
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 29, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-7102

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**
(Exact name of registrant as specified in its charter)

District of Columbia

(State or other jurisdiction of incorporation or organization)

52-0891669

(I.R.S. employer identification no.)

20701 Cooperative Way, Dulles, Virginia, 20166

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(703) 467-1800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements that are considered “forward-looking statements” within the Securities Act of 1933, as amended, and the Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity” and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the appropriateness of the allowance for loan losses, operating income and expenses, leverage and debt-to-equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance may differ materially from our forward-looking statements due to several factors. Factors that could cause future results to vary from our forward-looking statements include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, non-performance of counterparties to our derivative agreements, the costs and effects of legal or governmental proceedings involving National Rural Utilities Cooperative Finance Corporation (“CFC”) or its members and the factors listed and described under “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 (“2015 Form 10-K”). Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

INTRODUCTION

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes. As a member-owned cooperative, CFC’s objective is not to maximize profit, but rather to offer its members cost-based financial products and services consistent with sound financial management.

Our financial statements include the consolidated accounts of CFC, Rural Telephone Finance Cooperative (“RTFC”), National Cooperative Services Corporation (“NCSC”) and certain entities created and controlled by CFC to hold foreclosed assets. RTFC was established to provide private financing for the rural telecommunications industry. NCSC may provide financing to members of CFC, government or quasi-government entities which own electric utility systems that meet the Rural Electrification Act definition of “rural”, and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. CFC controlled and held foreclosed assets in two entities, Caribbean Asset Holdings, LLC (“CAH”) and Denton Realty Partners, LP (“DRP”), during fiscal year 2015. DRP was dissolved during the fourth quarter of fiscal year 2015, subsequent to the sale of the remainder of its assets. CAH, which is the only entity in which we currently hold foreclosed assets, is a holding company for various U.S. Virgin Islands, British Virgin Islands and St. Maarten-based telecommunications operating entities that were transferred to CAH as a result of a loan default by a borrower and subsequent bankruptcy proceedings. These operating entities provide local, long-distance and wireless telephone, cable television and Internet services to residential and commercial customers. On September 30, 2015, CFC entered into a Purchase Agreement (the “Purchase Agreement”) with CAH, ATN VI Holdings, LLC (“Atlantic”) and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests

of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. See “Item 1. Business—Overview” of our 2015 Form 10-K for additional information on the business activities of each of these entities. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities. All references to members within this document include members, associates and affiliates of CFC and its consolidated entities.

Management monitors a variety of key indicators to evaluate our business performance. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by discussing the drivers of changes from period to period and the key measures used by management to evaluate performance, such as leverage ratios, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes in this Report, the more detailed information contained in 2015 Form 10-K, including the risk factors discussed under “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K, and the risk factors under “Part II—Item 1A. Risk Factors” in this Report.

SUMMARY OF SELECTED FINANCIAL DATA

Table 1 provides a summary of selected financial data for the three and nine months ended February 29, 2016 and February 28, 2015, and as of February 29, 2016 and May 31, 2015. In addition to financial measures determined in accordance with generally accepted accounting principles in the United States (“GAAP”), management also evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Our key non-GAAP metrics consist of adjusted times interest earned ratio (“adjusted TIER”) and adjusted debt-to-equity ratio. The most comparable GAAP measures are TIER and debt-to-equity ratio, respectively. The primary adjustments we make to calculate these non-GAAP measures consist of (i) adjusting interest expense and net interest income to include the impact of net periodic derivative cash settlements; (ii) adjusting net income, senior debt and total equity to exclude the non-cash impact of the accounting for derivative financial instruments; (iii) adjusting senior debt to exclude the amount that funds CFC member loans guaranteed by the RUS, subordinated deferrable debt and members’ subordinated certificates; and (iv) adjusting total equity to include subordinated deferrable debt and members’ subordinated certificates. See “Non-GAAP Financial Measures” for a detailed reconciliation of these adjusted measures to the most comparable GAAP measures. We believe our adjusted non-GAAP metrics, which are not a substitute for GAAP and may not be consistent with similarly titled non-GAAP measures used by other companies, provide meaningful information and are useful to investors because the financial covenants in our revolving credit agreements and debt indentures are based on these adjusted metrics.

Table 1: Summary of Selected Financial Data

(Dollars in thousands)	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	Change	February 29, 2016	February 28, 2015	Change
Statement of operations						
Interest income	\$ 253,633	\$ 238,740	6%	\$ 756,074	\$ 711,266	6%
Interest expense	(171,189)	(156,850)	9	(504,013)	(471,677)	7
Net interest income	82,444	81,890	1	252,061	239,589	5
Provision for loan losses	1,735	(2,304)	(175)	(4,067)	3,475	(217)
Fee and other income	5,604	5,020	12	17,336	19,249	(10)
Derivative losses ⁽¹⁾	(243,036)	(98,770)	146	(356,237)	(223,209)	60
Results of operations of foreclosed assets	1,472	(1,369)	(208)	1,605	(33,059)	(105)
Operating expenses ⁽²⁾	(22,352)	(18,008)	24	(65,418)	(54,788)	19
Other non-interest expense	(842)	(710)	19	(1,208)	(653)	85
Loss before income taxes	(174,975)	(34,251)	411	(155,928)	(49,396)	216
Income tax benefit (expense)	593	55	978	153	(100)	(253)
Net loss	\$ (174,382)	\$ (34,196)	410%	\$ (155,775)	\$ (49,496)	215%
Adjusted statement of operations						
Adjusted interest expense ⁽³⁾	\$ (193,745)	\$ (178,362)	9 %	\$ (569,298)	\$ (535,054)	6 %
Adjusted net interest income ⁽³⁾	59,888	60,378	(1)	186,776	176,212	6
Adjusted net income ⁽³⁾	46,098	43,062	7	135,177	110,336	23
Ratios						
Fixed-charge coverage ratio/TIER ⁽⁴⁾ ..	(0.02)	0.78	(80) bps	0.69	0.90	(21) bps
Adjusted TIER ⁽³⁾	1.24	1.24	—	1.24	1.21	3
Balance sheet						
Cash, investments and time deposits...				\$ 724,085	\$ 818,308	(12)%
Loans to members ⁽⁵⁾				23,144,099	21,469,017	8
Allowance for loan losses				(37,918)	(33,690)	13
Loans to members, net				23,106,181	21,435,327	8
Total assets ⁽⁶⁾				24,393,025	22,846,059	7
Short-term borrowings				3,309,020	3,127,754	6
Long-term debt				17,527,497	16,244,794	8
Subordinated deferrable debt				395,754	395,699	—
Members' subordinated certificates				1,444,515	1,505,420	(4)
Total debt outstanding ⁽⁶⁾⁽⁷⁾				22,676,786	21,273,667	7
Total liabilities ⁽⁶⁾				23,676,529	21,934,273	8
Total equity				716,496	911,786	(21)
Guarantees ⁽⁸⁾				915,359	986,500	(7)
Ratios						
Leverage ratio ⁽⁹⁾				34.32	25.14	918 bps
Adjusted leverage ratio ⁽³⁾				6.97	6.58	39
Debt-to-equity ratio ⁽¹⁰⁾				33.04	24.06	898
Adjusted debt-to-equity ratio ⁽³⁾				6.67	6.26	41

— Change is less than one percent or not meaningful.

