FitchRatings

Non-Bank Financial Institutions
Finance & Leasing Companies
United States

National Rural Utilities Cooperative Finance Corporation

Ratings

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

Outlooks	
Long-Term, Foreign-Currency IDR	Stable

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (May 2023)

Corporate Hybrids Treatment and Notching Criteria (November 2020)

Related Research

Fitch Affirms National Rural at 'A'/'F1'; Outlook Stable (September 2023)

U.S. Public Power – Peer Review (June 2023)

Performance Dims As Expected for U.S. Public Power Utilities (June 2023)

Global Economic Outlook – September 2023 (September 2023)

Key Rating Drivers

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

Low Credit Losses Over Time: CFC has a demonstrated track record in risk management, having recorded very low credit losses over time. Over the company's 54-year operating history, CFC has experienced only 18 defaults in its electric cooperative loan portfolio, including the 2021 and 2022 defaults of Brazos Electric Power Cooperative, Inc. (Brazos) and Brazos Sandy Creek Electric Cooperative, Inc. (Brazos Sandy Creek), respectively, resulting from their bankruptcy filings following exposure to elevated wholesale electric power costs during a winter storm in February 2021. Cumulative net chargeoffs total $101 million (0.3% of average loans) since inception, evidencing strong and stable underwriting, as well as solid risk management.

Modest Earnings: As a cooperative lender, CFC's mission is not to generate large profits, but to cover its cost of funding, cost of operations and loan losses. In its analysis of earnings, Fitch Ratings places a greater emphasis on the company's adjusted net income and adjusted times interest earned ratio (TIER), which amounted to 1.25x at fiscal year-end (FYE) 2023 (ended May 31), compared with 1.30x a year prior. Given the company's strong asset quality and ability to adjust loan pricing, Fitch expects adjusted TIER to remain in excess of CFC's target of 1.1x over time.

High Leverage: Fitch calculated CFC's debt to tangible equity leverage to be 6.8x at FYE 2023, down from 7.2x a year prior due to growth in GAAP equity from retained earnings, the issuance of subordinated deferrable debt in May 2023 and, to a lesser extent, positive derivative fair value changes. While Fitch views CFC's leverage as reasonable, given the low portfolio credit risk and the company's ability and willingness to access the subordinated deferrable debt markets to support growth, its current leverage metrics are higher than those of similarly rated non-bank financial institutions (NBFIs), and remain a rating constraint.

Diverse Funding: Fitch believes CFC was able to maintain appropriate funding sources through various cycles and has successfully diversified its funding base over time. Unsecured debt as a percentage of total funding was 44% at FYE 2023, which, while stable, is modestly below that of similarly rated peers.

Sufficient Liquidity: Fitch's analysis of CFC is heavily influenced by the company's ability to maintain sufficient liquidity to meet short- and long-term funding needs. At FYE 2023, CFC had liquidity of $7.1 billion, comprising $709 million of cash and investments and $6.5 billion of borrowing capacity on various credit facilities. Additionally, CFC had $1.5 billion of anticipated long-term loan repayments over the next 12 months. Accordingly, Fitch believes CFC has sufficient liquidity, covering $6.9 billion of debt maturities over the next 12 months by 1.9x, as of FYE 2023.

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Rating Sensitivities

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

- A perceived drift in focus, evidenced by an increased level of lending to sectors outside of its rural electric member base, a strike in nonperforming loans (NPLs) due to financial stress within the sector, indicating an inability to adapt to new legislation or an inability to pass along cost increases to end-users, would be negative for ratings.
- An increase in Fitch-calculated leverage sustained above 10x and/or deterioration in the company's liquidity profile below 1.0x coverage of liquidity sources to uses could also yield negative rating action.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Fitch believes the likelihood of a ratings upgrade over the medium term is limited, given CFC's higher-than-peer leverage.
- Over time, positive rating momentum could be driven by a decline in leverage approaching 5x on a Fitch-calculated basis, which is more consistent with Fitch's investment-grade benchmark ratio for balance sheet-heavy finance and leasing companies, and enhanced funding flexibility as evidenced by the lengthening of the debt maturity profile.

