ANNUAL REPORT 2016

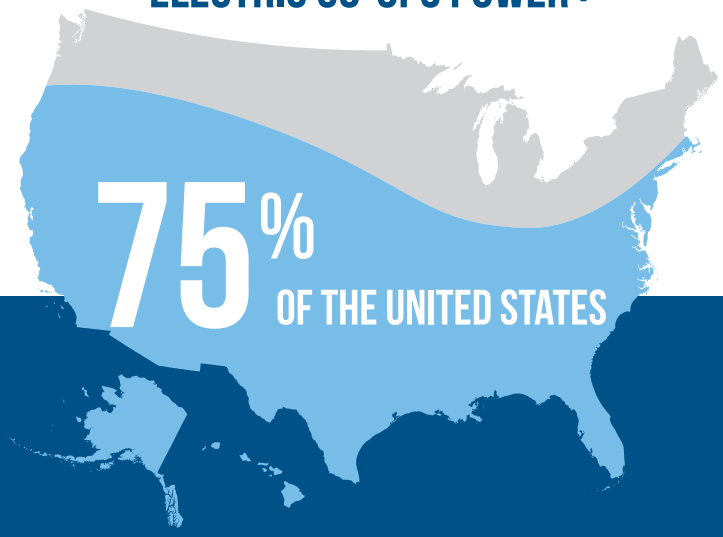
ABOUT CFC

Created and owned by America's electric cooperative network, the National Rural Utilities Cooperative Finance Corporation (CFC)—a nonprofit finance cooperative with approximately $24 billion in assets—provides capital and industry-leading financial products to serve the needs of our member-owners—America's 900-plus, consumer-controlled electric cooperatives.

CFC operates under the seven cooperative principles and our core values of Service, Integrity and Excellence. By delivering unparalleled industry expertise, flexibility and responsiveness, we help our members maintain a sophisticated system of generation, transmission and distribution resources that spans 75 percent of the United States land mass. This infrastructure provides a safe, reliable and affordable flow of power to 42 million consumers each day and plays a critical role in boosting the nation's economy and rural quality of life.

CFC operates from its corporate headquarters in Dulles, Virginia.

ELECTRIC CO-OPS POWER :



71 G & T COOPERATIVES

+ 839 DISTRIBUTION COOPERATIVES

SERVE 42 MILLION PEOPLE IN 48 STATES

Sheldon C. Petersen
CFC CEO

R. Grant Clawson
CFC Board President and Trustee, Continental Divide Electric Cooperative, NM

MESSAGE FROM THE CEO & BOARD PRESIDENT

CFC wrapped up fiscal year 2016 (FY 2016) in a very healthy financial position. Total loans outstanding to our electric cooperative members at May 31, 2016, stood at $23.2 billion, a gross increase of $1.7 billion during FY 2016 as compared with our prior fiscal year-end at May 31, 2015. Five states accounted for more than half of the loan growth—Georgia, Missouri, North Carolina, North Dakota and Texas.

Our members' equity, which excludes derivative forward value losses, increased by $131 million at May 31, 2016, from the prior fiscal year-end. This amount helped drive our adjusted debt-to-equity ratio below 6-to-1 at the close of FY 2016. We have diligently focused on building equity through earnings over the last few years to ensure we are in the best position possible to meet our members' needs.

Other highlights from the fiscal year include:

- CFC's adjusted times interest earned ratio for FY 2016 was 1.22, and our adjusted debt-to-equity ratio was 5.82-to-1.*
- Total loans outstanding to members at May 31, 2016, were $23.2 billion, a gross increase of $1.7 billion during the 12 months of the fiscal year.
- CFC remained committed to our mission to serve the electric cooperative network, and 99 percent of CFC's loans were to rural electric systems at the close of the fiscal year.

CFC also focuses on maintaining and improving our credit ratings, which remain robust because ratings agencies recognize that CFC's financial strength rests with the quality of our loan portfolio and the strength of our members. Almost 100 percent of our assets are tied to financially sound, cash flow-generating electric cooperatives. CFC is focused solely on meeting the needs of our members, not generating sales or earnings growth to meet shareholder requirements.

