

# Investor Conference Call

APRIL 16, 2009 @ 10:00 a.m. (ET)

Steven Lilly,  
Senior Vice President & CFO

FY09 Third-Quarter Update  
February 28, 2009



**National Rural Utilities  
Cooperative Finance Corporation**



## Disclaimer

*This presentation on **NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION** (“National Rural” “CFC” “the Company”) is our commentary, and responses to your questions may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by their use of words like “anticipates,” “expects,” “projects,” “believes,” “plans,” “may,” “intend,” “should,” “could,” “will,” “estimate,” and other expressions that indicate future events and trends. All statements that address expectations or projections about the future, including statements about loan growth, adequacy of the loan loss analysis, net margin growth, leverage and debt to equity ratios, and borrower financial performance are forward-looking statements.*

*In light of the fact that National Rural is an active issuer of securities both domestically and globally and the current level of uncertainty in the capital markets, it is more important now than ever to reiterate that the National Rural’s Capital Market Relations, Capital Markets Funding and External Reporting teams are very talented and knowledgeable about the industry we serve and the operations of National Rural. Therefore, if you have any questions or concerns regarding your investments in National Rural’s securities, you may reach Andrew Don who is responsible for Capital Markets Relations, John Suter who is responsible for Capital Markets Funding and Bob Geier, who is the chief accounting officer and responsible for external SEC and public reporting. When you have any questions, please do not hesitate for a moment to call me or any of these individuals at 703-709-6700. Also, I encourage you to visit our Web site at [www.nrucfc.coop](http://www.nrucfc.coop) for all of our public filings, press releases and updates.*

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*Steven Lilly, Senior Vice President & Chief Financial Officer*

# National Rural Utilities Cooperative Finance Corporation

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## Key Contacts

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**Steven Lilly — Senior Vice President & Chief Financial Officer**

**Andrew Don — Vice President, Capital Markets Relations**

**John Suter — Vice President, Capital Markets Funding**

**Bob Geier — Controller, Chief Accounting Officer**

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**Phone: 703-709-6700**

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## National Rural Utilities Cooperative Finance Corporation

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During our discussion today we will review our GAAP and non-GAAP adjusted financial measures. Please refer to the latest SEC Form 10-Q report as filed with the SEC and as posted on the National Rural Web Site for a discussion of why we believe the adjusted measures are useful information in analyzing National Rural's financial performance and the reconciliation to the related GAAP measures.

## **National Rural Utilities Cooperative Finance Corporation**

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**During the stormy seas of the past year's capital markets, National Rural has reinforced its financial position, maintained a watchful focus on key performance metrics that drive credit ratings and credit rating outlooks, identified credit exposures and utility industry-related concerns that required additional risk mitigation strategies and significantly enhanced capital market liquidity.**