- (1) Consists of derivative cash settlements and derivative forward value amounts. Derivative cash settlement amounts represent net periodic contractual interest accruals related to derivatives not designated for hedge accounting. Derivative forward value amounts represent changes in fair value during the period, excluding net periodic contractual accruals, related to derivatives not designated for hedge accounting and expense amounts reclassified into income related to the cumulative transition loss recorded in accumulated other comprehensive income (“AOCI”) as of June 1, 2001, as a result of the adoption of the derivative accounting guidance that required derivatives to be reported at fair value on the balance sheet.
- (2) Consists of the salaries and employee benefits and the other general and administrative expenses components of non-interest expense, each of which are presented separately on our consolidated statements of operations.
- (3) See “Non-GAAP Financial Measures” for details on the calculation of these adjusted non-GAAP ratios and the reconciliation to the most comparable GAAP measures.
- (4) Calculated based on net income (loss) plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same during each period presented because we did not have any capitalized interest during these periods.
- (5) Loans to members consists of the outstanding principal balance of member loans plus unamortized deferred loan origination costs, which totaled \$10 million as of both February 29, 2016 and May 31, 2015.
- (6) In the first quarter of fiscal year 2016, we early-adopted the Financial Accounting Standards Board (“FASB”) guidance that amends the presentation of debt issuance costs in the financial statements by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as an asset. We retrospectively applied this guidance, which resulted in the reclassification of unamortized debt issuance costs of \$47 million as of May 31, 2015, from total assets on our condensed consolidated balance sheet to total debt outstanding. Other than this reclassification, the adoption of the guidance did not impact our consolidated financial statements. See “Note 1—Summary of Significant Accounting Policies—Accounting Standards Adopted in Fiscal Year 2016” for additional information.
- (7) Total debt includes debt issuance costs, which were previously classified as an asset on our consolidated balance sheets, of \$53 million and \$47 million as of February 29, 2016 and May 31, 2015, respectively.
- (8) Represents the total outstanding guarantee amount as of the end of the each period; however, the amount recorded on our condensed consolidated balance sheets for our guarantee obligations is significantly less than the outstanding guarantee total. See “Note 10—Guarantees” for additional information.
- (9) Calculated based on total liabilities and guarantees at period end divided by total equity at period end.
- (10) Calculated based on total liabilities at period end divided by total equity at period end.

EXECUTIVE SUMMARY

Our primary objective as a member-owned cooperative lender is to provide cost-based financial products to our rural electric members while maintaining a sound financial position required for investment-grade credit ratings on our debt instruments. Our objective is not to maximize net income; therefore, the rates we charge our member-borrowers reflect our adjusted interest expense plus a spread to cover our operating expenses, a provision for loan losses and earnings sufficient to achieve interest coverage to meet our financial objectives. Our goal is to earn an annual minimum adjusted TIER of 1.10 and to achieve and maintain an adjusted debt-to-equity ratio below 6.00-to-1.

We expect volatility in our reported GAAP results from period to period due to changes in market conditions and differences in the way our financial assets and liabilities are accounted for under GAAP. Our financial assets and liabilities expose us to interest-rate risk. We use derivatives, primarily interest rate swaps, as part of our strategy in managing this risk. Our derivatives are intended to economically hedge and manage the interest-rate sensitivity mismatch between our financial assets and liabilities. We are required under GAAP to carry derivatives at fair value on our consolidated balance sheet; however, our other financial assets and liabilities are carried at amortized cost. Changes in interest rates and spreads result in periodic fluctuations in the fair value of our derivatives, which may cause volatility in our earnings because we do not apply hedge accounting. As a result, the mark-to-market changes in our derivatives are recorded in earnings. Based on the composition of our derivatives, we generally record derivative losses in earnings when interest rates decline and derivative gains when interest rates rise. This earnings volatility generally is not indicative of the underlying economics of our business, as the derivative forward fair value gains or losses recorded each period may or may not be realized over time, depending on future changes in market conditions and the terms of our derivative instruments. As such, management uses our adjusted non-GAAP results, which includes realized net periodic derivative settlements but excludes the impact of unrealized derivative forward fair value gains and losses, to evaluate our core operating performance. Because derivative forward fair value gains and losses do not impact our cash flows, liquidity or ability to service our debt costs, our financial debt covenants are also based on our adjusted non-GAAP results.

Financial Performance

Reported Results

We reported a net loss of \$174 million, driven by derivative losses that totaled \$243 million, for the quarter ended February 29, 2016 (“current quarter”). As a result, our results for the quarter provided no TIER coverage. The derivative losses were attributable to changes in interest rates and the shape of the yield curve during the quarter as longer-term interest rates decreased and the yield curve flattened. In comparison, we reported a net loss of \$34 million, which was driven by derivative losses that totaled \$99 million, and TIER of 0.78 for the same prior-year quarter. The significant increase in derivative losses in the current quarter over the same prior-year quarter more than offset the favorable impact of an increase in net interest income, which was driven by an increase in average total loans of \$1,920 million, or 9%, from the same prior-year quarter.

We reported a net loss of \$156 million, driven by derivatives losses that totaled \$356 million, and a TIER of 0.69 for the nine months ended February 29, 2016. In comparison, we had a reported net loss of \$49 million, which included derivative losses of \$223 million, and a TIER of 0.90 for the nine months ended February 28, 2015. Similar to the current quarter, the increased derivative losses for the nine months ended February 29, 2016 more than offset the favorable impact of an increase in net interest income, driven by an increase in average total loans of \$1,646 million, or 8%, from the same prior-year period and the absence of the CAH impairment charge of \$27 million recorded in the same prior-year period. Our debt-to-equity ratio increased to 33.04-to-1 as of February 29, 2016, from 24.06-to-1 as of May 31, 2015, largely due to our reported net loss for the period.

Adjusted Non-GAAP Results

Our adjusted net income totaled \$46 million and \$43 million for the current quarter and same prior-year quarter, respectively, and our adjusted TIER was 1.24 for each period. The increase in adjusted net income was attributable to the combined impact of a favorable shift in the provision for loan losses and results from foreclosed assets, which were partially offset by an increase in operating expenses.

Our adjusted net income was \$135 million and \$110 million for the nine months ended February 29, 2016 and February 28, 2015, respectively, and our adjusted TIER was 1.24 and 1.21, respectively, for the same prior-year period. The increase in adjusted net income was primarily driven by an increase in adjusted net interest income resulting from the growth in average total loan balances during the nine months ended February 29, 2016, as noted above, and the absence of the CAH impairment charge of \$27 million recorded in the second quarter of 2015. Our adjusted debt-to-equity ratio increased to 6.67-to-1 as of February 29, 2016 from 6.26-to-1 as of May 31, 2015, due to a 7% increase in our debt outstanding to fund the growth in our loan portfolio.

Lending Activity

Total loans outstanding, which consists of the unpaid principal balance and excludes deferred loan origination costs, was \$23,134 million as of February 29, 2016, an increase of \$1,675 million, or 8%, from May 31, 2015. The increase was primarily due to an increase in CFC distribution and power supply loans of \$1,606 million and \$141 million, respectively, which was largely attributable to members refinancing with us loans made by other lenders and member advances for capital investments. This increase was partially offset by a decrease in NCSC and RTFC loans of \$34 million and \$28 million, respectively.

CFC had long-term fixed-rate loans totaling \$923 million that repriced during the nine months ended February 29, 2016. Of this total, \$864 million repriced to a new long-term fixed rate; \$44 million repriced to a long-term variable rate; and \$15 million were repaid in full.

