Conference Title: NRUC001|FY2025 Third-Quarter Investor Conference Call

Date: Wednesday, 16th April 2025

Operator: Please stand by. We're about to begin. Good day and welcome to the National Rural Utilities Cooperative Finance Corporation full year 2025, Third Quarter Investor Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Heesun Choi. Please go ahead.

Heesun Choi: Thank you, operator. Welcome to our Investor Conference Call for the Third Quarter of Fiscal Year 2025. We appreciate your time and interest in our company. Today I'm joined by our CEO Andrew Don and our CFO Ling Wang. Andrew and Ling will discuss our third quarter-end results and answer your questions. Before we get started, I would like to remind you that today's presentation slides and financial reports filed with the SEC can be found on our website at nrucfc.coop under Investor Relations. This call is being recorded and a replay and transcript will be available on our website as well. Our presentation today will include forward-looking statements and certain non-GAAP financial measures. Please review the disclosures on slide two and slide three regarding these statements and measures. Any forward-looking statements made during today's call are subject to risk and uncertainties. Factors that may cause actual results to defer materially from expectations are described on slide two and in our annual and quarter reports filed with the SEC. Information about any non-GAAP financial results referenced during the presentation, including reconciliations to GAAP measures, can also be found in our form 10-Q filed with the SEC on April 11, 2025, as well as the appendix of the presentation slides. At the end of the presentation, we will open the call for questions and Andrew and Ling will take your questions, which you can ask over the phone or submit online. With that, I will turn this call over to Andrew.

Andrew Don: Thank you Heesun. Good afternoon and thank you for joining our call today to review our business and operating results during the three months ended February 28, 2025, which is our third quarter of fiscal year 2025. I'm moving to slide five to discuss highlights from the third fiscal quarter. During this quarter, we continued to experience strong loan demand from our members. Loans to members reached $36.5 billion, marking an increase of approximately $1.94 billion, or 6%, from the prior fiscal year-end, on May 31, 2024, and $865 million, or 2%, from November 30, 2024, which was our second fiscal quarter-end. I'll discuss the drivers of loan growth in more detail on the next slide. In addition to the robust loan growth, our loan portfolio continues to maintain its pristine quality. We had no charge-offs during this fiscal quarter. As of the quarter-end, we only had one $42 million loan that was classified as non-performing. In March 2025, we received a $16 million payment on this non-performing loan, reducing its outstanding balance to $26 million. Our financial position remains strong with an adjusted TIER of 1.2 times during the nine months ended February 28, 2025, and 1.19 times during the third quarter of fiscal year 2025, each exceeding our goal of 1.1 times.

Our members' equity increased to $2.5 billion at the current fiscal quarter-end. We continue to maintain a diversified range of liquidity sources at the current fiscal quarter-end, including operating cash, investments, committed bank lines, committed loan facilities under the guaranteed underwriter program, a revolving note purchase agreement with Farmer Mac and access to repo facilities. As we discussed on a prior financial investor update conference call, during the third fiscal quarter of fiscal year 2025, we increased our available liquidity by $1.45 billion through a $500 million increase in committed bank lines and an additional $450 million commitment under the guaranteed underwriter program and a $500 million increase in the Farmer Mac note purchase agreement. We remain committed to maintaining strong investment grade credit ratings from Fitch, Moody's and S&P. During the current year-to-date fiscal 2025, Moody's, Fitch and S&P affirmed CFCs credit ratings with a stable outlook, with Moody's affirming most recently in February 2025. Our short-term and long-term credit ratings and outlook are unchanged. Our current long-term senior unsecured credit ratings are A, A2, A minus. Turning to slide six, this slide highlights the drivers of our loan growth. As I mentioned earlier, during the current fiscal year-to-date, we experienced a $1.94 billion increase in loans to our members. With the $1.94 billion, nine-month loan growth, 60% ,or $1.16 billion, was a net increase in line of credit loans and 40%, or $774 million, was a net increase in long-term loans. Since the prior fiscal quarter-end, our members need for line of credit loans continue to increase.

