) losses reclassified to earnings	(101)	188	87	(109)	146	37
Ending balance	\$ 1,817	\$ (3,476)	\$ (1,659)	\$ 2,236	\$ (2,281)	\$ (45)

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(Dollars in thousands)	Nine Months Ended					
	February 28, 2021			February 29, 2020		
	Derivatives Unrealized Gains ⁽¹⁾	Defined Benefit Plans Unrealized Losses ⁽²⁾	Total	Derivatives Unrealized Gains ⁽¹⁾	Defined Benefit Plans Unrealized Losses ⁽²⁾	Total
Beginning balance	\$ 2,130	\$ (4,040)	\$ (1,910)	\$ 2,571	\$ (2,718)	\$ (147)
(Gains) losses reclassified to earnings	(313)	564	251	(335)	437	102
Ending balance	<u>\$ 1,817</u>	<u>\$ (3,476)</u>	<u>\$ (1,659)</u>	<u>\$ 2,236</u>	<u>\$ (2,281)</u>	<u>\$ (45)</u>

⁽¹⁾ Reclassified to earnings as a component of the derivative gains (losses) line item presented on our consolidated statements of operations.

⁽²⁾ Reclassified to earnings as component of the other non-interest expense line item presented on our consolidated statements of operations.

We expect to reclassify less than \$1 million of amounts in AOCI related to unrealized derivative gains to earnings over the next 12 months.

NOTE 11—GUARANTEES

The following table displays the notional amount of our outstanding guarantee obligations, by guarantee type and by member class, as of February 28, 2021 and May 31, 2020.

Table 11.1: Guarantees Outstanding by Type and Member Class

(Dollars in thousands)	February 28, 2021	May 31, 2020
Guarantee type:		
Long-term tax-exempt bonds ⁽¹⁾	\$ 146,125	\$ 263,875
Letters of credit ⁽²⁾	376,984	413,839
Other guarantees	153,276	143,072
Total	<u>\$ 676,385</u>	<u>\$ 820,786</u>
Member class:		
CFC:		
Distribution	\$ 249,175	\$ 266,301
Power supply	399,358	538,532
Statewide and associate ⁽³⁾	5,546	5,954
CFC total	654,079	810,787
NCSC	22,306	9,999
Total	<u>\$ 676,385</u>	<u>\$ 820,786</u>

⁽¹⁾ Represents the outstanding principal amount of long-term fixed-rate and variable-rate guaranteed bonds.

⁽²⁾ Reflects our maximum potential exposure for letters of credit.

⁽³⁾ Includes CFC guarantees to NCSC and RTFC members totaling \$3 million as of both February 28, 2021 and May 31, 2020.

Long-term tax-exempt bonds of \$146 million and \$264 million as of February 28, 2021 and May 31, 2020, respectively, included \$146 million and \$244 million, respectively, of adjustable or variable-rate bonds that may be converted to a fixed rate as specified in the applicable indenture for each bond offering. We are unable to determine the maximum amount of

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interest that we may be required to pay related to the remaining adjustable and variable-rate bonds. Many of these bonds have a call provision that allows us to call the bond in the event of a default, which would limit our exposure to future interest payments on these bonds. Our maximum potential exposure generally is secured by mortgage liens on the members' assets and future revenue. If a member's debt is accelerated because of a determination that the interest thereon is not tax-exempt, the member's obligation to reimburse us for any guarantee payments will be treated as a long-term loan. The maturities for long-term tax-exempt bonds and the related guarantees extend through calendar year 2037.

Of the outstanding letters of credit of \$377 million and \$414 million as of February 28, 2021 and May 31, 2020, respectively, \$107 million and \$106 million, respectively, were secured. We did not have any letters of credit outstanding that provided for standby liquidity for adjustable and floating-rate tax-exempt bonds issued for the benefit of our members as of February 28, 2021. The maturities for the outstanding letters of credit as of February 28, 2021 extend through calendar year 2040.

In addition to the letters of credit listed in the table above, under master letter of credit facilities in place as of February 28, 2021, we may be required to issue up to an additional \$66 million in letters of credit to third parties for the benefit of our members. All of our master letter of credit facilities were subject to material adverse change clauses at the time of issuance as of February 28, 2021. Prior to issuing a letter of credit, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

The maximum potential exposure for other guarantees was \$153 million and \$143 million as of February 28, 2021 and May 31, 2020, respectively, of which \$25 million was secured as of both February 28, 2021 and May 31, 2020. The maturities for these other guarantees listed in the table above extend through calendar year 2025. Guarantees under which our right of recovery from our members was not secured totaled \$398 million and \$426 million and represented 59% and 52% of total guarantees as of February 28, 2021 and May 31, 2020, respectively.