In July 2016, the board was pleased to approve a patronage capital allocation of $84 million for FY 2016. CFC retired and distributed $42 million in cash to members in September 2016. Members also received more than $60 million on their adjusted equity holdings in CFC in FY 2016, consisting of subscription, loan and member certificates. Taken together, this represents more than $100 million in cash back to members during the 12 months ended October 31, 2016.

There are strong ties between the success of electric cooperatives and the success of CFC. We're proud to say that everyone here at CFC works hard every day to help electric cooperatives be successful.

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, 2016, 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 $52 million net loss reported for the year ended May 31, 2016. Debt-to-equity ratio based on GAAP results was 28.69 at May 31, 2016.*

2016 CFC Board of Directors

FROM ELECTRIC CO-OPS, FOR ELECTRIC CO-OPS

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

CFC BOARD OFFICERS

R. Grant Clawson
President

Mike Campbell
Vice President

Harry Park
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 & General Manager
Central Florida Electric Cooperative, FL

District 3

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

Gregory D. Williams
General Manager & Executive Vice President
Appalachian Electric Cooperative, TN

District 4

Stephen C. Vail
Director
NineStar Connect, IN

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

District 5

Dean R. Tesch
Board Chairman
Taylor Electric Cooperative, WI

Alan W. Wattles
President & CEO
Monroe County Electric Co-Operative, IL

District 6

Thomas L. Hayes
Director
Brown County Rural Electrical Association, MN

Bradley J. Schardin
General Manager
Southeastern Electric Cooperative, SD

BELOW: Pictured, front row from left, Kent D. Farmer, Harry N. Park, R. Grant Clawson, Mike Campbell and Robert M. Hill. Back row, from left, Dean R. Tesch, Jimmy A. LaFoy, Curtin R. Rakestraw II, Robert "Bob" Brockman, Debra L. Robinson, Alan W. Wattles, Thomas L. Hayes, Bradley J. Schardin, Todd P. Ware, Mark D. Snowden, Kirk A. Thompson, Gregory D. Williams, Patrick L. Bridges, Stephen C. Vail, Roman E. Gillen, Mel Coleman, Doyle Jay Hanson and Phil Carson.

District 7

Robert "Bob" Brockman
Board President
Wheatland Rural Electric Association, WY

Kirk A. Thompson
General Manager
CMS Electric Cooperative, KS

District 8

Robert M. Hill
Board Chair
First Electric Cooperative Corporation, AR

Mark D. Snowden
CEO
Cimarron Electric Cooperative, OK

District 9

Doyle Jay Hanson
Director
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

Debra L. Robinson
CEO & General Manager
Wood County Electric Cooperative, 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