During the three months ended February 28, 2025, we experienced a net increase of $650 million in line of credit loans, which represented 55% of the total increase in lines of credit since the prior fiscal year-end. Approximately 73%, or $477, of the $650 million net increase in line of credit loans during these three months was due to our members' emergency borrowing needs primarily caused by Hurricane Helene, which impacted five Southeastern states in September 2024. In the fiscal year-to-date, of the $1.16 billion increase in line of credit loans, 60%, or $696 million, of line of credit advances were to fund members' recovery efforts far following Hurricane Helene and the remaining 40%, or $465 million, was primarily attributable to members working capital and capital expenditure requirements. Additionally, $247 million of the $1.94 billion loan growth was related to loans to our members' broadband projects. For the three months ended February 28, 2025, the net loan growth for broadband projects was $35 million, the lowest quarterly increase we have experienced since we started tracking broadband loan advances. Loan activities related to the broadband projects have slowed as our cooperative members' projects are either nearing the end of the build out or are already completed. Our aggregate loans outstanding to our electric distribution cooperative members relating to broadband projects are an estimated $3.4 billion as of February 28, 2025, compared to approximately $3.1 billion at the prior fiscal year-end. With that, I'll now turn the call over to Ling, who will review our financial results in greater detail. Thank you.

Ling Wang: Thank you Andrew, and good afternoon everyone. I'm going to move to slide eight to discuss our financial results for the period ended February 28, 2025, which is our third quarter of fiscal year 2025. And I'm going to refer to as the current fiscal quarter. Our total assets at the current fiscal quarter-end were approximately $37.8 billion, an increase of $1.6 billion, or 4%, from the prior fiscal year-end level, primarily driven by loan growth. Our loans to members increased by $1.94 billion, or 6%, to $36.5 billion at the current fiscal quarter-end. Loans to CFC distribution, power supply, statewide and associate borrowers accounted for 95% of total loans to members at the current fiscal quarter-end. We experienced increases in CFC distribution loans of $1.7 billion, CFC power supply loans of $96 million, NCSC electric loans of $59 million, CFC statewide and associate loans of $28 million and NCSC telecom loans of $5 million, during the nine-month ended February 28, 2025. Our members' equity, which excludes cumulative derivative for value gains and accumulated other comprehensive loss, increased by $146 million to $2.5 billion from the prior fiscal year-end, primarily due to the adjusted net income of $195 million during the nine months ended February 28, 2025, partially offset by CFC Board of Directors authorized patronage capital retirement of $47 million during the same period, which was returned to our members in cash in September 2024. Beginning in the second quarter of fiscal year 2025, we refined our methodology for calculating the adjusted debt to equity ratio. With our revised methodology, the adjusted debt equity ratio was 7.37-to-1 at the current fiscal quarter-end, unchanged from the prior fiscal quarter-end, but up slightly from 7.27-to-1 at the prior fiscal year-end. The slight increase was due to increased borrowing to support our loan growth, partially offset by an increase in adjusted total equity resulting from earnings growth. Moving to slide nine, the member class composition of our loan portfolio has remained stable and has not changed materially during the recent years, with 98%, or $35.9 billion, of our loans consisting of loans to rural electric systems and 2%, or $604 million, to telecommunication sector. We make long-term and line of credit loans to our members.

Our long-term loans are typically secured by substantially all assets of the borrowers and our line of credit loans are generally unsecured. Our loan portfolio consists mainly of long-term, fixed-rate, secure loans to rural electric cooperatives. During the current fiscal year, we experienced a slight shift in our loan type composition due to a significant increase in line of credit loans. As Andrew mentioned earlier, a large portion of our line of credit loan growth was driven by our members borrowing needs in response to the hurricane event. Specifically, our long-term fixed-rate loans increased by 2%, or $716 million, to $31 billion, accounting for 85% of total loans outstanding at the current fiscal quarter-end, compared to $30.3 billion, or 88%, at the prior fiscal year-end. On the other hand, our line of credit loans increased by 34%, or $1.16 billion, to $4.6 billion, accounting for 13% of our total loans outstanding at the current fiscal quarter-end, compared to $3.4 billion, or

10%, of total loans outstanding at the prior fiscal year-end. Our line of credit loans recorded the highest fiscal quarter-end level. Long-term advances totaled $2.1 billion during the nine-months end February 28, 2025, of which, approximately 97% was provided to members for capital expenditures, 2% was for refinancing of loans made by other lenders and 1% was for other purposes. In comparison, long-term loan advances totaled $2.7 billion during the same prior-year period, of which approximately 95% was for capital expenditures and approximately 5% was for other purposes, primarily business acquisitions. Of the $2.1 billion total long-term loan advances during the nine months ended February 28, 2025, $1.9 billion were fixed-rate loan advances with weighted average fixed-rate term of eight years. In comparison, of the $2.7 billion long-term loan advances during the same prior-year period, $2.5 billion were fixed-rate loan advances with a weighted average fixed-rate term of 12 years. The current high-rate environment has led to our members to continue favoring short rate-lock period on their long-term loans. As we have consistently stated, we typically lend to our members on a senior secured basis, with 89% of our loans being senior secured at the current fiscal quarter-end, compared to 92% at the prior fiscal year-end. We generally offer long-term amortized loans to our members for up to 35 years.