In addition to the guarantees described above, we were also the liquidity provider for \$146 million of variable-rate tax-exempt bonds as of February 28, 2021, issued for our member cooperatives. While the bonds are in variable-rate mode, in return for a fee, we have unconditionally agreed to purchase bonds tendered or put for redemption if the remarketing agents are unable to sell such bonds to other investors. We were not required to perform as liquidity provider pursuant to these obligations during the nine months ended February 28, 2021 or the prior fiscal year.

Guarantee Liability

We recorded a total guarantee liability for noncontingent and contingent exposures related to guarantees and liquidity obligations of \$11 million as of both February 28, 2021 and May 31, 2020. The noncontingent guarantee liability, which pertains to our obligation to stand ready to perform over the term of our guarantees and liquidity obligations we have entered into or modified since January 1, 2003, was \$10 million as of both February 28, 2021 and May 31, 2020. The contingent guarantee liability, which is based on management's estimate of exposure to losses within our guarantee portfolio, was \$1 million as of both February 28, 2021 and May 31, 2020.

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NOTE 12—FAIR VALUE MEASUREMENT

Fair value, also referred to as an exit price, is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on the markets in which the assets or liabilities trade and whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. The fair value measurement of a financial asset or liability is assigned a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The levels, in priority order based on the extent to which observable inputs are available to measure fair value, are Level 1, Level 2 and Level 3. The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value.

The following table presents the carrying value and estimated fair value of all of our financial instruments, including those carried at amortized cost, as of February 28, 2021 and May 31, 2020. The table also displays the classification level within the fair value hierarchy based on the degree of observability of the inputs used in the valuation technique for estimating fair value.

Table 12.1: Fair Value of Financial Instruments

(Dollars in thousands)	February 28, 2021		Fair Value Measurement Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 170,047	\$ 170,047	\$ 170,047	\$ —	\$ —
Restricted cash	7,406	7,406	7,406	—	—
Equity securities, at fair value	32,434	32,434	32,434	—	—
Debt securities trading, at fair value	574,820	574,820	—	574,820	—
Deferred compensation investments	6,577	6,577	6,577	—	—
Loans to members, net	28,235,469	30,172,193	—	—	30,172,193
Accrued interest receivable	111,821	111,821	—	111,821	—
Derivative assets	128,439	128,439	—	128,439	—
Total financial assets	\$ 29,267,013	\$ 31,203,737	\$ 216,464	\$ 815,080	\$ 30,172,193
Liabilities:					
Short-term borrowings	\$ 4,407,957	\$ 4,408,080	\$ —	\$ 4,408,080	\$ —
Long-term debt	20,555,544	22,267,957	—	13,112,498	9,155,459
Accrued interest payable	175,624	175,624	—	175,624	—
Guarantee liability	10,649	11,461	—	—	11,461
Derivative liabilities	655,749	655,749	—	655,749	—
Subordinated deferrable debt	986,265	1,058,623	262,500	796,123	—
Members' subordinated certificates	1,257,024	1,257,024	—	—	1,257,024
Total financial liabilities	\$ 28,048,812	\$ 29,834,518	\$ 262,500	\$ 19,148,074	\$ 10,423,944

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(Dollars in thousands)	May 31, 2020		Fair Value Measurement Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 671,372	\$ 671,372	\$ 671,372	\$ —	\$ —
Restricted cash	8,647	8,647	8,647	—	—
Equity securities, at fair value	60,735	60,735	60,735	—	—
Debt securities trading, at fair value	309,400	309,400	—	309,400	—
Deferred compensation investments	5,496	5,496	5,496	—	—
Loans to members, net	26,649,255	29,252,065	—	—	29,252,065
Accrued interest receivable	117,138	117,138	—	117,138	—
Debt service reserve funds	14,591	14,591	14,591	—	—
Derivative assets	173,195	173,195	—	173,195	—
Total financial assets	\$ 28,009,829	\$ 30,612,639	\$ 760,841	\$ 599,733	\$ 29,252,065
Liabilities:					
Short-term borrowings	\$ 3,961,985	\$ 3,963,164	\$ —	\$ 3,713,164	\$ 250,000
Long-term debt	19,712,024	21,826,337	—	11,981,580	9,844,757
Accrued interest payable	139,619	139,619	—	139,619	—
Guarantee liability	10,937	11,948	—	—	11,948
Derivative liabilities	1,258,459	1,258,459	—	1,258,459	—
Subordinated deferrable debt	986,119	1,030,108	—	1,030,108	—
Members' subordinated certificates	1,339,618	1,339,618	—	—	1,339,618
Total financial liabilities	\$ 27,408,761	\$ 29,569,253	\$ —	\$ 18,122,930	\$ 11,446,323