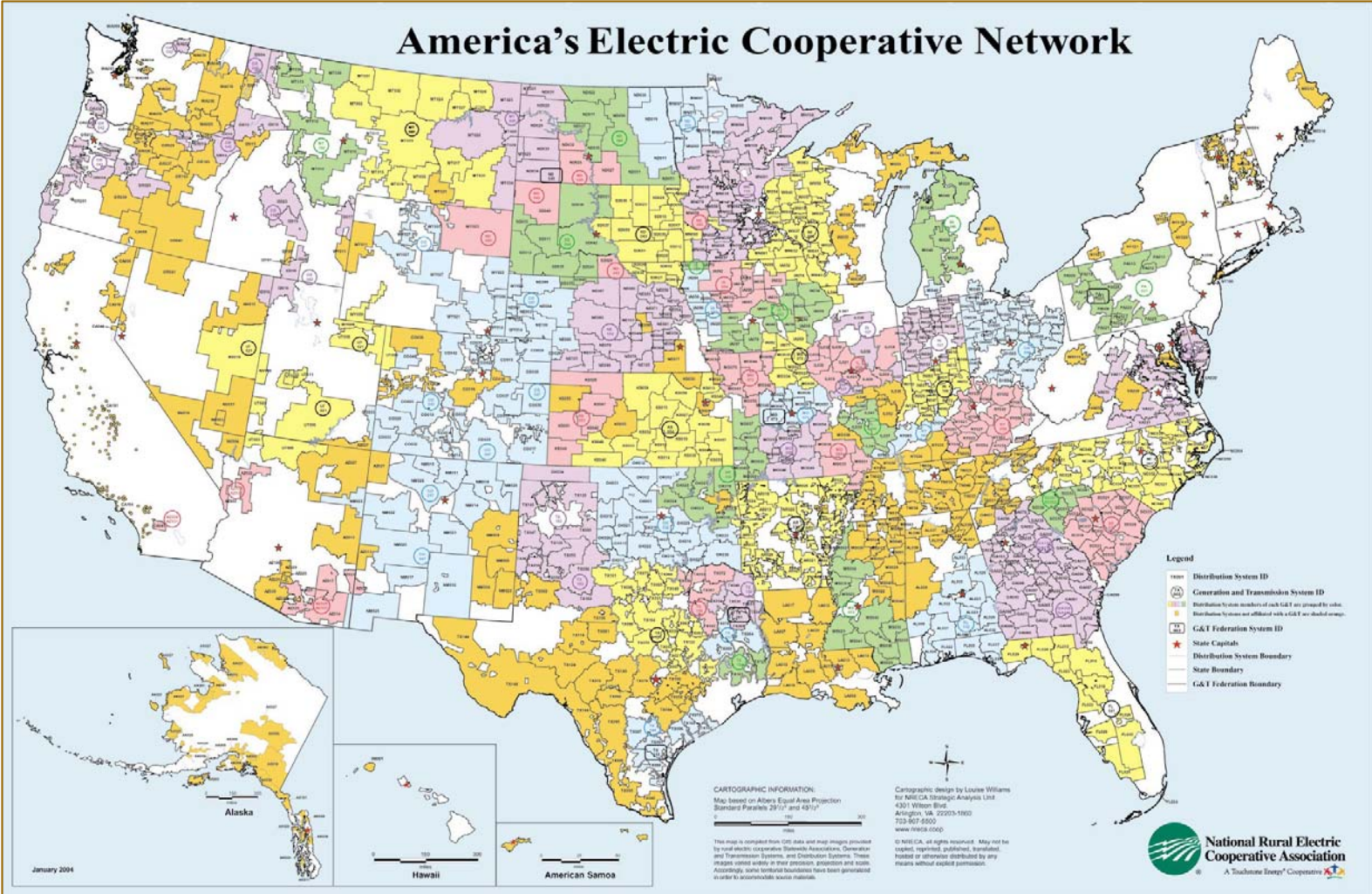
# National Rural Utilities Cooperative Finance Corporation

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## Significant Development—

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- National Rural repaid all notes outstanding under the Federal Reserve's Commercial Paper Funding Facility (CPFF).
- National Rural entered into several note purchase agreements with Farmer Mac to obtain funding at favorable rates.
- National Rural continued to be successful in raising funds through the InterNotes program.
- National Rural initiated the Member Capital Securities program to raise additional capital.

# Electric Cooperative Map



# National Rural Utilities Cooperative Finance Corporation

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## ➤ We Strive To—

- » Continue to strengthen our financial position.
- » Manage our performance metrics to drive improvement in credit ratings.
- » Continuously improve our credit and interest rate risk management.
- » Enhance our liquidity position through new funding programs.
- » Provide high-quality products and services to our members.
- » Maintain a portfolio that primarily consists of United States-based electric utilities with limited exposure to telephone companies.

## Key Investment Highlights at February 28, 2009

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- **National Rural is the pre-eminent non-governmental lender to the United States rural electric utility industry with \$20.2 billion gross loans outstanding.**
  - » **National Rural is a member owned, not-for-profit, tax-exempt cooperative.**
  - » **We have a geographically diversified portfolio of loans backed by utility borrowers that provide an essential service and have a long history of stable performance even in poor economic conditions.**
  - » **Our membership includes 1,523 consolidated members and associates that are geographically dispersed across the United States.**
  - » **Cooperatives electric systems serve more than 40 million end-users of energy.**
  - » **The majority of our cooperative utility system members are not rate regulated and have the ability to set their own electric rates.**
  - » **Top 10 credits represented 18% of total credit exposure.**

## Key Investment Highlights at February 28, 2009

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### ➤ Conservative Management Techniques—

