



2015

ANNUAL REPORT



ABOUT CFC



CREATED AND OWNED BY THE MEMBERS WE SERVE

The National Rural Utilities Cooperative Finance Corporation (CFC) is a nonprofit finance cooperative created and owned by America's electric cooperative network. With approximately \$23 billion in assets, CFC is committed to providing unparalleled industry expertise, financial flexibility and responsiveness to serve the needs of our member-owners.

We are proud to be the premier market lender for the nation's electric cooperatives. We operate under the cooperative principles and our core values of Service, Integrity and Excellence. What does that mean for our members? Our loans help our members acquire, construct and operate the utility infrastructure needed to deliver services that improve the quality of life in the communities they serve.

CFC operates from its corporate headquarters in Dulles, Virginia.

CO-OPS POWER NEARLY



80%
OF U.S. COUNTIES

MEET OUR MEMBER-OWNERS

Electric cooperatives play a critical role in our nation's economy and in local communities, delivering safe, affordable and reliable power through a sophisticated network of generation, transmission and distribution resources.

66 G & T
COOPERATIVES
+ 838 DISTRIBUTION
COOPERATIVES



SERVE **42** MILLION
PEOPLE **IN** **47** STATES

MESSAGE

FROM THE CEO AND BOARD PRESIDENT



Sheldon C. Petersen
CFC CEO

The 12 months that mark CFC's fiscal year 2015 (FY 2015) brought new challenges and new opportunities for the electric cooperative network. But while economic growth remained slow and regulatory uncertainties emerged, our electric cooperative members continued to thrive.

As a testament to that, CFC made \$2.7 billion in gross term loan advances to electric borrowers during the fiscal year ending May 31, 2015.

Each of those loan advances draws on a diversified base of funding built on CFC's decades of experience raising capital. Strategic partnerships developed with Farmer Mac and the U.S. Department of Agriculture, as well as investments from the electric cooperative network, have contributed to that diversity and the benefits it provides.

The capital markets also remain an important source of funds for our members. To that end, during fiscal year 2015 CFC issued \$725 million of unsecured dealer medium-term notes and \$1.2 billion in collateral trust bonds.

CFC's bond issuances continue to be highly sought by a wide range of investors. We believe CFC's credit quality is a reflection of the members we serve and the crown jewel of our financial and operational metrics.

Electric cooperatives created CFC to meet a need for affordable, reliable funding, and the relationship between CFC and our members has flourished in the 46 years since. Our employees work hard every day to ensure CFC continues to serve our members to the best of our ability, regardless of how the finance world may evolve.



Ray Beavers

CFC Board President and
CEO, United Cooperative
Services (TX)

I am pleased to share with you CFC's Annual Report for our fiscal year 2015, which demonstrates your financial cooperative's solid performance for the period. You will find several key financial metrics illustrated in these pages. Highlights from the fiscal year include:

- CFC's adjusted* times interest earned ratio for FY 2015 was 1.13, and our adjusted debt-to-equity ratio was 6.26-to-1.
- Total loans outstanding to members at May 31, 2015, were \$21.5 billion, a net increase of \$992 million during the 12 months of the fiscal year.
- CFC remained committed to our mission to serve the electric cooperative network, and 98 percent of CFC's credit outstanding was to electric borrowers at the close of the fiscal year.

In July 2015, the board was pleased to approve a patronage capital allocation of \$78 million for FY 2015. CFC retired and distributed \$39 million in cash to members in September. Members also earned \$63.6 million on their adjusted equity holdings in CFC in FY 2015, consisting of subscription, loan and member certificates.

When you pair that total with the fiscal year 2015 patronage capital retirement, CFC put more than \$100 million in cash back in the hands of our members in the last fiscal year alone.

There are strong ties between the success of electric cooperatives and the success of CFC. Ours is a mutually beneficial relationship—critical in a time of financial and regulatory uncertainty. On behalf of the CFC Board of Directors, I thank you for your continued support.

