

CFC: 45 Years of Service, Integrity and Excellence



Annual Report

2014

Our industry has changed
a lot over the years.

Our commitment to our
member-owners has not.



National Rural Utilities
Cooperative Finance Corporation



A MESSAGE FROM THE BOARD PRESIDENT AND THE CEO



Joel Cunningham
Board President



Sheldon C. Petersen
CEO

This year, CFC proudly celebrates 45 years of service to our nation's electric cooperatives. Throughout all of the ups and downs of the past 45 years, CFC has stood ready, willing and able to provide the capital that our members need to power and grow rural America. Of course, the CFC story is about so much more than financing electric power. It's about big dreams, hard work and most importantly, the core values of service, integrity and excellence—the values that define not only CFC, but also the entire electric cooperative network.

Whether it's our emergency lines of credit that are tapped after a weather disaster, our unique relationships with the capital markets and our banking partners, or the investment opportunities we offer our members, CFC has been there for all of our members' evolving financial needs—and fiscal year 2014 was no exception.

At May 31, 2014, CFC's total loans outstanding were \$20.5 billion. In FY2014, CFC advanced \$1.7 billion in long-term loans to our electric cooperative members—largely offset by predominantly principal amortization and loan sales to result in a net increase of \$171 million in loans outstanding since the end of FY2013.

Consistent with our culture of being much more than just a lender, CFC has continued to provide our members a wide range of world-class meetings and educational opportunities, including Forum, IBES, Statewide Financial Workshops, Orientations, Financial Webinar Series and the Cooperative Financial Professional Certificate program. In fact, CFC hosted its very first Forum in Chicago 20 years ago, which continues to be a valuable conference tailored to meet the unique needs of the electric cooperative industry.

**For more information on the adjustments that CFC makes to its financial results for the purposes of its own analysis and covenant compliance, refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis (MD&A) section of the May 31, 2014, Form 10-K. CFC's 10-K is available at www.nrucfc.coop.*

Highlights from CFC's FY2014 (ended May 31, 2014) include:

- CFC's adjusted* net income for FY2014 was \$153 million, compared with the adjusted net income of \$217 million for FY2013.
- We are proud to have returned \$41 million to our members in October 2013 in the form of patronage capital retirements. With the additional retirement of \$40 million in September 2014, CFC has returned \$1.5 billion to members over 35 consecutive years, putting money back in the hands of our members that has helped lower your cost of borrowing from us.
- In addition to this retirement, our member-owners received \$77 million of interest on their adjusted equity holdings in CFC during FY2014, consisting of subscription, loan and member certificates.
- At May 31, 2014, members had \$4 billion invested in CFC, which represents 19 percent of our total funding. Our member-owners provide an important source of capital that is viewed very favorably by banks, investors and the credit rating agencies.

Since 1969, CFC has never stopped working with you to meet your financial needs, and we're well positioned to build on that success for the next 45 years and beyond.

With thanks for your continued support,

Joel Cunningham
President, CFC Board of Directors

Sheldon C. Petersen
CEO

CFC Board of Directors

As of May 31, 2014

Board Officers

Joel Cunningham

President

Ray Beavers

Vice President

R. Grant Clawson

Secretary-Treasurer

About CFC

Formed in 1969, the National Rural Utilities Cooperative Finance Corporation (CFC) is a nonprofit finance cooperative created and owned by America's electric cooperative network.

CFC is guided by a 23-member board of directors that represents 10 geographically defined districts, the electric cooperatives' national trade association and an at-large director.

CFC operates from its corporate headquarters in Dulles, Virginia, with a staff of 221 employees as of May 31, 2014.