Central Bank Inflation Fight Continues

In the updated "Global Economic Outlook" (GEO), dated June 2023, Fitch lowered the world GDP forecast for 2024 to 2.1%, down from 2.4% in the March GEO, due to longer lags in the impact of higher interest rates, along with weaker base effects for emerging market growth. Fitch still expects Fed tightening to push the economy into a mild recession, but the timing of this has been pushed out to 4Q23-1Q24. The U.S. growth forecast for 2023 has been cut to 0.5% from 0.8%. Eurozone growth forecasts for 2023 and 2024 are unchanged.

Advanced country central banks have become more concerned about inflation persistence, and Fitch's policy rate forecasts have been revised widely. Fitch expects the Fed and ECB to raise rates two more time in the coming months, to peaks of 5.75% and 4.5%, respectively. Fitch anticipates three more hikes from the Bank of England, taking rates to 5.25%. Monetary tightening is taking longer to feed through the real economy than many expected, but there are no grounds for believing that economies have become immune to rate rises. World growth should pick up in 2025 on monetary easing in 2024.

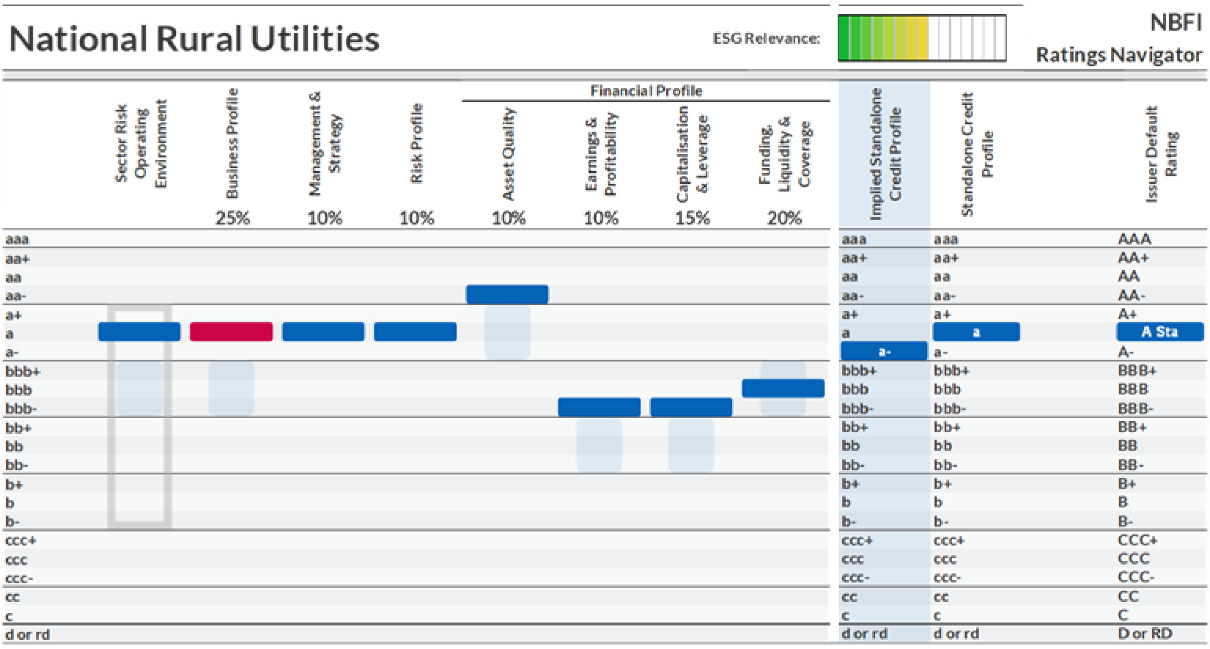
Performance Dims as Expected for U.S. Public Power Utilities

A decade of de-leveraging has officially come to an end for U.S. public power utilities. Leverage metrics for U.S. public power utilities have weakened materially, effectively reversing the trend of de-leveraging that began over 10 years ago. Coverage of full obligations has also weakened for retail systems, wholesale systems and the portfolio overall, ending an upward trend that began as early as 2015 for certain systems.