** For more information on the adjustments that CFC makes to its financial results for the purposes of its own analysis and covenant compliance and for a reconciliation of the non-GAAP measures to the applicable GAAP measures, please refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis (MD&A) section of the May 31, 2015, Form 10-K. CFC's 10-K is available at www.nrucfc.coop.*

** Times interest earned ratio (TIER) based on GAAP results was less than 1.00 due to the \$19 million net loss reported for the year ended May 31, 2015. Debt-to-equity ratio based on GAAP results was 24.11 at May 31, 2015.*

2015 CFC BOARD OF DIRECTORS

As of May 31, 2015



Pictured, front row from left, Mel Coleman, NRECA President and CEO, North Arkansas EC (AR); Dean R. Tesch, Board Chairman, Taylor EC, (WI); and Jimmy A. LaFoy, Director, Baldwin County EMC (AL); second row from left, Phil Carson, NRECA Vice President and Director, Tri-County EC (IL); Thomas L. Hayes, Board Vice President, Brown County REA (MN); Kirk A. Thompson, General Manager, CMS EC (KS); CFC Vice President R. Grant Clawson, Trustee, Continental Divide EC (NM); CFC Board President Ray Beavers, CEO, United Cooperative Services (TX); Roman E. Gillen, President & CEO, Consumers Power (OR); and Curtin R. Rakestraw II, Director, Sullivan County REC (PA); third row from left, Lyle Korver, CEO & General Manager, North West REC (IA); Stephen C. Vail, Board Chairman, NineStar Connect (IN); Robert M. Hill, Chair, First EC Corp., (AR); Harry N. Park, Director, Southern Rivers Energy (GA); Gregory D. Williams, General Manager & EVP, Appalachian EC (TN); Bradley J. Schardin, General Manager, Southeastern EC (SD); and CFC Board Secretary-Treasurer Mike Campbell, EVP & General Manager, Central Florida EC (FL); back row from left, Todd P. Ware, President & CEO, Licking Rural Electrification (OH); Doyle Jay Hanson, Board President, Fall River Rural Electric Cooperative (ID); Patrick L. Bridges, CFO, Tri-State G&T Association (CO); and Mark D. Snowden, CEO, Cimarron EC (OK). Not pictured, Kent D. Farmer, President & CEO, Rappahannock EC (VA).

FROM ELECTRIC CO-OPS, FOR ELECTRIC CO-OPS

CFC is guided by a 23-member board of directors that represents 10 geographically defined districts, the electric cooperative network's national trade association and an at-large director. Comprised exclusively of electric cooperative directors and executives, the board sets overall policy, establishes programs and develops strategies for CFC.

CFC BOARD OFFICERS

Ray Beavers
President

Grant Clawson
Vice President

Mike Campbell
Secretary-Treasurer

District 1

Curtin R. Rakestraw II
Director
Sullivan County Rural Electric
Cooperative, PA

Kent D. Farmer
President & CEO
Rappahannock Electric
Cooperative, VA

District 2

Harry N. Park
Director
Southern Rivers Energy, GA

Mike Campbell
Executive Vice President and
General Manager
Central Florida Electric
Cooperative, FL

District 3

Jimmy A. LaFoy
Director
Baldwin County Electric
Membership Corporation, AL

Gregory D. Williams
General Manager & EVP
Appalachian Electric
Cooperative, TN

District 4

Stephen C. Vail
Board Chairman
NineStar Connect, IN

Todd P. Ware
President & CEO
Licking Rural Electrification, OH

District 5

Dean R. Tesch
Board Chairman
Taylor Electric Cooperative, WI

Lyle Korver
CEO & General Manager
North West Rural Electric
Cooperative, IA

District 6

Thomas L. Hayes
Board Vice President
Brown County Rural Electrical
Association, MN

Bradley J. Schardin
General Manager
Southeastern Electric
Cooperative, SD

District 7

Kirk A. Thompson
General Manager
CMS Electric Cooperative, KS

*The District 7 Director-Director position
was vacant as of May 31, 2015.*

District 8

Robert M. Hill
Chair
First Electric Cooperative
Corporation, AR

Mark D. Snowden
CEO
Cimarron Electric
Cooperative, OK

District 9

Doyle Jay Hanson
Board President
Fall River Rural Electric
Cooperative, ID

Roman E. Gillen
President & CEO
Consumers Power, OR

District 10

R. Grant Clawson
Trustee
Continental Divide Electric
Cooperative, NM

Ray Beavers
CEO
United Cooperative
Services, TX

District 11

Mel Coleman
Board President, NRECA
CEO
North Arkansas Electric
Cooperative, AR

Phil Carson
Board Vice President, NRECA
Director
Tri-County Electric
Cooperative, IL