For additional information regarding fair value measurements, the fair value hierarchy and a description of the methodologies we use to estimate fair value, see “Note 14—Fair Value Measurement” to the Consolidated Financial Statements in our 2020 Form 10-K.

Transfers Between Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changes in the valuation technique used, are generally the cause of transfers between levels. We did not have any transfers into or out of Level 3 of the fair value hierarchy during the nine months ended February 28, 2021 and February 29, 2020.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the carrying value and fair value of financial instruments reported in our consolidated financial statements at fair value on a recurring basis as of February 28, 2021 and May 31, 2020, and the classification of the valuation technique within the fair value hierarchy. We did not have any assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs during the nine months ended February 28, 2021 and February 29, 2020.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Table 12.2: Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Dollars in thousands)	February 28, 2021			May 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Equity securities, at fair value.....	\$ 32,434	\$ —	\$ 32,434	\$ 60,735	\$ —	\$ 60,735
Debt securities trading, at fair value....	—	574,820	574,820	—	309,400	309,400
Deferred compensation investments....	6,577	—	6,577	5,496	—	5,496
Derivative assets.....	—	128,439	128,439	—	173,195	173,195
Liabilities:						
Derivative liabilities.....	\$ —	\$ 655,749	\$ 655,749	\$ —	\$1,258,459	\$1,258,459

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis on our consolidated balance sheets. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as in the application of lower of cost or fair value accounting or when we evaluate assets for impairment. We had certain loans measured at fair value on a nonrecurring basis as of and during the three and nine months ended February 28, 2021. We did not have any assets or liabilities measured at fair value on a nonrecurring basis during the nine months ended February 29, 2020.

Collateral-Dependent Loans

Because our loans are classified as held for investment and carried at amortized cost, we generally do not record loans at fair value on a recurring basis. However, we periodically record nonrecurring fair value adjustments for nonperforming collateral-dependent loans through the allowance for credit losses and provision for credit losses. We had nonperforming collateral-dependent loans outstanding to two affiliated RTFC telecommunications borrowers totaling \$10 million as of February 28, 2021. The collateral underlying these loans consisted primarily of U.S. Federal Communications Commission (“FCC”) wireless spectrum licenses. Our estimate of the fair value of these loans was \$6 million as of February 28, 2021. As a result, we recorded a nonrecurring fair value adjustment for these loans of \$4 million during the three and nine months ended February 28, 2021.

Significant Unobservable Level 3 Inputs

We employ various approaches and techniques to estimate the fair value of loans where we expect repayment to be provided solely by the continued operation or sale of the underlying collateral, including estimated cash flows from the collateral, valuations obtained from third-party specialists and comparable sales data. The technique depends on the nature of the collateral and the extent to which observable inputs are available. Our Credit Risk Management group reviews the valuation technique, including the use of any significant inputs that are not readily observable by market participants, to assess the appropriateness of the technique and the reasonableness of the assumptions involved. The estimated fair value of \$6 million as of February 28, 2021 for the two affiliated RTFC nonperforming collateral-dependent loans totaling \$10 million as of February 28, 2021 was derived primarily based on the lower end of limited publicly available sales data for the underlying FCC spectrum licenses collateral.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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NOTE 13—VARIABLE INTEREST ENTITIES

NCSC and RTFC meet the definition of a VIE because they do not have sufficient equity investment at risk to finance their activities without financial support. CFC is the primary source of funding for NCSC and the sole source of funding for RTFC. Under the terms of management agreements with each company, CFC manages the business operations of NCSC and RTFC. CFC also unconditionally guarantees full indemnification for any loan losses of NCSC and RTFC pursuant to guarantee agreements with each company. CFC earns management and guarantee fees from its agreements with NCSC and RTFC.