Outlooks for public power utilities by and large will remain stable, thanks to strong financial cushions and independent rate-setting authority, although the performance declines are noteworthy and warrant closer scrutiny. Utilities are now contending with higher costs and weaker liquidity, with cash holdings declining to meet higher operating expenses, capital spending and working capital requirements. Cash on hand medians are also down for both retail and wholesale systems to levels not seen in over eight years. The median capex to depreciation ratio for wholesale systems was 76% in 1H23, the seventh time in nine years that capex to depreciation remained at or below 100%, suggesting a continuance of a low reinvestment cycle.

This year's results are in line with Fitch's outlook for U.S. public power utilities, which the rating agency revised to deteriorating late last year. The sector is contending with a more challenging environment and the likelihood of a broader economic recession, which Fitch economists are projecting to take hold later this year.

Ratings Navigator



Adjustments

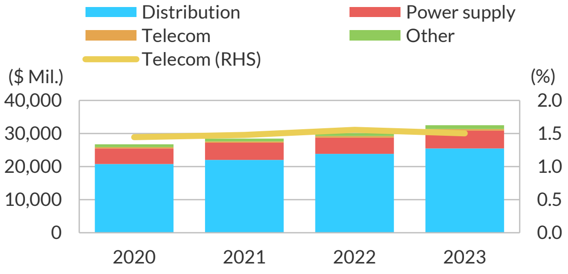
- The Standalone Credit Profile has been assigned above the implied Standalone Credit Profile due to the following adjustment reason: Business profile (positive).
- The Sector Risk Operating Environment score has been assigned above the implied score due to the following adjustment reason: Business model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

Key Qualitative Factors

Franchise Strengths; Growth in 100% Borrowers

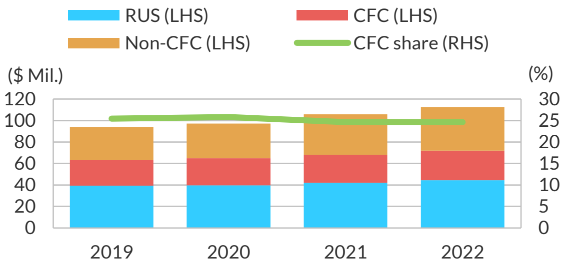
CFC was formed in 1969 by its members, primarily rural cooperative electric distributors, and generation and transmission (G&T) systems. The company was organized to provide its members with a source of financing to supplement the RUS lending program. Fitch notes that, within the electric cooperative lending space, there are just three primary players: the U.S. government (through the RUS), the Farm Credit System (through CoBank ACB [IDR: A+/Stable]) and CFC. Fitch believes CFC has meaningful and unique franchise strengths, and estimates that CFC garners over 25% of the U.S. electric cooperative lending market, as of Dec. 31, 2022. The company continues to strengthen its franchise, as demonstrated by the number of borrowers that use CFC exclusively for long-term borrowing needs (100% borrowers), which increased to 252 at FYE 2023 (ended May 31), up from 249 at FYE 2022.

Loans by Member Class
Years Ended May 31



Source: Fitch Ratings, CFC

Electric Cooperative Financing Share
As of Dec. 31



Source: Fitch Ratings, CFC

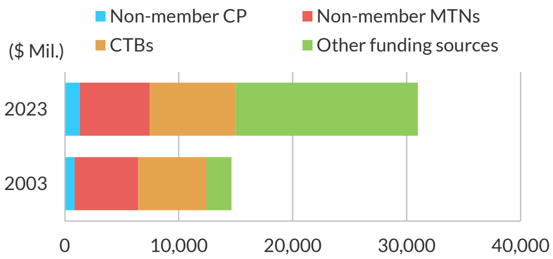
Focus on Lending to Members

CFC's strategic objective is to focus on lending to electric utility cooperatives. As of May 31, 2023, core members represented 98.5% of the total portfolio. Management has significantly reduced the exposure to telecommunication entities, which had been the cause of most of CFC's historical credit losses. They now represent just 1.5% of the total portfolio as of the same date. If there is a perceived drift in focus, evidenced by an increased level of lending to sectors outside of the company's rural electric member base, negative rating action would be likely.