At-Large Director

Audit Committee Financial Expert

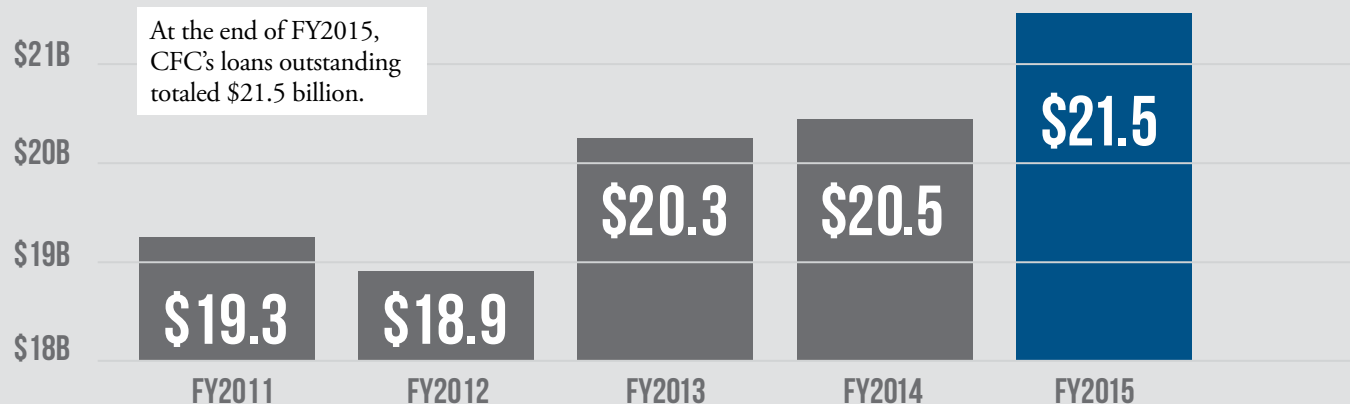
Patrick L. Bridges
CFO
Tri-State Generation and
Transmission Association, CO