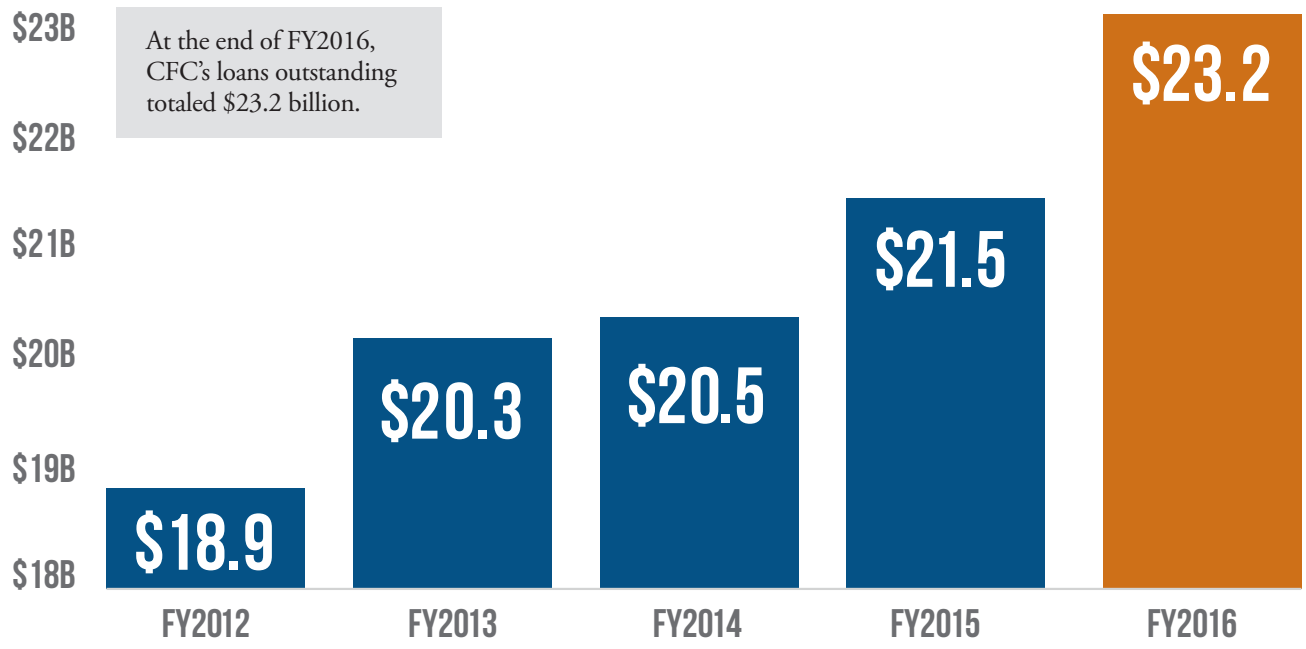
Audit Committee Financial Expert

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

Flexible Financing to Meet

TOTAL LOANS OUTSTANDING

As of May 31, 2016
Dollars in Billions



TOTAL LOANS OUTSTANDING BY MEMBER CLASS

As of May 31, 2016
Dollars in Millions

99%
$22,811
ELECTRIC

At the end of FY2016, $23 billion, or 99 percent, of CFC's loans were to rural electric systems.