- » **Maintain a rigorous asset and liability management program.**
- » **No exposure to residential mortgages, mortgage-backed securities, collateralized loan debt obligations or structured loan investment vehicles.**
- » **Lend to organizations predominately on a senior secured basis— 86% of the loans outstanding were secured.**
- » **Financial derivatives utilized as part of the asset/liability management program.**
- » **Diversified funding sources including fully advanced \$3.0 billion Rural Economic Development Loans and Grants (REDLG) government-guaranteed note program and a \$1.4 billion Farmer Mac note purchase program with \$900 million outstanding.**
- » **Interest rates are set on a cost-plus basis.**
- » **Strong recovery history— \$180 million in net charge-offs since 1969.**

## Key Investment Highlights

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- **Superior Security and Value to Investors—**
  - » **Collateral trust bonds— Electric distribution mortgages;**
  - » **Medium-term notes— General corporate obligation;**
  - » **Commercial paper— General corporate obligation with 100% backup by bank lines; and**
  - » **Guarantee and standby liquidity for tax-exempt bonds— Bank-lines provide required backup.**

# Key Investment Highlights

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## ➤ The Loan Security Package—

- » The utilities pledge a first lien on all utility assets, after acquired property and a pledge of revenue.
- » National Rural has offset rights against the borrower's investments in the Company.
- » These rights against the borrower's investments provide additional protection against principal loss.
- » The loan security package allows the Company to directly pledge to collateral trust bondholders an assignment of utility mortgage collateral.
- » This places National Rural's bonds in the same category as investor-owned utility first mortgage bonds, with an underlying safety net of a solidly positioned high single— A rated national rural organization.

## Key Investment Highlights — Recognized Credit Ratings

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- **National Rural maintain credit ratings from the three SEC recognized statistical rating organizations.**
  - » **Fitch Ratings, Moody’s Investors Service and Standard & Poor’s Corp. continue to confirm senior secured ratings at A+/A1/A+, senior unsecured ratings at A/A2/A and short-term ratings at F1/P-1/A-1.**
  - » **“Stable” outlook by all three rating agencies.**
  - » **National Rural’s board of directors and management are committed to achieving higher bond ratings from all three firms.**
  - » **The board of directors continues to employ performance-based compensation incentives based on both short- and long-term corporate goals and objectives that include improving National Rural’s senior secured ratings as a key performance metric.**

## Key Investment Highlights — Recognized Credit Ratings

	Moody's Investors Service	Standard & Poor's Corporation	Fitch Ratings
	Stable Outlook	Stable Outlook	Stable Outlook
<b>Direct:</b>			
Senior secured debt	A1	A+	A+
Senior unsecured debt	A2	A	A
Subordinated deferrable debt	A3	BBB	A-
Commercial paper	P-1	A-1	F1
<b>Guarantees:</b>			
Pooled bonds	A1	A	A
Other bonds	A2	A	A
Short term	P-1	A-1	F1

## Key Investment Highlights at February 28, 2009

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- National Rural offers credit-related products and services primarily to United States rural electric utilities that provide essential services.
  
- *What we don't do:*
  - » *We do not* provide credit to residential or commercial mortgage markets.
  
  - » *We do not* have sub-prime consumer credit on our books.
  
  - » *We do not* invest in mortgage-backed securities, collateralized loan or debt obligations, or structured investment vehicles.
  
  - » *We do not* trade derivatives for speculative purposes.

## Financial Performance for the Three Months Ended February 28, 2009

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- **GAAP consolidated net income** totaled \$75 million, an increase of \$76 million from the comparable prior-year period.
- **Non-GAAP adjusted consolidated net income** (after excluding the non-cash effect of derivative forward values and including minority interest net loss) totaled \$128 million, compared with \$62 million from the comparable prior-year period.
- **TIER** (times interest earned) calculation resulted in a value of 1.31 compared with a value below 1.00 at February 29, 2008.
- **Adjusted TIER** was 1.94 compared with 1.28 at February 29, 2008.

## Financial Performance for the Three Months Ended February 28, 2009

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- **Leverage ratio** calculation resulted in a value of 49.55, compared with 58.41 at November 30, 2008.
- **Adjusted leverage ratio** was 7.74, compared with 8.37 at November 30, 2008.
- **Debt to equity ratio** calculation resulted in a value of 46.66, compared with 55.01 at November 30, 2008.
- **Adjusted debt to equity ratio** was 7.22, compared with 7.81 at November 30, 2008.