Maintain Diversified Funding

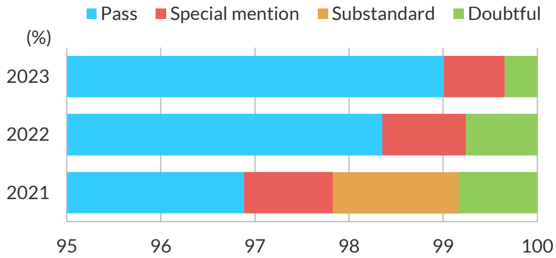
Another key focus for CFC is to diversify its funding sources over time, beyond capital market offerings of debt securities. Private funding programs with the Federal Financing Bank, under a guarantee from the RUS, and the Federal Agricultural Mortgage Corporation have become more prominent sources of funding, given their reliability, flexibility and cost. As of FYE 2023, capital markets funding (collateral trust bonds, non-member CP, medium-term notes and securities sold under repurchase agreements) represented 52% of total funding, compared with 84% at FYE 2003. Fitch views favorably CFC's economic access to diversified funding sources and reduced reliance on the wholesale debt markets.

Capital Markets Sources
Years Ended May 31



Source: Fitch Ratings, CFC

Portfolio by Internal Risk Rating
Years Ended May 31



Source: Fitch Ratings, CFC

Solid Risk Control Framework

Fitch deems CFC's risk control framework to be solid. CFC maintains an internal credit risk system in which the company assigns a credit rating to each borrower and credit facility. The internal risk ratings are based on a determination of a borrower's risk of default using quantitative and qualitative measurements. Borrower risk ratings fall into four categories, which align with U.S. federal banking regulatory agencies' definitions of "pass", "special mention", "substandard" and "doubtful". The internal borrower risk ratings serve as primary credit quality indicators for the loan portfolio. Because they provide information on the probability of default, they are a key input in the determination of the allowance for credit losses.

The $53.1 million allowance for credit losses represented 0.16% of total loans outstanding at FYE 2023, modestly lower compared to an allowance of $67.6 million, or 0.22%, reported year prior. The allowance for credit losses reflected a decrease in both the asset-specific and collective allowance. The decrease in the asset-specific allowance was related to the charge-off of loans related to Brazos and Brazos Sandy Creek, whereas the decrease in the collective allowance was attributable to an improvement in the credit quality and risk profile of CFC's loan portfolio.

Exposure to Interest Rate Risk

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

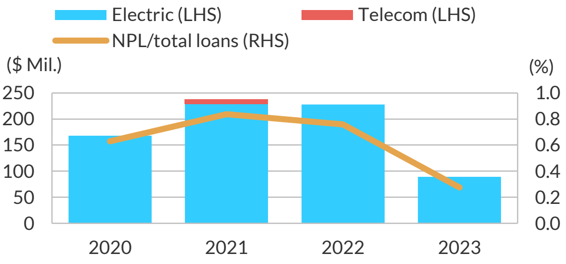
Financial Profile

Low Credit Losses Over Time

CFC has a demonstrated track record in credit-risk management, having recorded very low credit losses over time. Over CFC's 54-year operating history, the company has experienced only 18 defaults in its electric utility portfolio, including the most recent default of Brazos and Brazos Sandy Creek in March 2022, which resulted in eight losses in the electric utility portfolio. Cumulative net chargeoffs in the electric utility portfolio total $101 million (0.3% of average loans) since inception, evidencing strong and stable lending, as well as solid credit-risk management.