TOTAL $23,153

1%
$342
TELECOMMUNICATIONS

the Needs of Our Members

PATRONAGE CAPITAL RETIREMENT

As of May 31, 2016

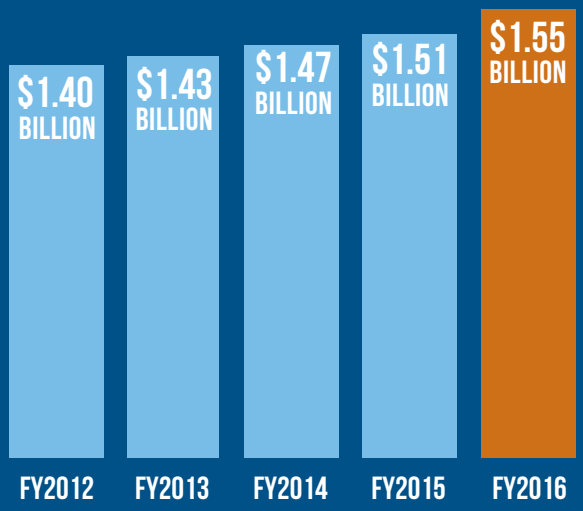
37 CONSECUTIVE CALENDAR YEARS OF CASH RETIREMENT OF PATRONAGE CAPITAL

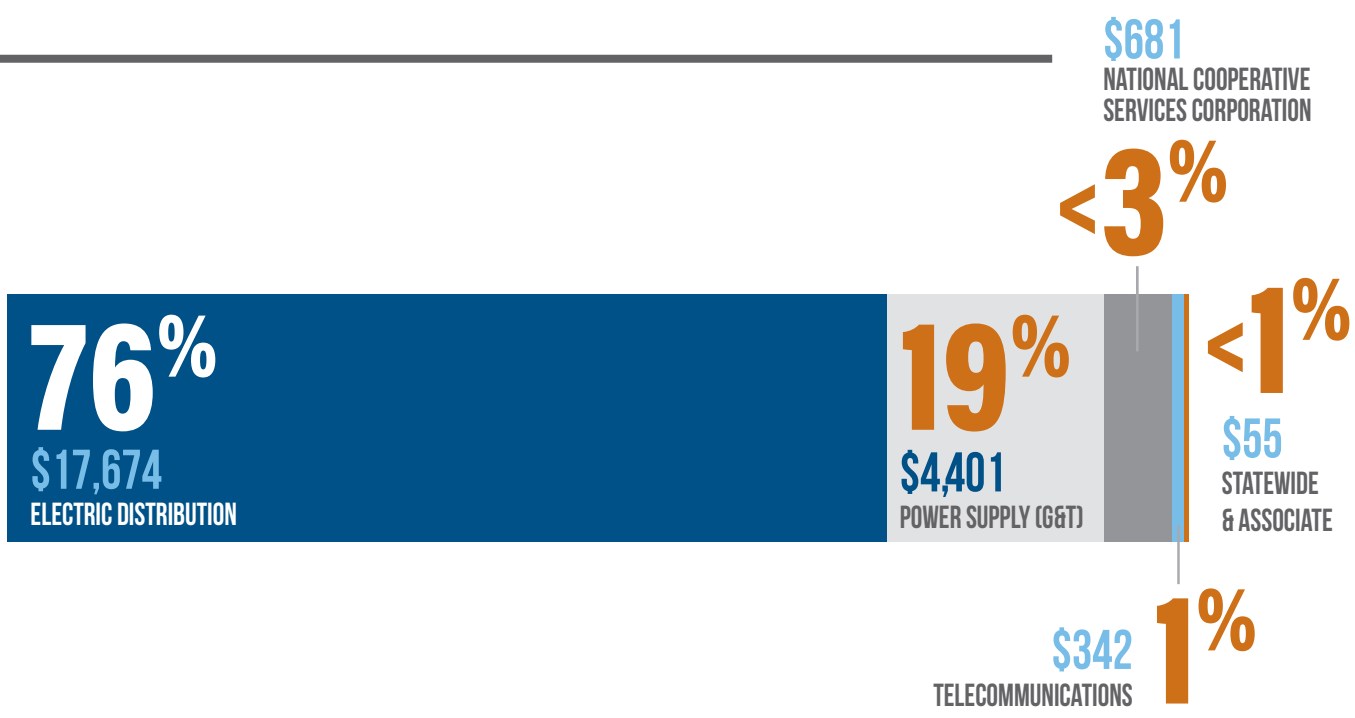
CFC retired $39 million in patronage capital in September 2015 (FY2016) and an additional $42 million in patronage capital in September 2016 (FY2017).

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 $1.55 billion in patronage capital to our members since 1980. The retirement in September 2016 represents the 37th consecutive calendar year CFC has made a cash retirement of patronage capital.