## Financial Performance for the Nine Months Ended February 28, 2009

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- **GAAP consolidated net loss** totaled \$140 million.
- **Non-GAAP adjusted consolidated net income** (after excluding the non-cash effect of derivative forward values and including minority interest net loss) totaled \$60 million.
- **TIER** (times interest earned) calculation resulted in a value below 1.00 due to the consolidated net loss of \$140 million.
- **Adjusted TIER** of 1.10.

## Financial Performance for the Nine Months Ended February 28, 2009

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- **Gross loans outstanding** totaled \$20.2 billion.
- **Loans grew** by \$1,142 million, or approximately 6%, from May 31, 2008.
- **Loans and guarantees provided** to rural electric systems totaled \$19.3 billion and represented 90% of the portfolio.
- **Loans and guarantees provided** to rural telecoms totaled \$1.7 billion and represented 8% of the portfolio.
- **Loans and guarantees provided** to all utilities on a senior secured basis totaled \$18.3 billion, representing 86% of the total loan portfolio.

## Financial Performance for the Nine Months Ended February 28, 2009

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- **The allowance for loan losses** totaled \$639 million, representing 3.2% of gross loans, which the Company has deemed adequate for the risk exposure in the loan portfolio.
- **Adjusted debt to equity** was 7.22 and **adjusted leverage** was 7.74, an increase compared with the prior fiscal year-end.
- **Total assets** were \$20.9 billion versus \$19.4 billion at prior fiscal year-end.

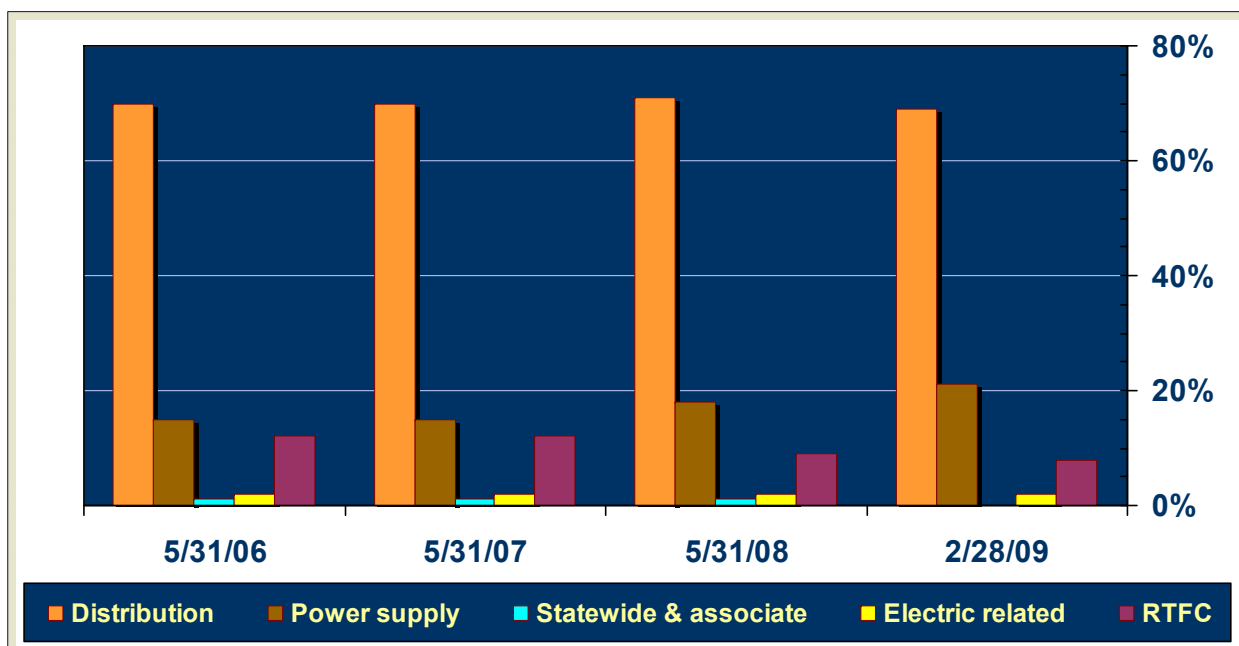
## Financial Performance for the Nine Months Ended February 28, 2009