Financing Activity

Our outstanding debt volume generally increases and decreases in response to member loan demand. As outstanding loan balances increased during the nine months ended February 29, 2016, our debt volume also increased. Total debt outstanding was \$22,677 million as of February 29, 2016, an increase of \$1,403 million, or 7%, from May 31, 2015. The increase was

primarily attributable to a net increase of \$402 million under the note purchase agreement with the Federal Agricultural Mortgage Corporation (“Farmer Mac”), a net increase of \$380 million under the Guaranteed Underwriter Program of the USDA and a net increase of \$494 million in collateral trust bonds.

In July 2015, we executed a new three-year \$300 million secured revolving note purchase agreement with Farmer Mac to provide us additional funding flexibility. In November 2015, we amended and restated our \$1,665 million three-year and \$1,645 million five-year revolving credit agreements to extend the maturity dates to November 19, 2018 and November 19, 2020, respectively, from October 28, 2017 and October 28, 2019, respectively. We provide additional information on our financing activities below under “Consolidated Balance Sheet Analysis—Debt” and “Liquidity Risk.”

Outlook for the Next 12 Months

We expect the amount of new long-term loan advances to exceed scheduled loan repayments over the next 12 months. We anticipate a continued increase in earnings from our core lending operations over the next 12 months based on our expectation of an increase in long-term loans outstanding.

Long-term debt scheduled to mature over the next 12 months totaled \$1,355 million as of February 29, 2016. We believe we have sufficient liquidity from the combination of existing cash and time deposits, member loan repayments, committed loan facilities and our ability to issue debt in the capital markets, to our members and in private placements, to meet the demand for member loan advances and satisfy our obligations to repay long-term debt maturing over the next 12 months. We had \$639 million in cash and cash equivalents and time deposits, up to \$350 million available under committed loan facilities from the Federal Financing Bank (“FFB”), \$3,309 million available under committed revolving lines of credit with a syndicate of banks, up to \$300 million available under a new note purchase agreement with Farmer Mac and, subject to market conditions, up to \$2,187 million available under the existing revolving note purchase agreement with Farmer Mac as of February 29, 2016. On March 29, 2016, we closed on a \$250 million committed loan facility (“Series K”) from the FFB guaranteed by the RUS pursuant to the Guaranteed Underwriter Program. Under the Series K facility, we are able to borrow any time before January 15, 2019, with each advance having a final maturity no longer than 20 years from the advance date. This new commitment increases total funding available to CFC under committed loan facilities from the FFB to \$600 million. We also have the ability to issue collateral trust bonds and medium-term notes in the capital markets and medium-term notes to members.

We believe we can continue to roll over the member outstanding short-term debt of \$2,354 million as of February 29, 2016, based on our expectation that our members will continue to reinvest their excess cash in our commercial paper, daily liquidity fund and select notes. We expect to continue to roll over our outstanding dealer commercial paper of \$955 million as of February 29, 2016. We intend to manage our short-term wholesale funding risk by maintaining a balance on our dealer commercial paper below \$1,250 million for the foreseeable future. We expect to continue to be in compliance with the covenants under our revolving credit agreements, which will allow us to mitigate our roll-over risk as we can draw on these facilities to repay dealer or member commercial paper that cannot be rolled over due to potential adverse changes in market conditions.

Our goal is to achieve and maintain the adjusted debt-to-equity ratio at or below 6.00-to-1. However, because of the significant increase in outstanding loan balances over the last 18 months, it has been necessary to increase our borrowings to fund the loan growth. As a result, our adjusted debt-to-equity ratio was higher than 6.00-to-1 as of February 29, 2016. We intend to take actions over the next 12 months to reduce our adjusted debt-to-equity ratio to a level closer to our targeted ratio of 6.00-to-1 or below.

As part of our strategy in managing our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We designated, and Farmer Mac approved an initial tranche of loans with an aggregate outstanding principal balance of \$520 million as of August 31, 2015. As a result of principal payments, the balance of these loans totaled \$511 million as of February 29, 2016. We may designate additional loans in the future under the long-term standby purchase commitment agreement with Farmer Mac.

As previously disclosed, on September 30, 2015, CFC entered into a Purchase Agreement with CAH, Atlantic and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. The amount recorded on our condensed consolidated balance sheet for CAH of \$118 million as of February 29, 2016 reflects the expected net proceeds from the completion of the CAH sales transaction. The expected net proceeds is based on the contractual purchase price of \$145 million, plus agreed-upon purchase price adjustments less estimated selling costs.

We continue to expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event. See “Consolidated Results of Operations—Results of Foreclosed Assets” below and “Note 4—Foreclosed Assets” for additional information related to CAH.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management's judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a discussion of our significant accounting policies under “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K.

We have identified certain accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our results of operations or financial condition. Our most critical accounting policies and estimates involve the determination of the allowance for loan losses and fair value. We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. There were no material changes in the assumptions used in our critical accounting policies and estimates during the current quarter. Management has discussed significant judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. We provide information on the methodologies and key assumptions used in our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2015 Form 10-K. See “Item 1A. Risk Factors” for a discussion of the risks associated with management’s judgments and estimates in applying our accounting policies and methods in our 2015 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted during the nine months ended February 29, 2016, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our results of operations, financial condition or liquidity, we discuss the impacts in the applicable section(s) of MD&A.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our condensed consolidated results of operations between the three months ended February 29, 2016 and February 28, 2015 and between the nine months ended February 29, 2016 and February 28, 2015. Following this section, we provide a comparative analysis of our condensed consolidated balance sheets as of February 29, 2016 and May 31, 2015. You should read these sections together with our “Executive Summary—Outlook for the Next 12 Months” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities plus the impact from non-interest bearing funding. We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. We do not fund each individual loan with specific debt. Rather, we attempt to minimize costs and maximize efficiency by funding large aggregated amounts of loans.

Table 2 presents our average balance sheets for the three and nine months ended February 29, 2016 and February 28, 2015, and for each major category of our interest-earning assets and interest-bearing liabilities, the interest income earned or interest expense incurred, and the average yield or cost. Table 2 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net accrued periodic derivative cash settlement in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under “Non-GAAP Financial Measures.”

Table 2: Average Balances, Interest Income/Interest Expense and Average Yield/Cost