APPROXIMATE CUMULATIVE AMOUNT RETURNED TO MEMBERS SINCE 1980



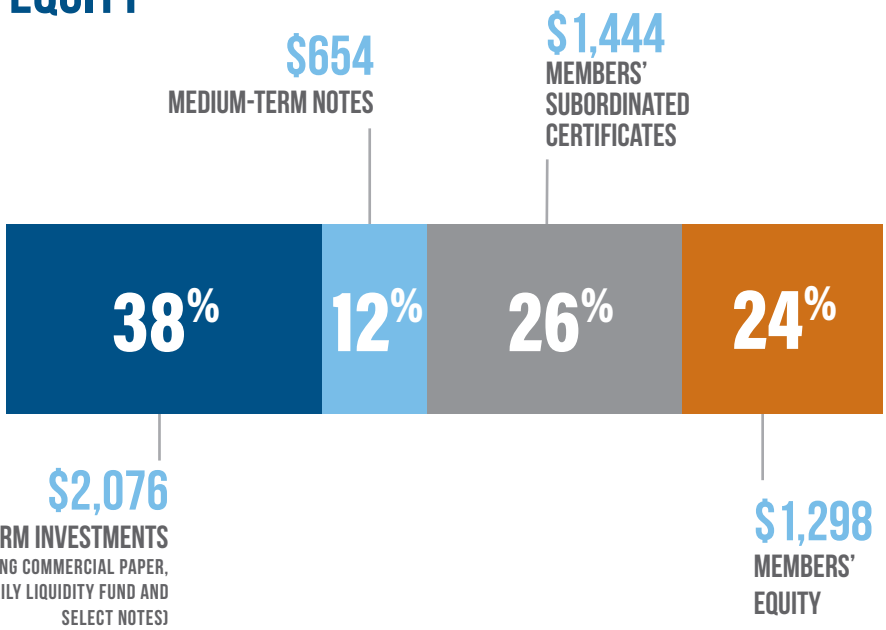


Our Members' Strength Is Our Strength

MEMBER INVESTMENTS & EQUITY

As of May 31, 2016
Dollars in Millions

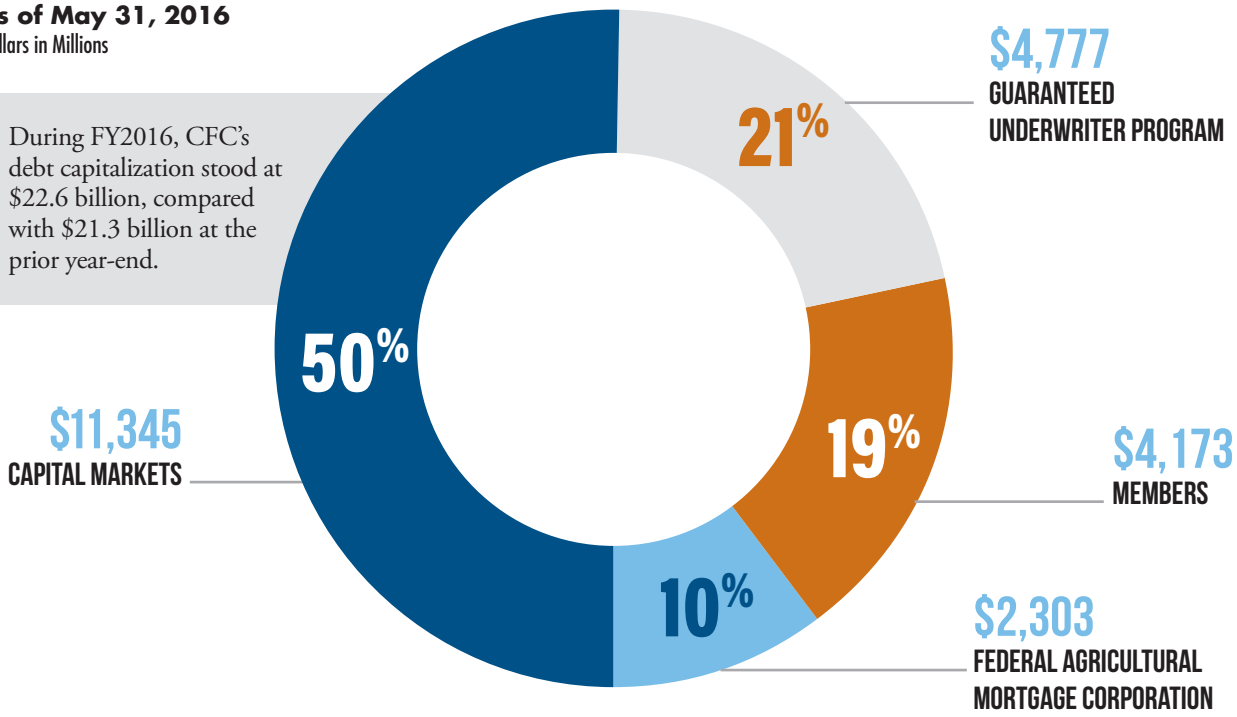
Members had more than $5 billion in investments and equity in CFC at May 31, 2016.



FUNDING SOURCES

As of May 31, 2016
Dollars in Millions

During FY2016, CFC's debt capitalization stood at $22.6 billion, compared with $21.3 billion at the prior year-end.



ADJUSTED NET INCOME

For the fiscal year ended May 31, 2016

CFC reported adjusted net income of $170 million for fiscal year 2016.*

CFC's FY 2016 year-end results include GAAP and non-GAAP adjusted financial measures. Please refer to CFC's annual report on Form 10-K for the fiscal year ended May 31, 2016, as filed with the SEC and as posted on the CFC website, for a discussion of why CFC believes the adjusted measures are useful information in analyzing its financial performance and the reconciliation to related GAAP measures.

**CFC reported a GAAP net loss of $52 million for the fiscal year ended May 31, 2016.*

CREDIT RATINGS

As of May 31, 2016

CFC's long- and short-term debt securities are rated by three nationally recognized credit rating agencies registered with the U.S. Securities and Exchange Commission: Fitch Ratings, Moody's Investors Service and S&P Global.