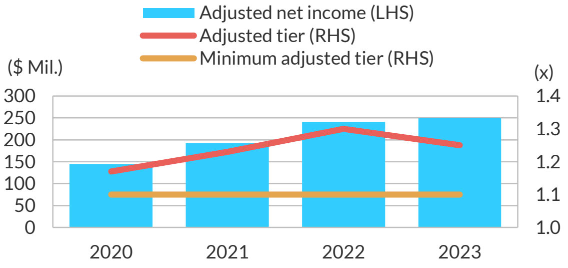
As of FYE 2023, CFC had loans to two borrowers classified as nonperforming totaling $89 million, or 0.3% of total loans. The $139 million reduction in the NPL balance in FYE 2023, was related to the receipt of loan principal payments, the partial chargeoff related to the Brazos and Brazos Sandy Creek NPLs, and the re-classification of Brazos nonperforming loans to troubled debt restructured (TDR) during 3Q23. The chargeoffs to Brazos and Brazos Sandy Creek totaled $15 million, which resulted in a net chargeoff rate of 0.05% as of FYE 2023. Prior to Brazos and Brazos Sandy Creek's bankruptcy filings, CFC had not experienced any defaults or chargeoffs in its electric utility and telecommunications loan portfolio since FYE 2013 and FYE 2017, respectively.

Nonperforming Loans
Years Ended May 31



Source: Fitch Ratings, CFC

Operating Metrics
Years Ended May 31



Source: Fitch Ratings, CFC

Mission as Cooperative Lender; Emphasis on Coverage Metrics for Earnings

Earnings and profitability metrics are low compared to those of similarly rated NBFIs, with pretax income as a percentage of average assets averaging 1.6% in FYE 2020-FYE 2023. Fitch believes earnings have a low influence on the overall ratings, as CFC's mission (and members' expectation) is not to generate large profits, but to cover its cost of funding, cost of operations and loan losses.

In FYE 2023, pretax income of $502 million was down 37% from a year ago, driven by a $171 million reduction in derivative gains and a $120 million decrease in net interest income. CFC's current ratings reflect an expectation of potential period-to-period volatility in reported earnings, given MTM changes on derivatives. In its analysis of earnings, Fitch places a greater emphasis on the company's adjusted net income and TIER. These measures have been adequate and consistent with Fitch's expectations over time. CFC's adjusted TIER excludes from net income the impact of unrealized derivative forward value gains and losses, and includes periodic cash derivative settlements in adjusted interest expense and net interest income. Adjusted TIER amounted to 1.25x in FYE 2023, compared with 1.3x a year prior. Given the company's strong credit quality and ability to adjust loan prices, Fitch expects the adjusted TIER to remain in excess of CFC's 1.1x target over time.

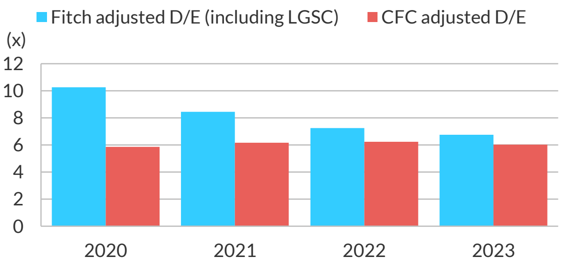
Appropriate Leverage

Fitch calculated CFC's leverage (debt to tangible equity) to be 6.8x at FYE 2023, down from 7.2x at FYE 2022. Leverage can be affected by MTM changes on CFC's derivatives, although this is incorporated into CFC's ratings. While Fitch views CFC's leverage as reasonable, given the low portfolio credit risk and its ability and willingness to access subordinated deferrable debt markets to balance loan growth and manage leverage, CFC's leverage metrics are higher than those of similarly rated NBFIs and remains a rating constraint.

Fitch notes that the inclusion and treatment of loan and guarantee subordinated certificates (LGSCs) as 100% equity in Fitch's leverage calculation are considered a variation to the agency's hybrid criteria, as LGSCs have a contractual or implied maturity, more akin to a hybrid instrument, which would typically receive 50% equity credit. For more information, see Discussion of CFC's Equity Base section below.