(Dollars in thousands)	Three Months Ended					
	February 29, 2016			February 28, 2015		
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
Assets:						
Long-term fixed-rate loans ⁽¹⁾	\$ 21,105,238	\$ 240,933	4.59%	\$ 19,134,746	\$ 224,770	4.76%
Long-term variable-rate loans	732,970	5,077	2.79	667,788	4,836	2.94
Line of credit loans	1,032,204	6,335	2.47	1,159,097	6,707	2.35
Restructured loans	12,737	163	5.15	7,534	—	—
Nonperforming loans	7,772	81	4.19	1,690	—	—
Interest-based fee income ⁽²⁾	—	(279)	—	—	32	—
Total loans	22,890,921	252,310	4.43	20,970,855	236,345	4.57
Cash, investments and time deposits	645,268	1,323	0.82	761,963	2,395	1.27
Total interest-earning assets	\$ 23,536,189	\$ 253,633	4.33%	\$ 21,732,818	\$ 238,740	4.46%
Other assets, less allowance for loan losses	756,264			597,952		
Total assets	<u>\$ 24,292,453</u>			<u>\$ 22,330,770</u>		
Liabilities:						
Short-term debt	\$ 3,308,003	\$ 4,387	0.53%	\$ 3,844,060	\$ 2,982	0.31%
Medium-term notes	3,457,086	21,773	2.53	2,909,343	17,774	2.48
Collateral trust bonds	6,973,746	83,810	4.83	6,240,729	79,026	5.14
Subordinated deferrable debt	395,741	4,785	4.86	400,000	4,782	4.85
Subordinated certificates	1,421,538	15,022	4.25	1,493,438	15,280	4.15
Long-term notes payable	6,809,807	41,412	2.45	5,998,620	37,006	2.50
Total interest-bearing liabilities	\$ 22,365,921	\$ 171,189	3.08%	\$ 20,886,190	\$ 156,850	3.05%
Other liabilities	1,075,182			483,087		
Total liabilities	23,441,103			21,369,277		
Total equity	851,350			961,493		
Total liabilities and equity	<u>\$ 24,292,453</u>			<u>\$ 22,330,770</u>		
Net interest spread ⁽³⁾			1.25%			1.41%
Impact of non-interest bearing funding ⁽⁴⁾			0.15			0.10
Net interest income/net interest yield ⁽⁵⁾		<u>\$ 82,444</u>	<u>1.40%</u>		<u>\$ 81,890</u>	<u>1.51%</u>
Adjusted net interest income/adjusted net interest yield:						
Interest income		<u>\$ 253,633</u>	<u>4.33%</u>		<u>\$ 238,740</u>	<u>4.46%</u>
Interest expense		<u>171,189</u>	<u>3.08</u>		<u>156,850</u>	<u>3.05</u>
Add: Net accrued periodic derivative cash settlements ⁽⁶⁾		<u>22,556</u>	<u>0.90</u>		<u>21,512</u>	<u>0.99</u>
Adjusted interest expense ⁽⁷⁾		<u>\$ 193,745</u>	<u>3.48%</u>		<u>\$ 178,362</u>	<u>3.45%</u>
Adjusted net interest spread ⁽³⁾			0.85%			1.01%
Impact of non-interest bearing funding			0.17			0.12
Adjusted net interest income/adjusted net interest yield ⁽⁸⁾		<u>\$ 59,888</u>	<u>1.02%</u>		<u>\$ 60,378</u>	<u>1.13%</u>

Nine Months Ended

(Dollars in thousands)	February 29, 2016			February 28, 2015		
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
Assets:						
Long-term fixed-rate loans ⁽¹⁾	\$ 20,509,790	\$ 716,736	4.67%	\$ 18,758,101	\$ 669,121	4.77%
Long-term variable-rate loans	703,489	14,919	2.83	705,736	15,099	2.86
Line of credit loans	1,043,293	18,919	2.42	1,152,417	20,335	2.36
Restructured loans	11,492	293	3.41	7,558	10	0.18
Nonperforming loans	3,507	110	4.19	1,820	—	—
Interest-based fee income ⁽²⁾	—	(808)	—	—	185	—
Total loans	22,271,571	750,169	4.50	20,625,632	704,750	4.57
Cash, investments and time deposits	666,755	5,905	1.18	826,981	6,516	1.05
Total interest-earning assets	\$ 22,938,326	\$ 756,074	4.40%	\$ 21,452,613	\$ 711,266	4.43%
Other assets, less allowance for loan losses	836,066			878,157		
Total assets	<u>\$ 23,774,392</u>			<u>\$ 22,330,770</u>		
Liabilities:						
Short-term debt	\$ 3,084,884	\$ 10,311	0.45%	\$ 3,823,206	\$ 11,786	0.41%
Medium-term notes	3,395,871	62,745	2.47	2,844,148	52,640	2.47
Collateral trust bonds	6,805,318	248,410	4.88	6,111,864	232,290	5.08
Subordinated deferrable debt	395,723	14,356	4.85	400,000	14,352	4.80
Subordinated certificates	1,463,180	45,425	4.15	1,520,276	48,131	4.23
Long-term notes payable	6,699,774	122,766	2.45	5,876,077	112,478	2.56
Total interest-bearing liabilities	\$ 21,844,750	\$ 504,013	3.08%	\$ 20,575,571	\$ 471,677	3.06%
Other liabilities	1,032,779			793,706		
Total liabilities	22,877,529			21,369,277		
Total equity	896,863			961,493		
Total liabilities and equity	<u>\$ 23,774,392</u>			<u>\$ 22,330,770</u>		
Net interest spread ⁽³⁾			1.32%			1.37%
Impact of non-interest bearing funding ⁽⁴⁾			0.15			0.12
Net interest income/net interest yield ⁽⁵⁾	<u>\$ 252,061</u>	<u>1.47%</u>		<u>\$ 239,589</u>	<u>1.49%</u>	
Adjusted net interest income/adjusted net interest yield:						
Interest income	\$ 756,074	4.40%		\$ 711,266	4.43%	
Interest expense	504,013	3.08		471,677	3.06	
Add: Net accrued periodic derivative cash settlements ⁽⁶⁾	65,285	0.88		63,377	0.99	
Adjusted interest expense ⁽⁷⁾	<u>\$ 569,298</u>	<u>3.48%</u>		<u>\$ 535,054</u>	<u>3.48%</u>	
Adjusted net interest spread ⁽³⁾			0.92%			0.95%
Impact of non-interest bearing funding			0.17			0.15
Adjusted net interest income/adjusted net interest yield ⁽⁸⁾	<u>\$ 186,776</u>	<u>1.09%</u>		<u>\$ 176,212</u>	<u>1.10%</u>	

(1) Interest income includes loan conversion fees, which are generally deferred and recognized in interest income using the effective interest method. A small portion of conversion fees that are intended to cover the administrative costs related to the conversion are recognized into interest income immediately at the date of conversion.

(2) Amounts primarily include the amortization of deferred loan origination costs and late payment fees. Excludes up-front loan arranger fees, which are not based on interest rates, for the three and nine months ended February 29, 2016. These fees are included in fee and other income.

- (3) Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing funding. Adjusted net interest spread represents the difference between the average yield on interest-earning assets and the adjusted average cost of interest-bearing funding.
- (4) Includes other liabilities and equity.
- (5) Net interest yield is calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
- (6) Represents the impact of net accrued periodic derivative cash settlements during the period, which is added to interest expense to derive non-GAAP adjusted interest expense. The average (benefit)/cost associated with derivatives is calculated based on the annualized net accrued periodic settlements during the period divided by the average outstanding notional amount of derivatives during the period. The average outstanding notional amount of derivatives was \$10,078 million and \$8,791 million for the three months ended February 29, 2016 and February 28, 2015, respectively. The average outstanding notional amount of derivatives was \$9,930 million and \$8,588 million for the nine months ended February 29, 2016 and February 28, 2015, respectively.
- (7) Adjusted average cost is calculated based on annualized adjusted interest expense for the period divided by average interest-bearing funding during the period.
- (8) Adjusted net interest yield is calculated based on annualized adjusted net interest income for the period divided by average interest-earning assets for the period.

Table 3 displays the change in our net interest income between periods and the extent to which the variance is attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities. The table also presents the change in adjusted net interest income between periods.