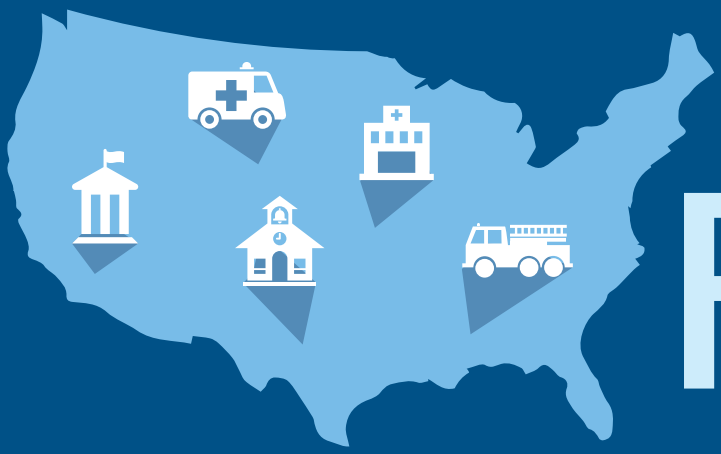
CFC DEBT INSTRUMENT	FITCH RATINGS	MOODY'S INVESTORS SERVICE	S&P GLOBAL
Collateral Trust Bonds (CTBs)	A+	A1	A
Medium-Term Notes (MTNs)	A	A2	A
InterNotes	A	A2	A
Subordinated Notes	BBB+	A3	BBB+
Commercial Paper (CP)	F1	P-1	A-1
Rating Outlook	Stable	Stable	Stable

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.

Economic Development Support

MORE THAN **$102 MILLION**

CONTRIBUTED BY CFC TO DATE



REDL&G

CFC plays a critical role in preserving the USDA Rural Economic Development Loan and Grant Program (REDL&G). CFC supports REDL&G by paying fees—currently more than $14 million annually, and $102 million total to date—based on our balance of USDA Guaranteed Underwriter Program loans outstanding. These annual fees provide a predictable source of REDL&G funding, and directly underpin hundreds of millions of dollars in REDL&G loans and grants made by electric cooperatives.

Over the years, REDL&G loans and grants—backed by electric cooperatives—have assisted a wide range of rural economic development projects, including new medical clinics, libraries, school and fire station renovations, and local businesses expansion. To date, REDL&G has awarded more than $800 million to roughly 1,600 projects, creating approximately 67,000 jobs across rural America. Nearly 500 electric cooperatives have participated in the program.

Since 1989, REDL&G has provided:

- $ **800 million**
- to **1,600 projects**
- creating or preserving **67,000 jobs**
- through the participation of **500 electric co-ops**

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

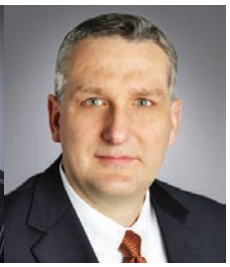
Sarah DeShazior
Senior Executive, Corporate Administration

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 (Retired)

Robin Reed
Senior Vice President, Loan Operations



Gregory Starheim
Senior Vice President, Business and Industry Development

CONTACT US

National Rural Utilities Cooperative Finance Corporation (CFC)
20701 Cooperative Way
Dulles, VA 20166

www.nrucfc.coop

703-467-1800 or 800-424-2954
Core Business Hours
Monday-Friday, 8 a.m. – 4:45 p.m.
Eastern Time

SERVICE

Our dedicated staff strives to exceed our members' expectations by focusing exclusively on the needs of the electric cooperative network that created us.

INTEGRITY

We have been our members' trusted and independent finance cooperative for nearly 50 years. Their long-term financial health is our goal.

EXCELLENCE

We provide our members with reliable access to funding regardless of market conditions, leveraging relationships in the financial community to build a stable, diverse base of funds.

National Rural Utilities Cooperative Finance Corporation

20701 Cooperative Way
Dulles, VA 20166

www.nrucfc.coop

© 2016 CFC. All Rights Reserved. November 2016. CFC is an equal opportunity provider.