NCSC and RTFC creditors have no recourse against CFC in the event of a default by NCSC and RTFC, unless there is a guarantee agreement under which CFC has guaranteed NCSC or RTFC debt obligations to a third party. The following table provides information on incremental consolidated assets and liabilities of VIEs included in CFC's consolidated financial statements, after intercompany eliminations, as of February 28, 2021 and May 31, 2020.

13.1: Consolidated Assets and Liabilities of Variable Interest Entities

(Dollars in thousands)	February 28, 2021	May 31, 2020
Assets:		
Loans outstanding	\$ 1,152,844	\$ 1,083,197
Other assets	9,998	11,352
Total assets	<u>\$ 1,162,842</u>	<u>\$ 1,094,549</u>
Liabilities:		
Total liabilities	<u>\$ 32,675</u>	<u>\$ 38,803</u>

The following table provides information on CFC's credit commitments to NCSC and RTFC and potential exposure to loss under these commitments as of February 28, 2021 and May 31, 2020.

13.2: CFC Exposure Under Credit Commitments to NCSC and RTFC

(Dollars in thousands)	February 28, 2021	May 31, 2020
CFC credit commitments to NCSC and RTFC:		
Total CFC credit commitments	<u>\$ 5,500,000</u>	<u>\$ 5,500,000</u>
Outstanding commitments:		
Borrowings payable to CFC ⁽¹⁾	1,131,409	1,062,103
Credit enhancements:		
CFC third-party guarantees	22,306	9,999
Other credit enhancements	8,794	11,755
Total credit enhancements ⁽²⁾	<u>31,100</u>	<u>21,754</u>
Total outstanding commitments	<u>1,162,509</u>	<u>1,083,857</u>
CFC credit commitments available ⁽³⁾	<u>\$ 4,337,491</u>	<u>\$ 4,416,143</u>

⁽¹⁾ Intercompany borrowings payable by NCSC and RTFC to CFC are eliminated in consolidation.

⁽²⁾ Excludes interest due on these instruments.

⁽³⁾ Represents total CFC credit commitments less outstanding commitments as of each period end.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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(UNAUDITED)

CFC loans to NCSC and RTFC are secured by all assets and revenue of NCSC and RTFC. CFC's maximum potential exposure, including interest due, for the credit enhancements totaled \$31 million as of February 28, 2021. The maturities for obligations guaranteed by CFC extend through 2031.

NOTE 14—BUSINESS SEGMENTS

Our activities are conducted through three operating segments, which are based on each of the legal entities included in our consolidated financial statements: CFC, NCSC and RTFC. We report segment information for CFC separately, while we aggregate NCSC and RTFC and report combined segment information for these entities. The following table presents our reportable business segment results for the three and nine months ended February 28, 2021 and February 29, 2020, assets attributable to each segment as of February 28, 2021 and February 29, 2020 and a reconciliation to amounts reported in our consolidated financial statements.

Table 14.1: Business Segment Information

(Dollars in thousands)	Three Months Ended February 28, 2021			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Statement of operations:				
Interest income	\$ 276,153	\$ 10,901	\$ (8,882)	\$ 278,172
Interest expense	(173,039)	(8,883)	8,882	(173,040)
Net interest income	103,114	2,018	—	105,132
Provision for credit losses	(33,023)	—	—	(33,023)
Net interest income after provision for credit losses	<u>70,091</u>	<u>2,018</u>	<u>—</u>	<u>72,109</u>
Non-interest income:				
Fee and other income	5,059	720	(1,960)	3,819
Derivative gains:				
Derivative cash settlements interest expense	(29,307)	(428)	—	(29,735)
Derivative forward value gains	358,173	1,758	—	359,931
Derivative gains	<u>328,866</u>	<u>1,330</u>	<u>—</u>	<u>330,196</u>
Investment securities losses	(2,807)	—	—	(2,807)
Total non-interest income	<u>331,118</u>	<u>2,050</u>	<u>(1,960)</u>	<u>331,208</u>
Non-interest expense:				
General and administrative expenses	(23,174)	(1,909)	1,521	(23,562)
Other non-interest expense	(301)	(439)	439	(301)
Total non-interest expense	<u>(23,475)</u>	<u>(2,348)</u>	<u>1,960</u>	<u>(23,863)</u>
Income before income taxes	377,734	1,720	—	379,454
Income tax provision	—	(507)	—	(507)
Net income	<u>\$ 377,734</u>	<u>\$ 1,213</u>	<u>\$ —</u>	<u>\$ 378,947</u>