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- **Recoveries of the Innovative Communication Corporation (ICC) bankruptcy case continue to accelerate. Asset sale processes are under way:**
  - » **Group 1 assets:** (Consisting of assets and stock in ICC subsidiaries operating in the U.S. Virgin Islands, British Virgin Islands and St. Martin.) Bankruptcy judge has approved the credit bid of ICC assets by RTFC. Process has begun to obtain the applicable regulatory approvals. A status hearing is scheduled for July 22, 2009. A final hearing on the sale tentatively scheduled for August 31, 2009.
  - » **Group 2 assets:** (Consisting of assets and stock in ICC subsidiaries operating in France, certain Caribbean territories and Netherlands Antilles.) Sold in December 2008 with proceeds totaling \$23.9 million received.
  
- **The ICC loan is the only significant loan that is not performing in the portfolio.**

## Loans Outstanding by Business Segment

(Dollar amounts in millions)	5/31/06	5/31/07	5/31/08	2/28/09	
Distribution systems	\$12,859	\$12,828	\$13,438	\$13,846	69%
Power supply systems	2,811	2,858	3,339	4,114	21%
Statewide and associate	125	119	109	94	—%
Electric related credits	404	463	414	441	2%
RTFC (telephone)	<u>2,162</u>	<u>1,860</u>	<u>1,727</u>	<u>1,674</u>	<u>8%</u>
Gross Loans Total	<u>\$18,361</u>	<u>\$18,128</u>	<u>\$19,027</u>	<u>\$20,169</u>	<u>100%</u>



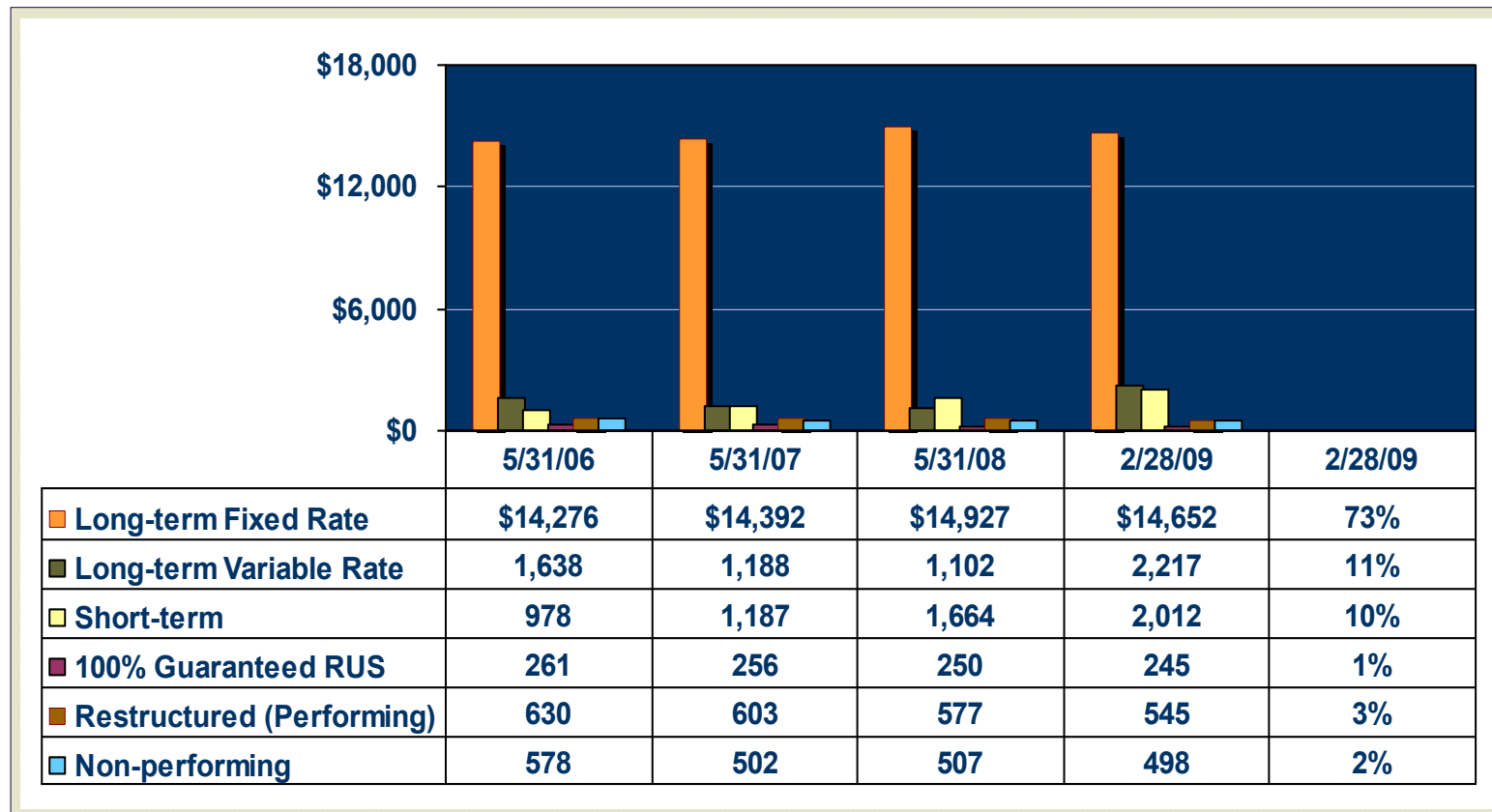
## Loans Outstanding by Security Type at February 28, 2009