BRIDGING THE FINANCIAL NEEDS OF OUR

TOTAL LOANS OUTSTANDING

As of May 31, 2015

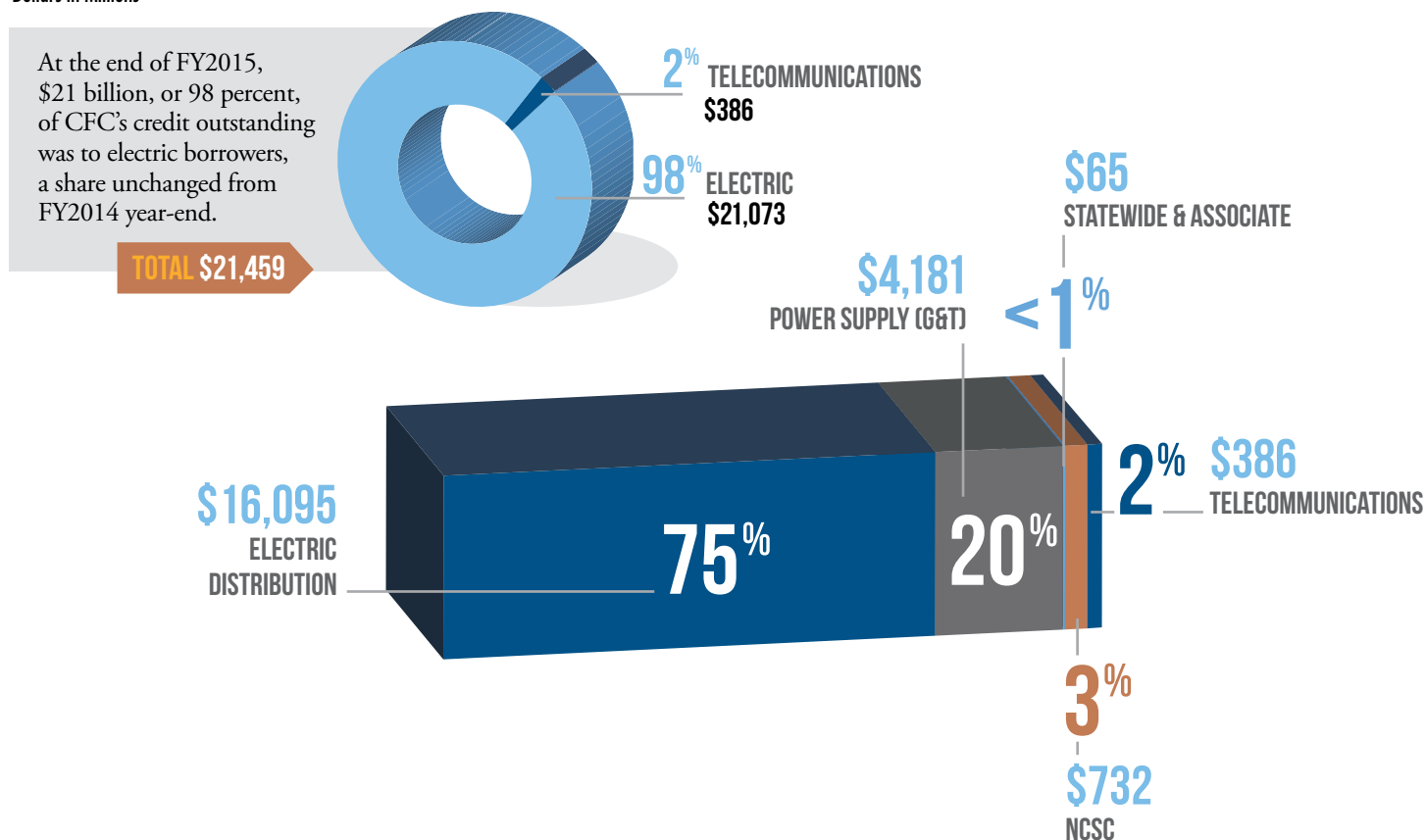
Dollars in Billions



TOTAL LOANS OUTSTANDING BY MEMBER CLASS

As of May 31, 2015

Dollars in Millions



MEMBERS...

PATRONAGE CAPITAL RETIREMENT

As of May 31, 2015

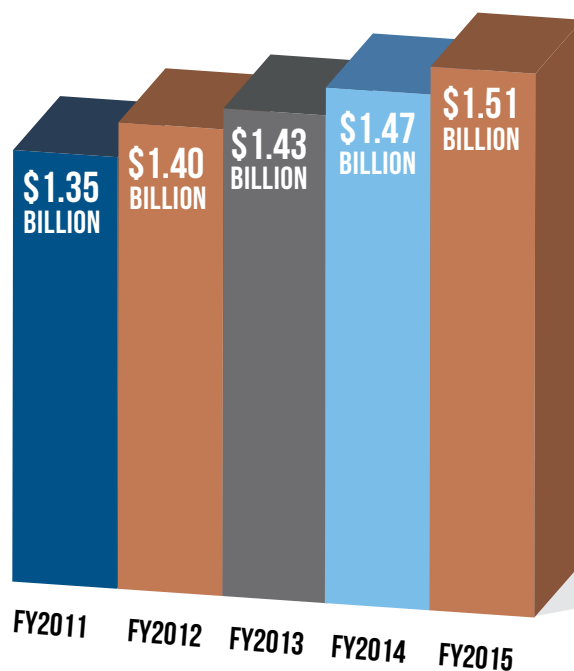
CFC retired \$40 million in patronage capital in September 2014 (FY2015) and an additional \$39 million in patronage capital in September 2015 (FY2016).

As the only lender created and owned by America's electric cooperative network, CFC is committed to our members' financial success like no other. CFC's patronage capital retirements play a role in that commitment and represent a key tenet of the cooperative business model.