Slide 10, represents historical performance of our loan portfolio for the past four fiscal years and the current fiscal quarter. The quality of our loan portfolio remains strong with stable credit metrics. We had only one non-performing loan outstanding at the current fiscal quarter-end, totaling $42 million, or 0.12%, of total loans outstanding. This loan was made to an electric power supply borrower and was put on non-performing loan during fiscal year 2020. As Andrew mentioned earlier, in March 2025, we received a $16 million payment on this non-performing loan, which reduced its outstanding balance to $26 million. Our allowance for credit losses decreased to $44 million at the current fiscal quarter-end, compared to $49 million at the prior fiscal year-end. The allowance coverage ratio decreased to 12 basis points at the current fiscal quarter-end, compared to 14 basis points at the prior fiscal year-end. The decrease in the allowance for credit losses reflected a reduction in the asset specific allowance of $7 million, attributable to an increase in the expected payment on the non-performing loan discussed earlier, partially offset by a $3 million increase in the collective allowance, which was primarily driven by the loan growth. We had no loan charge-offs during the current fiscal quarter and the current fiscal year.

Moving on to slide 11, during the current fiscal quarter, we generated adjusted net income of $66 million, compared to $88 million in the same prior-year period. The $22 million decrease in our adjusted net income was primarily driven by a $16 million decrease in the adjusted net interest income and approximate $4 million decrease in gains recorded on our investment security portfolio and approximate $3 million increase in operating and other expenses, all partially offset by an increase in fee and other income of $1 million. During the current fiscal year-to-date, adjusted net income decreased by approximately $29 million, or 13%, to $195 million, from $224 million in the same prior-year period. The decrease in adjusted net income was primarily driven by a $17 million decrease in adjusted net interest income and an $11 million increasing operating and other expenses, a $2 million decrease in gains recorded on our investment securities and a $1 million reduction in benefit for credit losses, all partially offset by a $1 million increase in fee and other income. During the current fiscal quarter, our adjusted net interest income decreased by $16 million, or 15%, from the same prior-year period, driven by a decrease in adjusted net interest yield of 21 basis points, or 18%, to 97 basis points, partially offset by an increase in the average interest earning assets of $1.5 billion, or 4%. The decrease in adjusted net interest yield of 21 basis points was primarily attributable to the increase in our adjusted average cost of borrowing of 29 basis points to 4.06%, which was partially offset by an increase in average yield on interest earning assets of 4 basis points to 4.75% and an increase in the benefits from non-interest bearing funding of 4 basis points to 28 basis points. The increase in our adjusted average borrowing cost was primarily due to issuing higher coupon long-term debt for refinancing and loan growth, a lower average yield earned on our interest rate swaps due to the fed funds rate cut and the $8 million gains related to the treasury lock recorded during the prior-year period, partially offset by lower short-term borrowing costs. While the average yield on interest earning assets improved, resulting from higher rates for our long-term fixed rate loans, it was offset by much lower rates for variable rate and line of credit loans following the Fed’s continuous rate cut during the period.

During the current fiscal year-to-date, CFC's adjusted net interest income was $273 million, a $17 million, or 6%, decrease from the same prior-year period. This was driven by a decrease in the adjusted net interest yield of 11 basis points, or 10%, to 1.02%, partially offset by an increase in average interest earning assets of $1.7 billion, or 5%. The same factors that I mentioned earlier influenced our fiscal year-to-date results. For the nine months ended February 28, 2025, CFC's adjusted net yield declined by 11 basis points, as our adjusted average cost of borrowing increased by 25 basis points to 3.98%, partially offset by increasing the average yield on interest earning assets of 10 basis points to 4.72% and the increase in the benefit from non-interest bearing funding of 4 basis points to 0.28%. Being a member-owned finance cooperative association, our primary financial goal focuses on earning an annual minimum adjusted time interest earned ratio or TIER of 1.1 times. For the current fiscal quarter, our adjusted TIER decreased 10 ticks to 1.19 times, compared to the same prior-year period. For the current fiscal year-to-date, our adjusted TIER decreased by five ticks to 1.2 times, compared to the same prior-year period. Adjusted TIER for the current fiscal quarter and the current fiscal year-to-date exceeded our target of 1.1 times. Over the last 12 fiscal quarters, CFC's average quarterly adjusted TIER was 1.23 times. Our total debt outstanding was $34.3 billion at the current fiscal quarter-end, increasing $1.6 billion, or 5%, from the prior fiscal year-end, primarily to fund loan growth in our portfolio. We continue to maintain diverse funding sources, including funding from our members as well as capital markets and non-capital markets funding. At the current fiscal quarter, $4.5 billion of CFC's funding came from our members in the form of short-term and long-term investments, a decrease of $336 million from the prior fiscal year-end.