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- **Secured loans—** \$17.4 billion, 86% of total portfolio  
*(typically long-term loans)*
- **Unsecured loans—** \$2.8 billion, 14% of total portfolio  
*(typically short-term loans)*
- **Loan security is based on a first lien on utility assets, after acquired property, and a pledge of revenue.**

## Portfolio Consists Primarily of Long-Term, Fixed-Rate Loans

(Dollar amounts in millions)



## Asset/Liability Management Program at February 28, 2009

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- **National Rural utilizes a rigorous asset/liability management program.**
  - » **Management's funding objective is to closely match fund its fixed and variable loan pools and to manage the size of its warehouse/ prefunded position.**
  - » **All fixed-rate loans were match funded with fixed-rate liabilities with an allocation of equity.**
  - » **\$1,189 million of fixed-rate liabilities were used to fund variable-rate loans. This represents 6% of total assets.**
    - **Management will continue to evaluate the funding position and will take additional action if required to bring the matched funding level back to the +/-3% guideline.**

## Restructured/Non-Performing Loans at February 28, 2009

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- **Restructured loans** totaled \$545 million, a decline of \$32 million from prior year end.
- **Non-performing loans** totaled \$498 million, a decline of \$9 million from prior year end.
- **Allowance for loan losses** was \$639 million versus \$515 million from prior year end.
- **Cumulative net charge-offs** totaled \$180 million since 1969 inception of National Rural.

## Balance Sheet Summary — At February 28, 2009 & May 31, 2008

(Dollar amounts in millions)

<b>Key Balance Sheet Data</b>	<b>February 28, 2009</b>	<b>May 31, 2008</b>
Cash and cash equivalents	\$453	\$178
Loans to members	20,172	19,029
Allowance for loan losses	(638)	(515)
Derivative assets	416	221
Total assets	20,947	19,379
Short-term debt <sup>(1)</sup>	5,367	6,327
Long-term Debt <sup>(1)</sup>	12,224	10,174
Subordinated deferrable debt	311	311
Members' subordinated certificates	1,569	1,407
Total equity	439	666
Guarantees	1,270	1,037
<b>Key Financial Ratios</b>		
Leverage	49.55	29.64
Adjusted leverage <sup>(2)</sup>	7.74	7.50
Debt to equity	46.66	28.08
Adjusted debt to equity <sup>(2)</sup>	7.22	7.06
<sup>(1)</sup> Short-term debt includes long-term debt maturing within one year.		
<sup>(2)</sup> See <i>Non-GAAP Financial Measures</i> in the 2-28-09 10-Q for further explanation and reconciliation of adjustments.		