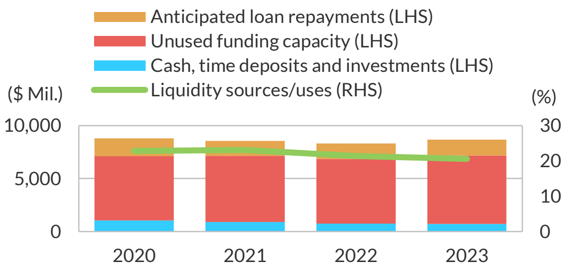
CFC assesses leverage based on an adjusted debt to equity calculation, which strips out derivative fair value changes, and treats all member-held subordinated certificates and subordinated deferrable debt as 100% equity. Based on this treatment, CFC's adjusted leverage metric was 6.0x at FYE 2023, compared with 6.2x at FYE 2022.

Leverage Trends
Years Ended May 31



Source: Fitch Ratings, CFC

Liquidity Trends
Years Ended May 31



Source: Fitch Ratings, CFC

Sufficient Liquidity to Address Upcoming Debt Maturities

Fitch's analysis is heavily influenced by the company's ability to maintain adequate liquidity to meet short- and long-term funding needs. At May 31, 2023, CFC had liquidity of $7.1 billion, composed of $709 million of cash and investments and $6.5 billion of borrowing capacity under various credit facilities. Additionally, CFC had $1.5 billion of anticipated long-term loan repayments over the next 12 months. Fitch believes CFC has sufficient liquidity, providing 1.2x coverage, to address $6.9 billion of debt maturities over the next 12 months, as of FYE 2023. Excess liquidity excludes member short-term investments from the $6.9 billion of debt maturities.

Discussion of CFC's Equity Base

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

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

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

CFC's Equity Base

	FYE 2023	Equity Credit (%)	Fitch Adjusted Equity
GAAP Equity	2,589	100	2,589
Membership Subordinated Certificates	629	100	629
Subordinated Deferrable Debt	1,283	50	642
Member Capital Securities	246	50	123
Total Equity	**4,747**		**3,983**
Loan and Guarantee Subordinated Certificates	348	100	348
Total Fitch Adjusted Equity	—	—	**4,331**

Source: Fitch Ratings, CFC

Membership Subordinated Certificates

These instruments represent the company's initial capitalization and were required to be purchased as a condition of membership. They are interest-bearing (weighted average [WA] interest rate of 4.94% at FYE 2023), unsecured, subordinated debt with an initial maturity of 100 years and are noncumulative. Fitch believes membership subordinated certificates resemble perpetual preferred stock, and they are given 100% equity credit in Fitch's analysis.

Subordinated Deferrable Debt

To supplement CFC's capital base, management made the decision over the years to issue non-member SDD with the following attributes: subordinated to all senior debt; senior to all member-held subordinated instruments; terms up to 45-years from issuance; and an ability to defer interest up to 20 quarter (five years), similar to member capital securities (10 consecutive semiannual payments, or five years). During the deferral, interest continues to accrue on a cumulative basis. Based on Fitch's criteria, these instruments are given 50% equity credit given the deep subordination and the cumulative nature of the interest in the event of a deferral. The WA interest rate of the SDD was 6.64% at FYE 2023.

Member Capital Securities

The member capital securities program is an initiative started at YE08 to raise additional capital from CFC members and further entrench membership. These are interest-bearing (WA interest rate of 5.01% at FYE 2023) with a maturity of 30 years from issuance. Payments, which are cumulative, can be deferred for up to five years. These instruments have full offset rights in the event that a borrower defaults. According to Fitch's criteria, they are given 50% equity credit, given the instrument's deep subordination and the cumulative nature of the interest in the event of a deferral.