Our member investments represented 13% of our total debt outstanding at the current fiscal quarter-end, down 2% from the prior fiscal year-end. While our members' investment levels have remained consistent in absolute terms, they now represent a smaller percentage of our overall funding mix due to balance sheet growth. At the current fiscal quarter-end, our funding under the guarantee underwriter program and notes payable with Farmer Mac totaled $10.3 billion, representing 30% of our total debt outstanding, a $44 million decrease from the prior fiscal year-end, primarily due to a net decrease of $63 million in borrowings under Farmer Mac note purchase program, partially offset by a $19 million net increase in borrowings under the guarantee underwriter program. Our capital markets related funding sources totaled $19.4 billion at the current fiscal quarter-end, a 1.9 billion, or 11%, increase from the prior fiscal year-end. The increase was primarily due to net decreases of $1 billion in dealer median terminals and $753 million in dealer commercial paper. At the current fiscal quarter-end, capital markets related funding sources accounted for 57% of our total funding, compared to 53% at the prior fiscal year-end. At the current fiscal quarter-end, about 50% of our total debt was secured and 50% was unsecured, shifting slightly from 52% for secured and 48% for unsecured at the prior fiscal year-end. Our short-term borrowings decreased by $97 million to $4.2 billion at the current fiscal quarter-end, compared to $4.3 billion at the prior fiscal year-end. At the current fiscal quarter-end, short-term borrowings accounted for 12% of our total debt outstanding, compared to 13% at the prior fiscal year-end. The slight decrease in short-term borrowings was driven by the repayment of $500 million in Farmer Mac loans payable and a decrease of $350 million in short-term member investments, partially offset by a $753 million increase in dealer commercial paper.

At the current fiscal quarter-end, a total of $3 billion of our short-term borrowings came from short-term investments made by our members, a slight decrease from $3.3 billion at the fiscal year-end and representing 70% and 77% of our total short-term borrowings, respectively. As we have consistently stated, our member investments have historically been our primary source of short-term borrowings and the investment from our members are a very reliable funding source with little reinvestment risk, as our members continue to invest a large portion of their excess funds with us. Our member short-term investments have averaged $3.5 billion over the last 12 fiscal quarter-end reporting periods. Slide 13 shows the various sources of liquidity CFC had in place at the current fiscal quarter-end. Our available liquidity included cash investments, committed bank lines, committed loan facilities under the guaranteed underwriter program and Farmer Mac revolving note purchase agreements totaling $7.7 billion at the current fiscal quarter-end. As indicated in the table on the right side, at the current fiscal quarter-end, we have a total of $7.3 billion in debt maturities over the next 12 months, with $3 billion of these debt maturities representing short-term investments from our members. Based on our experience, we expect our members to roll over a large portion of their short-term investments with us at maturity. The remaining $4.3 billion in debt maturities included $1.2 billion dealer commercial paper and $3.1 billion long-term and subordinated debt obligations. These obligations are well covered by $7.7 billion liquidity discussed previously. It is also worth noting that the $7.7 billion liquidity does not include the $1.7 billion scheduled repayment and amortization on long-term loans we expect to receive from our members over the next 12 months. During the current fiscal quarter, we also amended our three-year and four-year committed bank credit facilities to extend the maturity date by one year and increase the total commitment amount by $500 million.

The commitment amount under our bank facilities is $3.3 billion. We closed an additional $450 million commitments under the guarantee underwriter program and amended the revolving note purchase agreement with Farmer Mac to increase the maximum volume availability by $500 million and extended the draw period to January 2030. In total, we added $1.45 billion in liquidity during the current fiscal quarter. Slide 14 summarizes CFC's projected long-term debt issuance needs over the next 18 months, subsequent to the current fiscal quarter-end. Our cash needs are derived from two primary areas, refinancing existing debt maturities and funding loan advances to our members, partially offset by the amortization and repayment of loans from our members. Our funding needs are also driven by our member investment levels. Over the next 18 months, from March 2025 through August 2026, we have a total of $5.4 billion of long-term debt maturities and amortization. We expect our net loan growth over the same period to be approximately $2.3 billion. As illustrated on the chart, the color-coded, long-term debt issuance bar, represents our $6.3 billion long-term debt issuance needs over the upcoming six quarters. The largest issuance need, over $2 billion, occurs in the third quarter of next fiscal year, that's shown in blue. Thank you once again for joining us today to review our results for our third quarter of fiscal year 2025. We appreciate your interest in CFC and look forward to discussing our financial performance and funding plan in the future. I would like to ask the operator to open the lines for questions and also suggest that you submit your questions via the web service, so we may respond to those as well.