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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(Dollars in thousands)	Three Months Ended February 29, 2020			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Statement of operations:				
Interest income	\$ 285,316	\$ 11,608	\$ (9,729)	\$ 287,195
Interest expense	(203,040)	(9,729)	9,729	(203,040)
Net interest income	82,276	1,879	—	84,155
Provision for credit losses	(2,382)	—	—	(2,382)
Net interest income after provision for credit losses	79,894	1,879	—	81,773
Non-interest income:				
Fee and other income	4,978	557	(1,888)	3,647
Derivative losses:				
Derivative cash settlements interest expense	(14,056)	(298)	—	(14,354)
Derivative forward value losses	(322,029)	(1,553)	—	(323,582)
Derivative losses	(336,085)	(1,851)	—	(337,936)
Investment securities gains	749	—	—	749
Total non-interest income	(330,358)	(1,294)	(1,888)	(333,540)
Non-interest expense:				
General and administrative expenses	(24,742)	(2,173)	1,646	(25,269)
Losses on early extinguishment of debt	(69)	—	—	(69)
Other non-interest expense	(289)	(243)	242	(290)
Total non-interest expense	(25,100)	(2,416)	1,888	(25,628)
Loss before income taxes	(275,564)	(1,831)	—	(277,395)
Income tax benefit	—	426	—	426
Net loss	\$ (275,564)	\$ (1,405)	\$ —	\$ (276,969)

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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(Dollars in thousands)	Nine Months Ended February 28, 2021			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Statement of operations:				
Interest income	\$ 828,222	\$ 32,917	\$ (26,884)	\$ 834,255
Interest expense	(527,437)	(26,885)	26,884	(527,438)
Net interest income	300,785	6,032	—	306,817
Provision for credit losses	(34,987)	—	—	(34,987)
Net interest income after provision for credit losses	265,798	6,032	—	271,830
Non-interest income:				
Fee and other income	17,347	1,997	(5,677)	13,667
Derivative gains:				
Derivative cash settlements interest expense	(85,240)	(1,267)	—	(86,507)
Derivative forward value gains	555,305	2,961	—	558,266
Derivative gains	470,065	1,694	—	471,759
Investment securities gains	491	—	—	491
Total non-interest income	487,903	3,691	(5,677)	485,917
Non-interest expense:				
General and administrative expenses	(69,124)	(5,944)	4,707	(70,361)
Losses on early extinguishment of debt	(1,455)	—	—	(1,455)
Other non-interest expense	(956)	(970)	970	(956)
Total non-interest expense	(71,535)	(6,914)	5,677	(72,772)
Income before income taxes	682,166	2,809	—	684,975
Income tax provision	—	(920)	—	(920)
Net income	\$ 682,166	\$ 1,889	\$ —	\$ 684,055

	February 28, 2021			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Assets:				
Total loans outstanding	\$ 28,294,236	\$ 1,152,844	\$ (1,131,409)	\$ 28,315,671
Deferred loan origination costs	11,810	—	—	11,810
Loans to members	28,306,046	1,152,844	(1,131,409)	28,327,481
Less: Allowance for credit losses	(92,012)	—	—	(92,012)
Loans to members, net	28,214,034	1,152,844	(1,131,409)	28,235,469
Other assets	1,169,521	99,854	(89,856)	1,179,519
Total assets	\$ 29,383,555	\$ 1,252,698	\$ (1,221,265)	\$ 29,414,988