CFC is proud to have returned more than \$1.5 billion in patronage capital to our members since 1980. The retirement in September 2015 represents the 36th consecutive year CFC has made a cash retirement of patronage capital.

As of fiscal year 2016, the CFC Board of Directors has retired \$1.55 billion in patronage capital.

APPROXIMATE CUMULATIVE AMOUNT
RETURNED TO MEMBERS SINCE 1980



**CASH RETIREMENT
OF PATRONAGE CAPITAL**

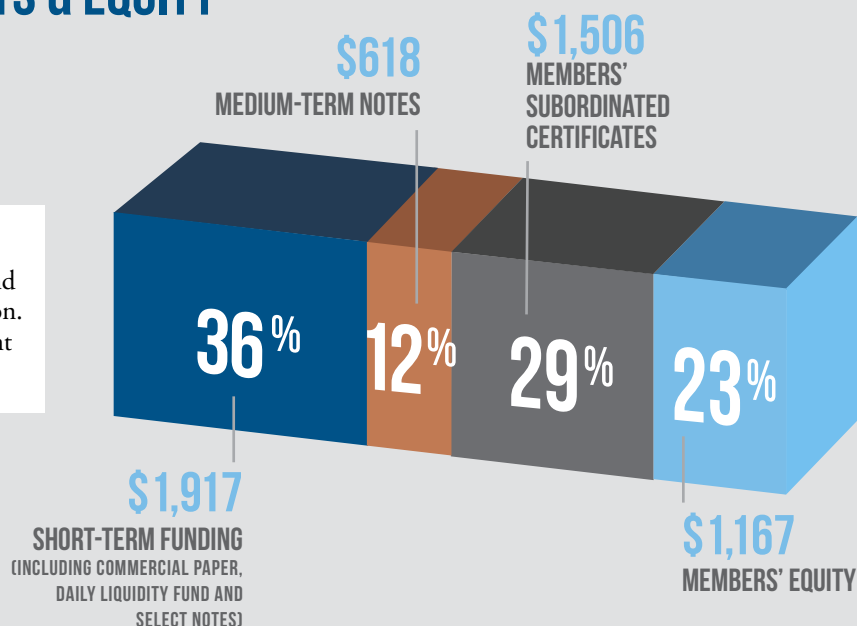
...TO THE GLOBAL CAPITAL MARKETS.

MEMBER INVESTMENTS & EQUITY

As of May 31, 2015

Dollars in Millions

Members had more than \$4 billion invested in CFC at May 31, 2015, and members' equity totaled \$1.167 billion. Member investments are an important expression of confidence in CFC.