Operator: Thank you. If you're dialed in via the telephone, and would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that was press star one to ask a question. If you're in the event via the web interface and would like to ask your question, simply type your question in the "ask a question box" and click send. We'll pause for a moment to give everyone the chance to ask their question.

Ling Wang: So we do have some questions from the web. The first one being, could you please talk about that issuance plans, secure, unsecure, hybrid, please? Okay, so generally when we look at our funding needs, I think in the market it's fair to say if we issue anything 10 years or out, we tend to issue them on a secure basis. So if we issue something that's 10 years in, they tend to be unsecured and the tenant is primarily driven by the rate terms that our members are selecting. So if our members are selecting terms that are fixed to maturity, we tend to issue longer. If they are only selecting say, five-year repricing period, then we tend to issue the debt on the shorter-term basis. On the hybrid, I think, you know, we typically issue hybrid to address our leverage ratio. Right now, our leverage ratio is 7.37-to-1 and our target is 8.5-to-1. So we are well within our target. We are, I'd say fairly well within the target that's set by the rating agencies, so, we'll opportunistically look at the market, if it makes economic sense that we may do that. Otherwise, we just continue to monitor the market.

Operator: And I do not have any questions signaled from the phone lines.

Ling Wang: So I'm going to have Andrew answer the next question. Any color on the line of credit increase, please? Any particular customers or was it market volatility related?

Andrew Don: Yes, thanks for the question. So, you know, as we mentioned during the call, the line of credit increases, you know, the vast majority was due to the very severe storms. The hurricanes in particular that took place in September of last calendar-year. And particular there was Hurricane Helene, which was probably the widest level of issues related to electric cooperatives. It did hit five states. That's, you know, that's very atypical in terms of the number of states it hit. I think there were about 130-plus cooperatives that serve in those five states. We've received line of credit requests, or actually advances, to about 28 of those 130 that did, you know, experience severe damage and that damage, you know, kind of went from, you know, from a line of credit perspective around $2 million, and this is purely for restoration efforts, to probably a high of about $60 million. So that was kind of the framework of the requests for restoration work or restoration damage that was funded under what's called emergency line of credits. Those are line of credits that we make available to members when they do go, you know, under some kind of emergency situation, where, you know, obviously a hurricane or some other kind of extreme weather event, and we make those lines of credit available to them. Especially, well we do that if the area has been declared a natural disaster area so that it is eligible for FEMA reimbursement. So that's the, again, the majority of the line of credits were really related to that. It's not the type of, you know, line of credit advances we want to fund per se, but it's just a result of, you know, the weather events and again, it was just the magnitude of that storm. In terms of the states that were probably the most impacted, it was really Florida, Georgia and South Carolina, as a practical matter, out of the five states that were hit altogether. But that was a big driver, was really, it was really Hurricane Helene. Hurricane Milton, went a lot quicker. It did go just across the state of Florida relatively limited damage because that storm did move a lot quicker across the state and I think only three cooperatives in the state of Florida were impacted by that from a restoration perspective.

Ling Wang: There is a question. Please provide some color on our securities portfolio. How are we thinking about it in terms of future investment and securities? So, we have a very small investment portfolio right now that's consisting of short to intermediate data investment grade securities. We have put in place this portfolio, I want to say four to five years ago. At one point the investment portfolio was maybe over, yes, $600, $700 million and we put it in place to primarily to boost our liquidity. So that portfolio has been in the wind-down mode. Primarily one reason, you know, in overall we are a net borrower, so for us to put any investment on our balance sheet, we have to go out and basically issue debt to fund that investment portfolio. So there is an impact on leverage. We'll continue to assess if there is a need to increase that investment portfolio, and the reason we did it before is, it's primarily for liquidity and then as you have heard, we just increased our liquidity sources by $1.45 billion over the last quarter. We believe we have adequate liquidity to satisfy all of our upcoming financing needs and our member growth right now.

Operator, do we have any other questions on the phone?

Operator: I do not have any questions signaled from the phone lines.

Ling Wang: Okay. So it looks like we have answered all the questions from the web as well. So we can conclude the call, operator. Thank you.

Operator: Thank you, ladies and gentlemen, that will conclude today's call. We thank you for your participation. You may disconnect at this time.