Table 3: Rate/Volume Analysis of Changes in Interest Income/Interest Expense

	Three Months Ended February 29, 2016 versus February 28, 2015			Nine Months Ended February 29, 2016 versus February 28, 2015		
		Variance due to: ⁽¹⁾			Variance due to: ⁽¹⁾	
(Dollars in thousands)	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Long-term fixed-rate loans	\$ 16,163	\$ 25,216	\$ (9,053)	\$ 47,615	\$ 63,158	\$ (15,543)
Long-term variable-rate loans.....	241	516	(275)	(180)	(34)	(146)
Line of credit loans	(372)	(684)	312	(1,416)	(1,909)	493
Restructured loans.....	163	—	163	283	5	278
Nonperforming loans	81	—	81	110	—	110
Fee income	(311)	—	(311)	(993)	—	(993)
Total loans.....	15,965	25,048	(9,083)	45,419	61,220	(15,801)
Cash, investments and time deposits	(1,072)	(350)	(722)	(611)	(1,258)	647
Interest income	14,893	24,698	(9,805)	44,808	59,962	(15,154)
Interest expense:						
Short-term debt	1,405	(394)	1,799	(1,475)	(2,267)	792
Medium-term notes.....	3,999	3,523	476	10,105	10,269	(164)
Collateral trust bonds	4,784	10,019	(5,235)	16,120	26,594	(10,474)
Subordinated deferrable debt	3	(11)	14	4	(140)	144
Subordinated certificates.....	(258)	(614)	356	(2,706)	(1,765)	(941)
Long-term notes payable.....	4,406	5,355	(949)	10,288	15,885	(5,597)
Interest expense.....	14,339	17,878	(3,539)	32,336	48,576	(16,240)
Net interest income	\$ 554	\$ 6,820	\$ (6,266)	\$ 12,472	\$ 11,386	\$ 1,086
Adjusted net interest income:						
Interest income.....	\$ 14,893	\$ 24,698	\$ (9,805)	\$ 44,808	\$ 59,962	\$ (15,154)
Interest expense.....	14,339	17,878	(3,539)	32,336	48,576	(16,240)
Net accrued periodic derivative cash settlements ⁽²⁾	1,044	3,367	(2,323)	1,908	9,972	(8,064)
Adjusted interest expense ⁽³⁾	15,383	21,245	(5,862)	34,244	58,548	(24,304)
Adjusted net interest income.....	\$ (490)	\$ 3,453	\$ (3,943)	\$ 10,564	\$ 1,414	\$ 9,150

⁽¹⁾The changes for each category of interest income and interest expense are divided between the portion of change attributable to the variance in volume and the portion of change attributable to the variance in rate for that category. The amount attributable to the combined impact of volume and rate has been allocated to each category based on the proportionate absolute dollar amount of change for that category.

⁽²⁾For net accrued periodic derivative cash settlements, the variance due to average volume represents the change in derivative cash settlements resulting from the change in the average notional amount of derivative contracts outstanding. The variance due to average rate represents the change in derivative cash settlements resulting from the net difference between the average rate paid and the average rate received for interest rate swaps during the period.

⁽³⁾ See “Non-GAAP Financial Measures” for additional information on our adjusted non-GAAP measures.

Net interest income of \$82 million for the current quarter increased by \$1 million, or 1%, from the same prior-year quarter, driven by an increase in average interest-earning assets of 8%, which was partially offset a decrease in net interest yield of 7% (11 basis points) to 1.40%.

Net interest income of \$252 million for the nine months ended February 29, 2016 increased by \$12 million, or 5%, from the same prior-year period, driven by an increase in average interest-earning assets of 7%, which was partially offset by a decrease in net interest yield of 1% (2 basis points) to 1.47%.

- *Average Interest-Earning Assets:* The increase in average interest-earning assets for the current quarter and nine months ended February 29, 2016 was primarily attributable to growth in average total loans of \$1,920 million, or 9%, and \$1,646 million, or 8%, respectively, over the same prior-year periods, as members refinanced with us loans made by other lenders and obtained advances to fund capital investments.
- *Net Interest Yield:* The decrease in the net interest yield for the current quarter and for the nine months ended February 29, 2016 reflects the combined impact of a modest increase in our average cost of funds and a decline in the average yield on interest-earning assets. Our average cost of funds increased by 3 basis points and 2 basis points, respectively, during the current quarter and nine months ended February 29, 2016 to 3.08% for each period. This increase was largely due to our decision in the third quarter of fiscal year 2015 to significantly reduce the level of outstanding dealer commercial paper balance, which has a much lower cost than our other funding options. The decrease in the average yield on interest-earning assets of 13 basis points to 4.33% and of 3 basis points to 4.40%, respectively, during the current quarter and nine months ended February 29, 2016, respectively, was largely attributable to reduced rates on fixed-rate loans, reflecting the repricing of higher rate loans to lower interest rates and lower interest rates on new loan originations as a result of the overall low interest rate environment.

Adjusted net interest income of \$60 million for the current quarter represented a slight decrease from the same prior-year quarter, attributable to a decrease in the adjusted net interest yield of 10% (11 basis points) to 1.02%, which was partially offset by the increase in average interest-earning assets of 8%. The decrease in the adjusted net interest yield also reflected the combined impact of an increase in our average cost of funds resulting from actions taken in the third quarter of fiscal year 2015 to significantly reduce the level of lower-cost dealer commercial paper, coupled with the decline in the average yield on interest-earning assets.

Adjusted net interest income of \$187 million for the nine months ended February 29, 2016 increased by \$11 million, or 6%, from the same prior-year period, driven by the increase in average interest-earning assets of 7%, which was partially offset by a decrease in the adjusted net interest yield of 1% (1 basis point) to 1.09%.

Our adjusted net interest income and adjusted net interest yield include the impact of net accrued periodic derivative cash settlements during the period. We recorded net periodic derivative cash settlement expense of \$23 million and \$22 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and \$65 million and \$63 million for the nine months ended February 29, 2016 and February 28, 2015, respectively. See “Non-GAAP Financial Measures” for additional information on our adjusted measures.

Provision for Loan Losses

Our provision for loan losses in each period is primarily driven by the level of allowance that we determine is necessary for probable incurred loan losses inherent in our loan portfolio as of each balance sheet date.

We recorded a benefit for loan losses of \$2 million during the three months ended February 29, 2016, compared with a provision of \$2 million for the same prior-year period. We recorded a provision for loan losses of \$4 million for the nine months ended February 29, 2016, compared with a benefit of \$3 million for the nine months ended February 28, 2015. The increase in individually impaired loans was the primary driver of the provision of \$4 million for the nine months ended February 29, 2016. In comparison, outstanding loans remained relatively flat during the same prior-year period, and we experienced modest improvement in the credit quality and overall credit risk profile of our loan portfolio, which together resulted in the benefit of \$3 million for the nine months ended February 28, 2015.

We provide additional information on our allowance for loan losses under “Credit Risk—Allowance for Loan Losses” and “Note 3—Loans and Commitments” of this Report. For information on our allowance methodology, see “MD&A—Critical Accounting Policies and Estimates” and “Note 1—Summary” in our 2015 Form 10-K.

Non-Interest Income

Non-interest income consists of fee and other income, gains and losses on derivatives not accounted for in hedge accounting relationships and results of operations of foreclosed assets.