District 1

Curtin R. Rakestraw II

Director
Sullivan County REC, PA

Kent D. Farmer

President & CEO
Rappahannock EC, VA

District 2

Harry N. Park

Director
Southern Rivers Energy, GA

Mike Campbell

Executive Vice President & GM
Central Florida EC, FL

District 3

Joel Cunningham, CPA

Director
Twin County EPA, MS

R.W. "Bob" Matheny

President & CEO
Sequachee Valley EC, TN

District 4

Stephen C. Vail

Board Chairman
NineStar Connect, IN

Glenn W. Miller, CPA

President & CEO
Holmes-Wayne EC, OH

District 5

Randy D. Renth, CPA

Director
Clinton County EC, IL

Lyle Korver

CEO & General Manager
North West REC, IA

District 6

Thomas L. Hayes

Board President
Brown County REA, MN

Scott W. Handy

President & CEO
Cass County EC, ND

District 7

Walter K. Crook

Director
Butler PPD, NE

Kirk A. Thompson

General Manager
CMS EC, KS

District 8

Robert M. Hill

Chair
First EC Corporation, AR

Christopher L. Hamon

CEO
White River Valley EC, MO

District 9

Fred Brog

Director
Lower Valley Energy, WY

Roman E. Gillen

President & CEO
Consumers Power, OR

District 10

R. Grant Clawson

Trustee
Continental Divide EC, NM

Ray Beavers

CEO
United Cooperative Services, TX

District 11

Curtis Nolan

President, NRECA
Director
Sulphur Springs Valley EC, AZ

Mel Coleman

Vice President, NRECA
CEO
North Arkansas EC, AR

At-Large Director

Audit Committee Financial Expert

Patrick L. Bridges

CFO
Tri-State G&T Association, CO

CFC: Created and Owned by America's Electric Cooperative Network



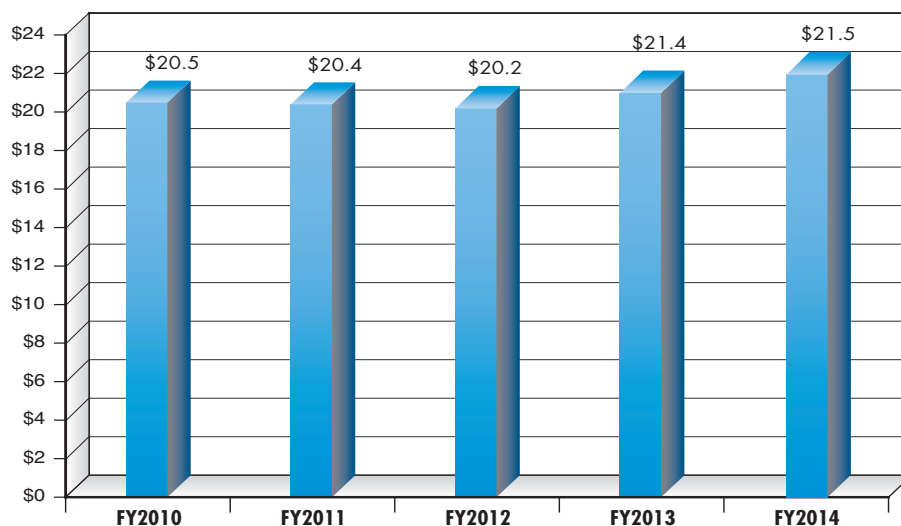
Pictured, **front row from left**, Thomas L. Hayes, Board President, Brown County REA (MN); Stephen C. Vail, Board Chairman, NineStar Connect (IN); Randy D. Renth, Director, Clinton County EC (IL); Kirk A. Thompson, General Manager, CMS EC (KS); CFC Board Secretary-Treasurer R. Grant Clawson, Trustee, Continental Divide EC (NM); CFC Board President Joel Cunningham, Director, Twin County EPA (MS); CFC Board Vice President Ray Beavers, General Manager & CEO, United Cooperative Services (TX); and Lyle Korver, CEO & General Manager, North West REC (IA); **back row from left**, Kent D. Farmer, President & CEO, Rappahannock EC, (VA); Walter K. Crook, Director, Butler PPD (NE); R.W. "Bob" Matheny, President & CEO, Sequachee Valley EC (TN); Scott W. Handy, President & CEO, Cass County EC, (ND); Christopher L. Hamon, CEO, White River Valley EC (MO); Glenn W. Miller, President & CEO, Holmes-Wayne EC (OH); Curtis Nolan, NRECA President and Director, Sulphur Springs Valley EC (AZ); Harry N. Park, Director, Southern Rivers Energy (GA); Fred Brog, Director, Lower Valley Energy (WY); Mel Coleman, NRECA Vice President and CEO, North Arkansas EC (AR); Patrick L. Bridges, CFO, Tri-State G&T Association (CO); Curtin R. Rakestraw, II, Director, Sullivan County REC (PA); Robert M. Hill, Chair, First EC Corp., (AR); Mike Campbell, EVP & General Manager, Central Florida EC (FL); and Roman E. Gillen, President & CEO, Consumers Power (OR).