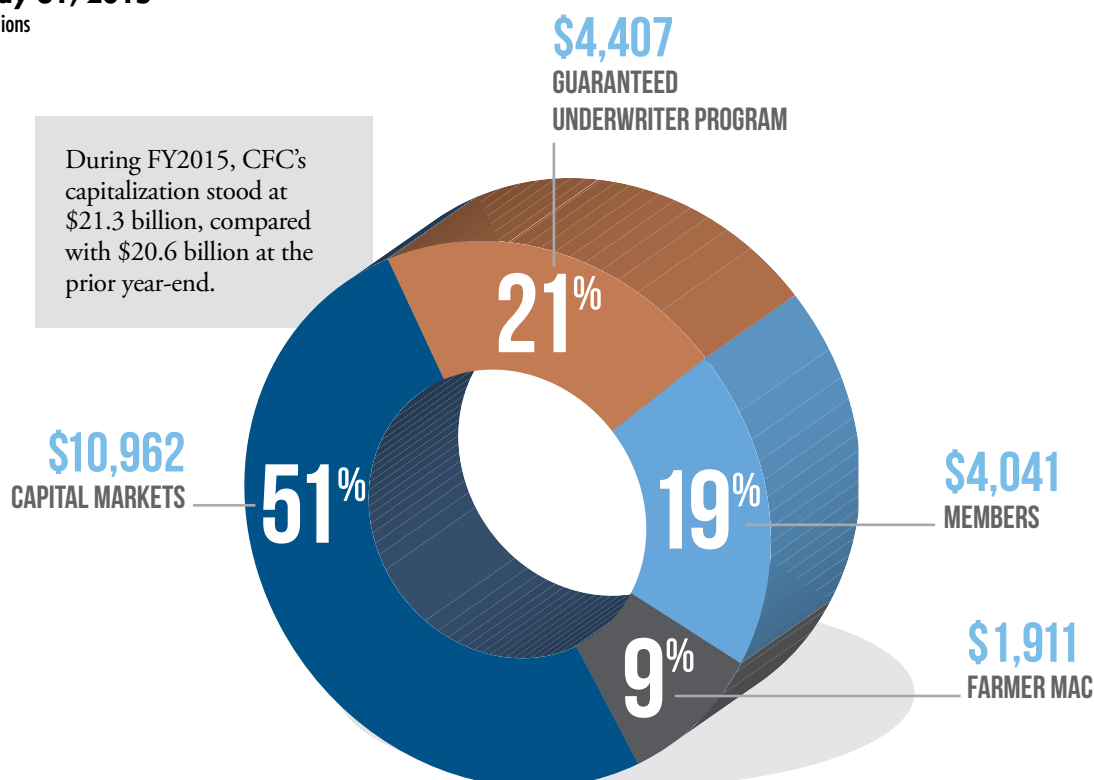


FUNDING SOURCES

As of May 31, 2015

Dollars in Millions

During FY2015, CFC's capitalization stood at \$21.3 billion, compared with \$20.6 billion at the prior year-end.



ADJUSTED NET INCOME

For the period ended May 31, 2015

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 FY2015 was \$95.2 million, compared with adjusted net income of \$153.4 million for FY2014.

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, 2015, Form 10-K. For an explanation of why the company feels that its non-GAAP adjusted measures are meaningful and for a reconciliation of the non-GAAP measures to the applicable GAAP measures, please refer to the "Non-GAAP Financial Measures" section in the MD&A.

CFC reported a GAAP net loss of \$19 million for the year ended May 31, 2015.

CREDIT RATINGS

As of May 31, 2015

CFC's long- and short-term debts are rated by three major credit rating agencies registered with the U.S. Securities and Exchange Commission: Fitch Ratings, Moody's Investor Service and Standard & Poor's Corporation.



CFC DEBT INSTRUMENT	FITCH RATINGS	STANDARD & POOR'S	MOODY'S INVESTORS SERVICE
Collateral Trust Bonds (CTBs)	A+	A	A1
Medium-Term Notes (MTNs)	A	A	A2
InterNotes	A	A	A2
Subordinated Notes	BBB+	BBB+	A3
Commercial Paper (CP)	F1	A-1	P-1
Rating Outlook	Stable	Stable	Stable

On July 6, 2015, Standard & Poor's revised CFC's rating outlook to "Negative."

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

LIFETIMES OF ELECTRIC CO-OP EXPERIENCE

CFC LEADERSHIP TEAM

CFC's senior leadership team and key staff have extensive experience in rural utility finance, operations and management. The chief executive officer and senior leadership team manage CFC's operations and carry out the board's directives.



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, Corporate
Administration



Andrew Don
Senior Vice President and
Chief Financial Officer

Steve Kettler
Senior Vice President,
Strategic Services

Steven L. Lilly
Senior Vice President,
Special Asset
Management

Robin Reed
Senior Vice President,
Loan Operations

Gregory Starheim
Senior Vice President,
Business and Industry
Development



SERVICE. INTEGRITY. EXCELLENCE.

“ Electric cooperatives created CFC to meet a need for diverse, reliable funding, and the relationship between CFC and our members has flourished in the 46 years since.

Sheldon C. Petersen
Chief Executive Officer



OUR VISION

To be our member-owners'
most trusted financial resource.

OUR MISSION

To bridge the financial needs of
the rural electric network with the
expectations of the global capital
markets, one cooperative at a time.



**National Rural Utilities
Cooperative Finance Corporation**

20701 Cooperative Way | Dulles, Virginia 20166
Visit us at www.nrucfc.coop
703-467-1800

CFC is an equal opportunity provider and employer.