Loan and Guarantee Subordinated Certificates

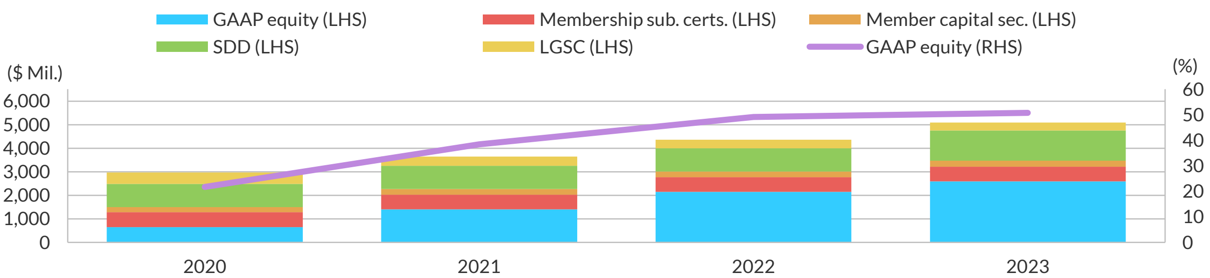
Borrowers that receive long-term funding, certain short-term loans or guarantees from CFC are sometimes required to purchase additional LGSCs with CFC based on the member's debt to equity ratio. These instruments are also subordinated to all other debt of CFC. The maturity of the LGSCs matches that of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

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

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

Capitalization Trends

Years Ended May 31



Source: Fitch Ratings, CFC

Debt Ratings

Debt Ratings: National Rural Utilities Cooperative Finance Corporation

Rating Level	Rating	Outlook
Senior Secured: Long Term	A+	

Senior Unsecured: Long Term	A
Senior Unsecured: Short Term	F1
Subordinated: Long Term	BBB+

Source: Fitch Ratings

According to Fitch's "Non-Bank Financial Institutions Rating Criteria," a Long-Term IDR of 'A' maps to a Short-Term IDR of 'F1' or 'F1+'. To qualify for the higher rating, CFC would need to have a minimum Funding, Liquidity and Coverage (FLC) score of 'aa-'. CFC's score is currently 'bbb'. Accordingly, Fitch has affirmed the Short-Term IDR at 'F1'.

The senior secured debt ratings benefit from a one-notch uplift from the Long-Term IDR, given the strong collateral coverage backing such notes and the good recovery prospects for debtholders under a stress scenario.

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

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

The CP rating of 'F1' is equalized with the Short-Term IDR of 'F1'.

Debt Rating Sensitivities

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

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

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

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

Environmental, Social and Governance Considerations

FitchRatings **National Rural Utilities** — NBFI Ratings Navigator

Credit-Relevant ESG Derivation

National Rural Utilities has 4 ESG potential rating drivers

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

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

ESG Relevance to Credit Rating: 5, 4, 3, 2, 1

Environmental (E) Relevance Scores

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

How to Read This Page

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

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

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

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

CREDIT-RELEVANT ESG SCALE

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

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

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

Financials

Income Statement

($ Mil., Years Ended May 31)	2023 Audited — Unqualified	2022 Audited — Unqualified	2021 Audited — Unqualified	2020 Audited — Unqualified
Interest Income	1,351.7	1,141.2	1,116.6	1,151.3
Interest Expense	-1,036.5	-705.5	-702.1	-821.1
Net Interest Income	**315.2**	**435.7**	**414.5**	**330.2**
Benefit (Provision) for Loan Losses	-603.0	18.0	-28.5	-35.6
Net Interest Income After Benefit (Provision) for Loan Losses	314.6	453.7	386.0	294.6
Fee and Other Income	18.1	17.2	18.9	23.0
Derivative Gains/(Losses)	285.8	456.5	506.3	-790.2
Investment Securities Gains/(Losses)	-5.0	-30.2	1.5	9.4
Total Non-Interest Income	299.0	443.5	526.7	-757.8
Salaries and Employee Benefits	-59.0	-51.9	-55.2	-54.5
Other General and Administrative Expenses	-50.6	-43.3	-39.4	-46.6
(Losses) on Early Extinguishment of Debt	-0.1	-0.8	-1.5	-0.7
Other Non-Interest Expense	-1.5	-1.6	-1.6	-25.6
Total Non-Interest Expense	**-111.2**	**-97.5**	**-97.7**	**-127.4**
Income/(Loss) Before Taxes	**502.4**	**799.7**	**815.0**	**-590.6**
Income Tax Expense (Provision)	-0.8	-1.1	-1.0	1.2
Net Income/(Loss)	**501.6**	**798.5**	**814.0**	**-589.4**
Net Income/(Loss) Attributable to Noncontrolling Interests	-0.1	-2.7	-2.3	4.2
Net Income/(Loss) Attributable to CFC	**501.5**	**795.8**	**811.7**	**-585.2**