We recorded losses from non-interest income of \$236 million and \$95 million for the three months ended February 29, 2016 and February 28, 2015, respectively. We recorded losses from non-interest income of \$337 million and \$237 million for the nine months ended February 29, 2016 and February 28, 2015, respectively. The variances in non-interest income for three and nine months ended February 29, 2016, from the same prior-year periods were primarily attributable to changes in net derivative losses recognized in our consolidated statements of operations and an impairment charge of \$27 million related to CAH recorded in the nine months ended February 28, 2015.

Derivative Gains (Losses)

Our derivative instruments are an integral part of our interest rate risk management strategy. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. The derivative instruments we use primarily include interest rate swaps, which we typically hold to maturity. The primary factors affecting the fair value of our derivatives and derivative gains (losses) recorded in our results of operations include changes in interest rates, the shape of the yield curve and the composition of our derivative portfolio. We generally do not designate interest rate swaps, which presently account for all of our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). We did not have any derivatives designated as accounting hedges as of February 29, 2016 or May 31, 2015.

We currently use two types of interest rate swap agreements: (i) we pay a fixed rate and receive a variable rate (“pay-fixed swaps”) and (ii) we pay a variable rate and receive a fixed rate (“receive-fixed swaps”). The benchmark rate for the substantial majority of the floating rate payments under our swap agreements is the London Interbank Offered Rate (“LIBOR”). Table 4 displays the average notional amount outstanding, by swap agreement type, and the weighted-average interest rate paid and received for derivative cash settlements during the three and nine months ended February 29, 2016 and February 28, 2015. As indicated in Table 4, our derivative portfolio currently consists of a higher proportion of pay-fixed swaps than receive-fixed swaps, which is subject to variations based on changes in market conditions and actions taken to manage our interest rate risk.

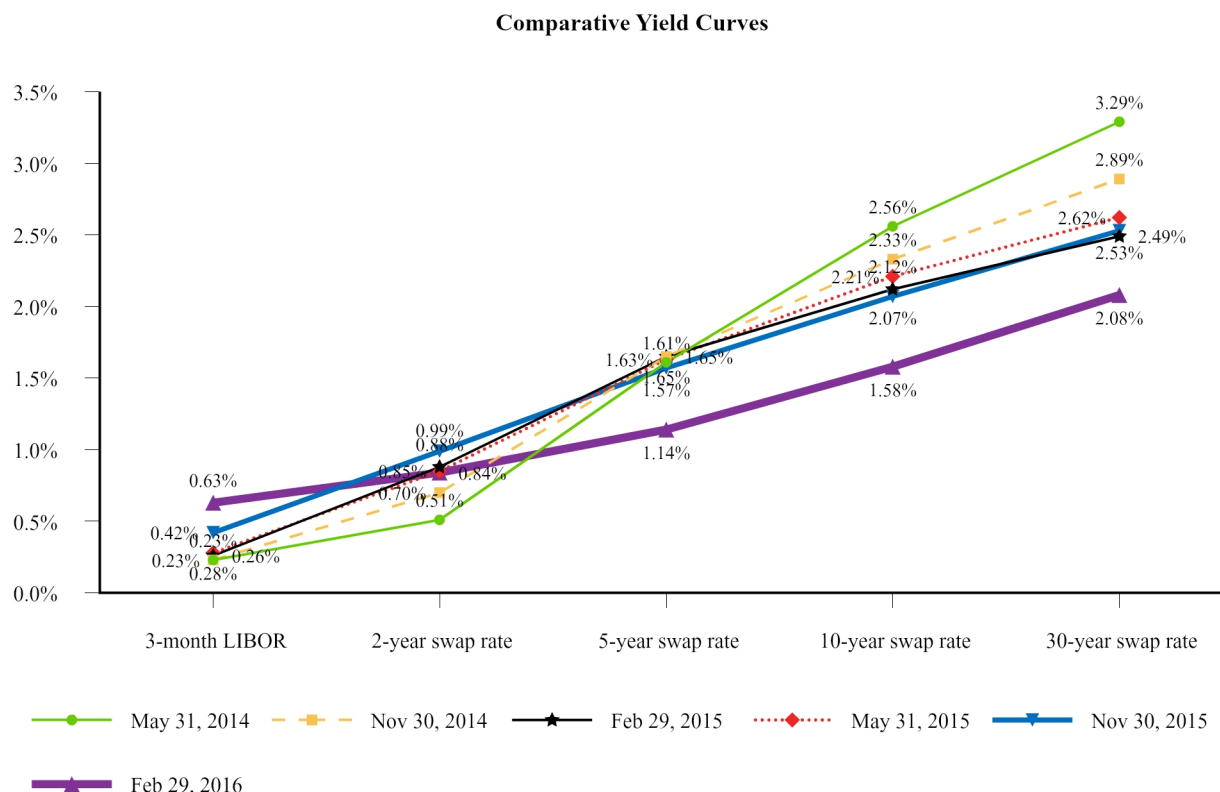
Table 4: Derivative Average Notional Balances and Average Interest Rates

(Dollars in thousands)	Three Months Ended					
	February 29, 2016			February 28, 2015		
	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,476,600	3.00%	0.54%	\$ 5,579,367	3.24%	0.26%
Receive-fixed swaps.....	3,601,198	0.94	2.93	3,211,222	0.84	3.47
Total.....	<u>\$10,077,798</u>	<u>2.25%</u>	<u>1.41%</u>	<u>\$ 8,790,589</u>	<u>2.38%</u>	<u>1.41%</u>
(Dollars in thousands)	Nine Months Ended					
	February 29, 2016			February 28, 2015		
	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,202,082	3.06%	0.39%	\$ 5,513,549	3.29%	0.25%
Receive-fixed swaps.....	3,728,197	0.85	3.01	3,074,549	0.84	3.56
Total.....	<u>\$ 9,930,279</u>	<u>2.22%</u>	<u>1.38%</u>	<u>\$ 8,588,098</u>	<u>2.41%</u>	<u>1.43%</u>

The average remaining maturity of our pay-fixed swaps was 18 years, and the average remaining maturity of our receive-fixed swaps was three years as of February 29, 2016.

Pay-fixed swaps generally decrease in value as interest rates decline and increase in value as interest rates rise. In contrast, receive-fixed swaps generally increase in value as interest rates decline and decrease in value as interest rates rise. Because our pay-fixed and receive-fixed swaps are referenced to different maturity terms along the swap yield curve, different

changes in the swap yield curve—parallel, flattening or steepening—will result in differences in the fair value of our derivatives. See “Note 14—Fair Value of Financial Instruments” to the Consolidated Financial Statements in our 2015 Form 10-K for information on how we estimate the fair value of our derivative instruments. The chart below provides comparative yield curves as of the end of each reporting period in the current year and as of the end of the same prior-year reporting periods.



Benchmark rates obtained from Bloomberg.

We recorded derivative losses of \$243 million and \$99 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and derivative losses of \$356 million and \$223 million for the nine months ended February 29, 2016 and February 28, 2015, respectively. Table 5 presents the components of net derivative gains (losses) recorded in our condensed consolidated results of operations for the three and nine months ended February 29, 2016 and February 28, 2015. Derivative cash settlements represent the net interest amount we accrue during a period for interest-rate swap payments. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts.