Total Credit Outstanding

As of May 31, 2014

Dollars in Billions

At the end of FY2014, CFC's loans and guarantees outstanding totaled \$21.5 billion.

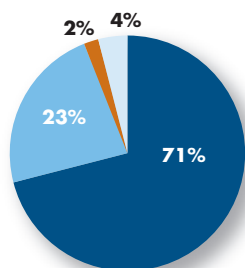


Total Credit Outstanding by Member Class

As of May 31, 2014

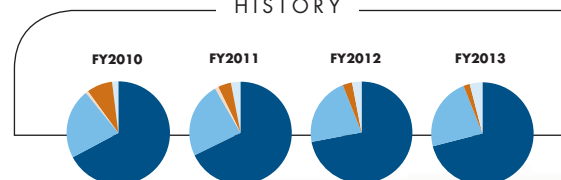
Dollars in Millions

At the end of FY2014, nearly \$21.1 billion, or 98 percent, of CFC's credit outstanding was to electric borrowers, which is unchanged from FY2013 year-end.



Electric		
■ Distribution	\$ 15,201	71%
■ Power Supply (G&T)	4,913	23%
■ Statewide & Associate	73	<1%
■ NCSC	893	4%
Total Electric	\$21,080	98%
Telecommunications		
■ Telecommunications	452	2%
TOTAL	\$21,532	100%

HISTORY



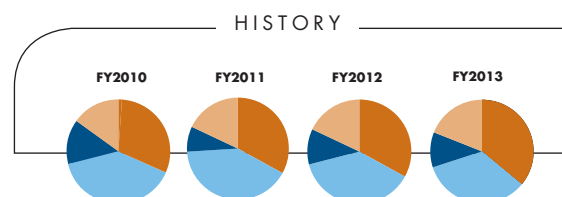
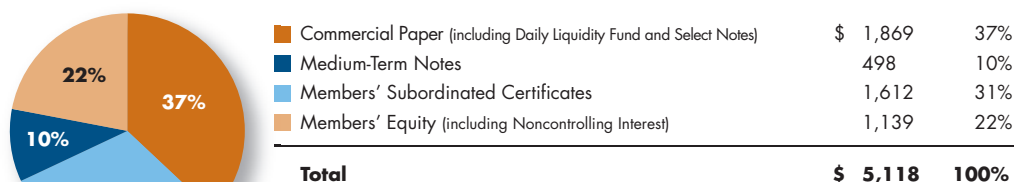


Member Investments & Equity

As of May 31, 2014

Dollars in Millions

CFC members had \$4 billion invested in CFC at May 31, 2014, and members' equity totaled \$1.1 billion. Continued member investments are an important expression of member confidence in CFC.

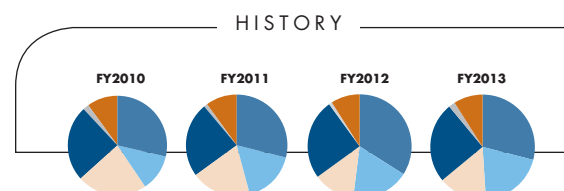
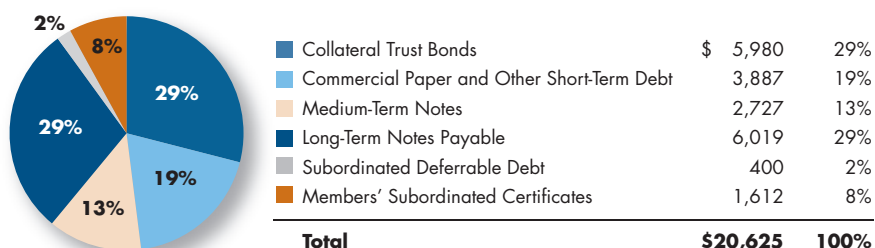


Funding Sources

As of May 31, 2014

Dollars in Millions

During FY2014, CFC's capitalization was at \$20.6 billion, compared with \$20.5 billion at the prior year-end.