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended February 29, 2020			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Statement of operations:				
Interest income	\$ 858,316	\$ 35,674	\$ (29,743)	\$ 864,247
Interest expense	(623,934)	(29,991)	29,743	(624,182)
Net interest income	234,382	5,683	—	240,065
Provision for credit losses	(1,367)	—	—	(1,367)
Net interest income after provision for credit losses	233,015	5,683	—	238,698
Non-interest income:				
Fee and other income	22,441	8,965	(12,976)	18,430
Derivative losses:				
Derivative cash settlements interest expense	(38,731)	(816)	—	(39,547)
Derivative forward value losses	(508,404)	(2,260)	—	(510,664)
Derivative losses	(547,135)	(3,076)	—	(550,211)
Investment securities gains	2,255	—	—	2,255
Total non-interest income	(522,439)	5,889	(12,976)	(529,526)
Non-interest expense:				
General and administrative expenses	(73,475)	(6,828)	4,936	(75,367)
Losses on early extinguishment of debt	(69)	(614)	—	(683)
Other non-interest income (expense)	6,574	(8,040)	8,040	6,574
Total non-interest expense	(66,970)	(15,482)	12,976	(69,476)
Losses before income taxes	(356,394)	(3,910)	—	(360,304)
Income tax benefit	—	856	—	856
Net loss	\$ (356,394)	\$ (3,054)	\$ —	\$ (359,448)

	February 29, 2020			
	CFC	NCSC and RTFC	Eliminations	Consolidated Total
Assets:				
Total loans outstanding	\$ 26,790,313	\$ 1,039,622	\$ (1,018,834)	\$ 26,811,101
Deferred loan origination costs	11,429	—	—	11,429
Loans to members	26,801,742	1,039,622	(1,018,834)	26,822,530
Less: Allowance for credit losses	(18,902)	—	—	(18,902)
Loans to members, net	26,782,840	1,039,622	(1,018,834)	26,803,628
Other assets	1,131,269	102,709	(91,424)	1,142,554
Total assets	\$ 27,914,109	\$ 1,142,331	\$ (1,110,258)	\$ 27,946,182

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see “Part I—Item 2. MD&A—Market Risk” and “Note 9—Derivative Instruments and Hedging Activities.”

Item 4. Controls and Procedures

As of the end of the period covered by this report, senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting that occurred during the three months ended February 28, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, CFC is subject to certain legal proceedings and claims in the ordinary course of business, including litigation with borrowers related to enforcement or collection actions. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, liquidity or results of operations. CFC establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Accordingly, no reserve has been recorded with respect to any legal proceedings at this time.

Item 1A. Risk Factors

Our financial condition, results of operations and liquidity are subject to various risks and uncertainties, some of which are inherent in the financial services industry and others of which are more specific to our own business. We identify and discuss the most significant risk factors of which we are currently aware that could have a material adverse impact on our business, results of operations, financial condition or liquidity in the section “Part I—Item 1A. Risk Factors” in our 2020 Form 10-K, as filed with the SEC on August 5, 2020. We are not aware of any material changes in the risk factors identified in our 2020 Form 10-K. However, other risks and uncertainties, including those not currently known to us, could also negatively impact our business, results of operations, financial condition and liquidity. Therefore, the risk factors identified and discussed in our 2020 Form 10-K should not be considered a complete discussion of all the risks and uncertainties we may face. For information on how we manage our key risks, see “Item 7. MD&A—Risk Management” in our 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are incorporated by reference or filed as part of this Report.

EXHIBIT INDEX

Exhibit No.	Description
31.1*	— Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	— Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	— Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	— Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	— Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	— Inline XBRL Taxonomy Extension Schema Document
101.CAL*	— Inline XBRL Taxonomy Calculation Linkbase Document
101.LAB*	— Inline XBRL Taxonomy Label Linkbase Document
101.PRE*	— Inline XBRL Taxonomy Presentation Linkbase Document
101.DEF*	— Inline XBRL Taxonomy Definition Linkbase Document
104	— Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith this Report.

† Furnished with this Report, which shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**

Date: April 13, 2021

By: /s/ J. ANDREW DON

J. Andrew Don

Senior Vice President and Chief Financial Officer

By: /s/ ROBERT E. GEIER

Robert E. Geier

Controller and Principal Accounting Officer

**National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)**

I, Sheldon C. Petersen, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2021

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen
Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

I, J. Andrew Don, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2021

By: /s/ J. ANDREW DON

J. Andrew Don
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Executive Officer of National Rural Utilities Cooperative Finance Corporation (“CFC”), hereby certify to the best of my knowledge as follows:

1. CFC’s Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2021 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: April 13, 2021

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Financial Officer of National Rural Utilities Cooperative Finance Corporation (“CFC”), hereby certify to the best of my knowledge as follows:

1. CFC’s Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2021 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: April 13, 2021

By: /s/ J. ANDREW DON

J. Andrew Don

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.