Table 5: Derivative Gains (Losses)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Derivative losses attributable to:				
Derivative cash settlements	\$ (22,556)	\$ (21,512)	\$ (65,285)	\$ (63,377)
Derivative forward value	(220,480)	(77,258)	(290,952)	(159,832)
Derivative losses	<u>\$ (243,036)</u>	<u>\$ (98,770)</u>	<u>\$ (356,237)</u>	<u>\$ (223,209)</u>

The derivative losses of \$243 million and \$356 million recorded in the three and nine months ended February 29, 2016, were primarily attributable to a net decrease in the fair value of our swaps due to a flattening of the swap yield curve resulting from an increase in short-term interest rates and a decline in long-term interest rates, as depicted in the February 29, 2016 yield curve presented in the above chart. This flattening of the yield curve was more pronounced during the current quarter, as the U.S. Federal Reserve raised the short-term federal funds rate by 25 basis points in December 2015, the first rate change since the federal funds rate was lowered to near zero seven years ago. As shorter-term rates increased, longer-term rates declined to near record lows during the current quarter amid increased market volatility, a drop in oil prices and global market uncertainty.

The net derivative losses of \$99 million and \$223 million recorded for the three and nine months ended February 28, 2015, respectively, were primarily attributable to a flattening of the swap yield curve during the period, as interest rates on the longer end of the yield curve declined while short-interest rates rose. The decline in longer-term rates resulted in a net decrease in the fair value of our pay-fixed swaps and the increase in shorter-term rates resulted in an overall decrease in the fair value of our receive-fixed swaps.

See “Note 8—Derivative Financial Instruments” for additional information on our derivative instruments.

Results of Operations of Foreclosed Assets

The financial operating results of entities controlled by CFC that hold foreclosed assets are reported in our consolidated statements of operations under results of operations of foreclosed assets. We previously had two entities, CAH and DRP, that held foreclosed assets. We dissolved DRP during the fourth quarter of fiscal 2015, following the sale of DRP’s remaining assets.

We recorded a gain from the results of operations of foreclosed assets of \$1 million and \$2 million, respectively, for the three and nine months ended February 29, 2016, compared to a loss of \$1 million and \$33 million, respectively, for the same prior-year periods. The gain recorded during the three and nine months ended February 29, 2016 was primarily attributable to purchase price adjustments related to CAH, while the losses recorded during the prior-year periods were primarily attributable to CAH’s operating losses and to an impairment charge during the nine months ended February 29, 2016 of \$27 million recorded in the second quarter of fiscal year 2015.

As discussed above under “Introduction” and “Executive Summary,” on September 30, 2015, CFC entered into a Purchase Agreement with CAH, Atlantic and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. The amount recorded on our condensed consolidated balance sheet for CAH of \$118 million as of February 29, 2016 reflects the expected net proceeds from the completion of the CAH sales transaction. The expected net proceeds is based on the contractual purchase price of \$145 million, plus agreed-upon purchase price adjustments less estimated selling costs.

We expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefit expense, general and administrative expenses, losses on early extinguishment of debt and other miscellaneous expenses.

We recorded non-interest expense of \$23 million and \$19 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and non-interest expense of \$67 million and \$55 million for the nine months ended February 29, 2016 and February 28, 2015, respectively. The increase for the current year periods over the same prior-year periods was primarily attributable to an increase in salaries and employee benefit expense, costs related to system infrastructure enhancements and higher legal fees.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents 100% of the results of operations of RTFC and NCSC, as the members of RTFC and NCSC own or control 100% of the interest in their respective companies. The fluctuations in net income (loss) attributable to noncontrolling interests are primarily due to fluctuations in the fair value of NCSC's derivative instruments.

We recorded a net loss attributable to noncontrolling interests of \$1 million and \$2 million, respectively, for the three and nine months ended February 29, 2016, and a net loss of less than \$1 million during the same prior-year periods.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of \$24,393 million as of February 29, 2016 increased by \$1,547 million, or 7%, from May 31, 2015, primarily due to growth in our loan portfolio. Total liabilities of \$23,677 million as of February 29, 2016 increased by \$1,742 million, or 8%, from May 31, 2015, primarily due to debt issuances to fund our loan portfolio growth. Total equity decreased by \$195 million to \$716 million as of February 29, 2016. The decrease in total equity for the nine months ended February 29, 2016 was primarily attributable to the net loss of \$156 million and to the patronage capital retirement of \$39 million in September 2015.

Following is a discussion of changes in the major components of our assets and liabilities during the nine months ended February 29, 2016. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to manage liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

Loan Portfolio

We offer long-term fixed- and variable-rate loans and line of credit variable-rate loans. Borrowers may choose a fixed or variable interest rate for periods of one to 35 years. When a selected fixed-rate term expires, the borrower may select either another fixed-rate term or a variable rate or elect to repay the loan in full. We also offer a conversion option to members with long-term loan agreements, which allows borrowers to change the rate and term prior to the repricing date. Borrowers are generally charged a conversion fee when converting from a fixed to a variable rate, or a fixed rate to another fixed rate.

Table 6 summarizes total loans outstanding, by type and by member class, as of February 29, 2016 and May 31, 2015.

Table 6: Loans Outstanding by Type and Member Class

(Dollars in thousands)	February 29, 2016		May 31, 2015		Increase/ (Decrease)
	Amount	% of Total	Amount	% of Total	
Loans by type:					
Long-term loans:					
Long-term fixed-rate loans.....	\$ 21,127,042	91%	\$ 19,543,274	91%	\$ 1,583,768
Long-term variable-rate loans.....	718,193	3	698,495	3	19,698
Loans guaranteed by RUS.....	174,990	1	179,241	1	(4,251)
Total long-term loans.....	22,020,225	95	20,421,010	95	1,599,215
Line of credit loans.....	1,113,990	5	1,038,210	5	75,780
Total loans outstanding ⁽¹⁾	<u>\$ 23,134,215</u>	<u>100%</u>	<u>\$ 21,459,220</u>	<u>100%</u>	<u>\$ 1,674,995</u>
Loans by member class:					
CFC:					
Distribution.....	\$ 17,700,859	76%	\$ 16,095,043	75%	\$ 1,605,816
Power supply.....	4,322,069	19	4,181,481	20	140,588
Statewide and associate.....	56,084	—	65,466	—	(9,382)
CFC.....	22,079,012	95	20,341,990	95	1,737,022
RTFC.....	357,967	2	385,709	2	(27,742)
NCSC.....	697,236	3	731,521	3	(34,285)
Total loans outstanding ⁽¹⁾	<u>\$ 23,134,215</u>	<u>100%</u>	<u>\$ 21,459,220</u>	<u>100%</u>	<u>\$ 1,674,995</u>

⁽¹⁾Total loans outstanding represents the outstanding unpaid principal balance of loans. Unamortized deferred loan origination costs, which totaled \$10 million as of February 29, 2016 and May 31, 2015, are excluded from total loans outstanding. These costs are, however, included in loans to members reported on the condensed consolidated balance sheets.

Total loans outstanding of \$23,134 million as of February 29, 2016 increased by \$1,675 million, or 8%, from May 31, 2015. The increase was primarily due to an increase in CFC distribution and power supply loans of \$1,606 million and \$141 million, respectively, which was largely attributable to members refinancing with us loans made by other lenders and member advances for capital investments. This increase was partially offset by a decrease in NCSC and RTFC loans of \$34 million and \$28 million, respectively.

Table 7 compares the historical retention rate for long-term fixed-rate loans that repriced during the nine months ended February 29, 2016, with the historical retention rate for loans that repriced during the fiscal year ended May 31, 2015. Table 7 also displays the percentage of borrowers that selected either another fixed-rate term or a variable rate. The retention rate is calculated based on the election made by the borrower at the repricing date.