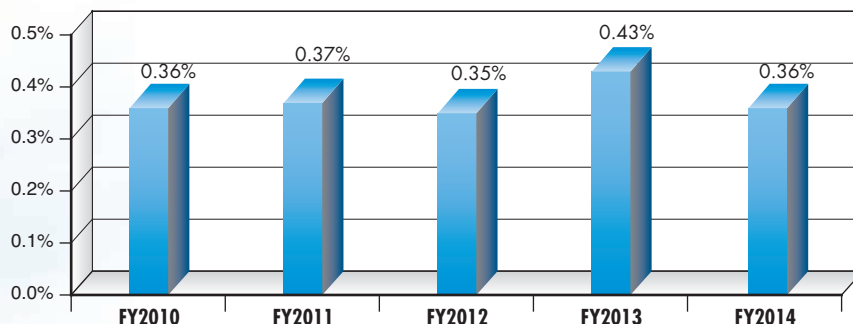


Operating Expenses

For the period ended May 31, 2014

As percentage of Average Loan Volume

The FY2014 consolidated operating expenses for CFC and its affiliate organizations, the Rural Telephone Finance Cooperative (RTFC) and the National Cooperative Services Corporation (NCSC), were approximately \$72.6 million, compared with \$84.2 million in FY2013. This figure represented 0.36 percent (36 basis points) of average loan volume.



Adjusted Net Income

For the period ended May 31, 2014

Dollars in Thousands

In its own analysis of operating results, CFC excludes from net income the noncash gains and losses related to the accounting for derivatives. Therefore, the CFC adjusted net income for FY2014 was \$153 million, compared with adjusted net income of \$217 million for FY2013.

GAAP Net Income	\$192,926
Adjustments	
Derivative Forward Value	\$(39,541)
Adjusted Net Income	\$153,385

For an extensive review of how CFC treats derivatives and foreign currency transactions, refer to the Management's Discussion & Analysis (MD&A) section of CFC's May 31, 2014, Form 10-K. For the GAAP adjustment measure and a complete reconciliation of GAAP to non-GAAP financial measures, refer to the "Non-GAAP Financial Measures" section of the MD&A.

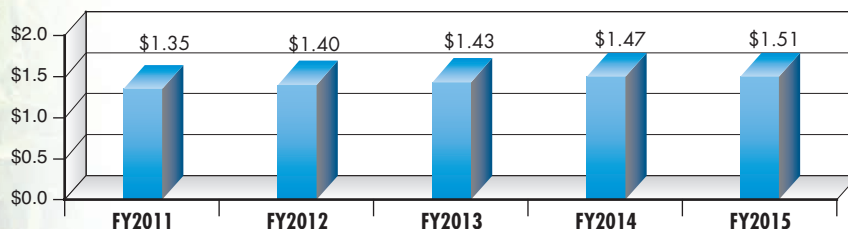
Patronage Capital Retirement

As of May 31, 2014

Dollars in Billions

In October 2013 (FY2014), CFC retired \$41 million in patronage capital, and in September 2014 (FY2015), CFC retired an additional \$40 million in patronage capital.

The retirement in September 2014 represents the 35th consecutive calendar year CFC has made a cash retirement of patronage capital to its members. CFC has returned \$1.5 billion to members since 1980.



Approximate cumulative amount returned to members since 1980.

Credit Ratings *(As of September 1, 2014)*

	Moody's Investors Service	Standard & Poor's Corporation
Rating Outlook	Stable	Stable
Direct		
Collateral Trust Bonds (CTBs)	A1	A+
Medium-Term Notes (MTNs)	A2	A
InterNotes	A2	A
Subordinated Notes	A-3	BBB+
Commercial Paper	P-1	A-1

The ratings in the table have the meaning defined by each of the rating agencies and are not recommendations to buy, sell or hold securities and are subject to revision at any time by the rating agencies.

CFC Senior Leadership Team



Sheldon C. Petersen
Chief Executive Officer



John T. Evans
Executive Vice President
and Chief Operating
Officer



Joel Allen
Senior Vice President,
Member Services



Roberta Aronson
Senior Vice President
and General Counsel



John Borak
Senior Vice President,
Credit Risk Management



Brad Captain
Senior Vice President,
Corporate Relations



Graceann Clendenen
Senior Vice President,
Corporate Services



Sarah DeShazor
Director, Executive
Office Administration



Andrew Don
Senior Vice President and
Chief Financial Officer



Steve Kettler
Senior Vice President,
Strategic Business
Development and Support



Steven L. Lilly
Senior Vice President,
Special Asset
Management



John J. List
Senior Vice President
and Chief Lending Officer



Robin Reed
Senior Vice President,
Member Services





**National Rural Utilities
Cooperative Finance Corporation**

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Visit us at www.nrufc.coop

703-467-1800

CFC is an equal opportunity provider and employer.