Source: Fitch Ratings, Fitch Solutions, CFC

Balance Sheet

($ Mil., Years Ended May 31)	2023	2022	2021	2020
Cash, Cash Equivalents and Restricted Cash	207.2	161.1	303.4	680.0
Investment Securities	510.4	599.9	611.3	370.1
Loans to Members, Net of Allowance	32,479.0	29,995.8	28,341.4	26,649.3
Accrued Interest Receivable	172.7	111.4	107.9	117.1
Other Receivables	31.2	35.4	37.2	41.1
Fixed Assets, Net of Accumulated Depreciation	86.0	101.8	91.9	89.1
Derivative Assets	460.8	222.0	121.3	173.2
Other Assets	64.7	23.9	24.1	37.6
Total Assets	**34,012.1**	**31,251.4**	**29,638.4**	**28,157.6**
Accrued Interest Payable	212.3	132.0	123.7	139.6
Short-Term Debt Borrowings	4,546.3	4,981.2	4,582.1	3,962.0
Long-Term Debt Borrowings	23,946.5	21,545.4	20,603.1	19,712.0
Subordinate Deferrable Debt	1,283.4	986.5	986.3	986.1
Membership Subordinated Certificates	628.6	628.6	628.6	630.5
Loan and Guarantee Subordinated Certificates	348.3	365.4	386.9	483.0
Member Capital Securities	246.2	240.2	239.2	226.2
Deferred Income	38.6	44.3	51.2	59.3
Derivative Liabilities	115.1	128.3	585.0	1,258.5
Other Liabilities	57.4	57.6	52.4	51.7
Total Liabilities	**31,422.8**	**29,109.4**	**28,238.5**	**27,508.8**
Retained Equity	2,553.7	2,112.3	1,375.0	628.0
Accumulated Other Comprehensive Income/(Loss)	8.3	2.3	-0.0	-1.9
Noncontrolling Interest	27.2	27.4	24.9	22.7
Total Equity	**2,589.2**	**2,142.0**	**1,399.9**	**648.8**
Total Liabilities and Equity	**34,012.1**	**31,251.4**	**29,638.4**	**28,157.6**

Source: Fitch Ratings, Fitch Solutions, CFC

Summary Analytics

(%, Years Ended May 31)	**2023**	**2022**	**2021**	**2020**
Nonperforming Loans Ratio	0.3	0.8	0.8	0.6
ALLL Coverage	0.2	0.2	0.3	0.2
Pretax ROAA	3.1	2.6	2.8	-2.1
Adjusted TIER	1.3	1.3	1.2	1.2
Fitch-Calculated Tangible Leverage (x)	6.8	7.2	8.5	10.2
CFC Adjusted Leverage (x)	6.0	6.2	6.2	5.9
Unsecured Debt/Total Debt	44.0	44.0	39.0	36.0
Liquidity to Total Assets	20.5	21.4	23.9	22.6
Liquidity Sources to Uses	1.9	2.3	1.9	1.4
Fixed-Charge Coverage	1.5	2.1	2.2	0.3
Unencumbered Loans/Total Loans	35.3	36.6	32.6	26.4

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

Criteria Variations

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

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