## Additional Financial Highlights Since February 28, 2009

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- **March 2009:** Replaced our expiring \$1.5 billion, 364-day revolving credit agreement and entered into a new \$1.0 billion, 364-day revolving credit agreement with 12 banks.
- **March 2009:** Entered into a note purchase agreement with Farmer Mac totaling \$400 million to refinance \$400 million of outstanding debt in April with maturities ranging from one to five years at very favorable rates on blended spread of 114 bps over 3-month LIBOR.
- **March 2009:** Repaid all notes outstanding under the Federal Reserve's Commercial Paper Funding Facility (CPFF). National Rural is still eligible to borrow from the CPFF.
- Issued a cumulative total of \$175 million of Member Capital Securities through **April 2009**.

## Income Statement Summary— Nine Months Ended February 28, 2009 & February 29, 2008

(Dollar amounts in millions)

Key Income Statement Data	Nine Months Ended	
	2009	2008
Interest income	\$806	\$797
Interest expense	(694)	(720)
Net interest income	112	77
(Provision for) recovery of loan losses	(126)	47
Derivative cash settlements	116	30
Derivative forward value	(203)	(173)
Total non-interest income	121	37
Total non-interest expense	(256)	(218)
Loss prior to income taxes and minority interest	(150)	(56)
Net loss	(140)	(42)
Adjusted net loss Income <sup>(1)</sup>	60	123

<sup>(1)</sup> See *Non-GAAP Financial Measures* in the 2-28-09 10-Q for further explanation and reconciliation of adjustments.

## Innovative Communication Corporation (ICC) at February 28, 2009

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- **National Rural has one major borrower that was non-performing.**
- **The outstanding principal of RTFC loans to ICC was \$492 million.**
- **This borrower has been in Chapter 11 bankruptcy since July 2006.**
- **All loans have been on non-accrual since February 1, 2005.**
- **National Rural's claims have been confirmed by the bankruptcy court.**
  - » **The bankruptcy judge approved the sale of the Group 1 assets to RTFC.**
  - » **Process has begun to obtain the applicable regulatory approvals.**
  - » **Status hearing is scheduled for July 22, 2009.**
  - » **Final hearing on the sale tentatively scheduled for August 31, 2009.**
- **National Rural believes it maintains an adequate reserve for this outstanding exposure.**

## Capital Markets Funding

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- National Rural anticipated a number of years ago that having alternatives available to the public capital markets would be a significant strategic initiative.
- The REDLG government guarantee note program, the private note placements with Farmer Mac and the whole loan sale program combined to provide new forms of liquidity for National Rural during the recent disruptions in the capital markets.
- Members have increased their long-term investments in National Rural through the purchase of Member Capital Securities.
- National Rural continues to have adequate access to funding in the capital markets.

## Capital Markets Funding

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- **The next major refinancing event for National Rural will be in July and August 2009 when two issues of medium-term notes mature.**
- **National Rural has three revolving credit bank lines at \$3.016 billion total commitment.\***
- **These credit facilities provide backup to commercial paper, guaranteed commercial paper and standby liquidity facilities that National Rural provides on behalf of member systems.**
- **National Rural entered into a \$500 million note purchase agreement with Farmer Mac in February 2009; and advanced \$150 million at very favorable rates.**

**\*This does not include the lines of credit extended by Lehman Brothers Bank.**

## Capital Markets Activities—Calendar Year 2009

(Dollar amounts in millions)

<b>Calendar Year 2009 — Completed and Upcoming Funding</b>		
\$270	Jan/Feb	Farmer Mac fixed-rate notes (\$100M, 1.835%, 1-yr/ \$65M, 3.81%, 5-yr/ \$105M, 3.935%, 5-yr)
\$200	Jan	364-day term loan facility (1-month, Euro-dollar rate)
\$1,000	Mar	364-day revolving credit facility renewal
\$400	Apr	Farmer Mac variable-rate notes refinancing (weighted avg. 3ML +114 bps, weighted term 3-yr)
\$150	Apr	Farmer Mac variable rate notes (3-yr, 3ML + 110 bps)
\$60	May	Clean Renewable Energy Bonds (CREBS)
\$505	YTD	Unsecured retail MTN (InterNotes) (weighted avg. 4.66%, weighted term 2-yr)
\$148	YTD	Member Capital Securities (7.50%)

## National Rural Utilities Cooperative Finance Corporation

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- **National Rural** continues to be very well positioned to protect the investments your organizations have made in our securities.
- As always, I wish to express my deepest appreciation for your participation today and look forward to visiting with you during our upcoming investor meetings.

# National Rural Utilities Cooperative Finance Corporation

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