Table 7: Historical Retention Rate and Repricing Selection

(Dollars in thousands)	Nine Months Ended February 29, 2016		Year Ended May 31, 2015	
	Amount	% of Total	Amount	% of Total
Loans retained:				
Long-term fixed rate selected.....	\$ 864,236	93%	\$ 991,279	81%
Long-term variable rate selected.....	43,990	5	154,946	13
Loans repriced and sold by CFC.....	—	—	3,904	—
Total loans retained.....	908,226	98	1,150,129	94
Total loans repaid.....	14,627	2	76,380	6
Total loans repriced.....	<u>\$ 922,853</u>	<u>100%</u>	<u>\$ 1,226,509</u>	<u>100%</u>

Debt

Table 8 displays the composition of our debt outstanding, by debt product type, by interest rate type and by original contractual maturity, as of February 29, 2016 and May 31, 2015.

Table 8: Total Debt Outstanding

(Dollars in thousands)	February 29, 2016	May 31, 2015	Increase/ (Decrease)
Debt product type:			
Commercial paper sold through dealers, net of discounts	\$ 954,884	\$ 984,954	\$ (30,070)
Commercial paper sold directly to members, at par	865,611	736,162	129,449
Select notes	741,927	671,635	70,292
Daily liquidity fund notes	544,503	509,131	35,372
Collateral trust bonds	7,249,404	6,755,067	494,337
Guaranteed Underwriter Program notes payable to FFB	4,786,327	4,406,465	379,862
Farmer Mac notes payable	2,312,616	1,910,688	401,928
Medium-term notes	3,338,361	3,352,023	(13,662)
Other notes payable ⁽¹⁾	42,884	46,423	(3,539)
Subordinated deferrable debt	395,754	395,699	55
Membership certificates	629,977	645,035	(15,058)
Loan and guarantee certificates	594,492	640,889	(46,397)
Member capital securities	220,046	219,496	550
Total debt outstanding	<u>\$ 22,676,786</u>	<u>\$ 21,273,667</u>	<u>\$ 1,403,119</u>
Interest rate type:			
Fixed-rate debt ⁽²⁾	86%	81%	
Variable-rate debt ⁽³⁾	14	19	
Total	<u>100%</u>	<u>100%</u>	
Original contractual maturity:			
Long-term debt	85%	85%	
Short-term debt	15	15	
Total	<u>100%</u>	<u>100%</u>	

⁽¹⁾ Other notes payable consists of unsecured and secured Clean Renewable Energy Bonds and unsecured notes payable issued by NCSC. We are required to pledge eligible mortgage notes from distribution and power supply system borrowers in an amount at least equal to the outstanding principal amount under the Clean Renewable Energy Bonds Series 2009A note purchase agreement.

⁽²⁾ Includes variable-rate debt that has been swapped to a fixed rate net of any fixed-rate debt that has been swapped to a variable rate.

⁽³⁾ Includes fixed-rate debt that has been swapped to a variable rate net of any variable-rate debt that has been swapped to a fixed rate. Also includes commercial paper notes, which generally have maturities of less than 90 days. The interest rate on commercial paper notes does not change once the note has been issued; however, the rates on new commercial paper notes change daily.

Total debt outstanding of \$22,677 million as of February 29, 2016 increased by \$1,403 million, or 7%, from May 31, 2015, primarily due to debt issuances to fund our loan portfolio growth. The increase was attributable to a net increase of \$402 million under the note purchase agreement with Farmer Mac, a net increase of \$380 million under the Guaranteed Underwriter Program of the USDA and a net increase of \$494 million in collateral trust bonds. Significant financing-related developments during the nine months ended February 29, 2016 are summarized below.

- On July 7, 2015, we received an advance of \$180 million under the revolving note purchase agreement with Farmer Mac.
- On July 31, 2015, we received an advance of \$250 million with a 20-year final maturity under the Guaranteed Underwriter Program of the USDA.

- On July 31, 2015, we executed a new three-year \$300 million revolving note purchase agreement with Farmer Mac to provide us additional funding flexibility.
- On October 27, 2015, we issued \$350 million aggregate principal amount of 2.30% collateral trust bonds due 2020, and \$400 million aggregate principal amount of 3.25% collateral trust bonds due 2025.
- On November 19, 2015, we amended and extended our revolving credit agreements, which reduced the total commitment from third parties to \$3,310 million as of February 29, 2016, from \$3,420 million as of May 31, 2015. Prior to this amendment, NCSC assumed \$155 million in commitments from one of the banks, which was reduced to \$110 million as part of amendment. Although the total commitment amount under our new revolving credit agreements is unchanged from the previous total of \$3,420 million, NCSC's commitment amount is excluded from the commitment amount from third parties of \$3,310 million because NCSC receives all of its funding from CFC and NCSC's financial results are consolidated with CFC. See "Liquidity Risk" for additional information.
- On February 5, 2016, we received an advance of \$150 million with a 20-year final maturity under the Guaranteed Underwriter Program of the USDA.
- On February 8, 2016, we issued \$350 million aggregate principal amount of 1.65% collateral trust bonds due 2019, and \$350 million aggregate principal amount of 2.70% collateral trust bonds due 2023.
- On February 16, 2016, we redeemed \$300 million of 3.05% collateral trust bonds due March 1, 2016. The premium and unamortized issuance costs totaling \$0.3 million were recorded as a loss on early extinguishment of debt during the third quarter of fiscal year 2016.
- On February 18, 2016, we received an advance of \$250 million under the revolving note purchase agreement with Farmer Mac.

Pledging of Loans and Loans on Deposit

We are required to pledge collateral equal to at least 100% of the outstanding balance of debt issued under our collateral trust bond indentures and note purchase agreements with Farmer Mac. In addition, we are required to maintain collateral on deposit equal to at least 100% of the outstanding balance of debt to the FFB under the Guaranteed Underwriter Program of the USDA, which supports the Rural Economic Development Loan and Grant program, for which distribution and power supply loans may be deposited. Table 9 summarizes the amount of notes pledged or on deposit as collateral as a percentage of the related debt outstanding under the debt agreements noted above as of February 29, 2016 and May 31, 2015.

Table 9: Collateral Pledged or on Deposit

Debt Agreement	Requirement/Limit		Actual	
	Debt Indenture Minimum	Revolving Credit Agreements Maximum	February 29, 2016	May 31, 2015
Collateral trust bonds 1994 indenture.....	100%	150%	107%	106%
Collateral trust bonds 2007 indenture.....	100	150	111	108
Farmer Mac	100	150	118	113
Clean Renewable Energy Bonds Series 2009A...	100	150	119	117
FFB Notes ^{(1) (2)}	100	150	113	112

⁽¹⁾Represents collateral on deposit as a percentage of the related debt outstanding.

⁽²⁾All pledge agreements previously entered into with RUS and U.S. Bank National Association were consolidated into one amended, restated and consolidated pledge agreement in December 2012.

On March 29, 2016, we entered into a second amended restated and consolidated pledge agreement with RUS and U.S. Bank National Association to pledge all mortgage notes previously held on deposit pursuant to the Guaranteed Underwriter

Program. The agreement replaces the previous pledge agreement, dated December 13, 2012, and will govern all collateral under the Guaranteed Underwriter Program.

Table 10 summarizes the balance of loans pledged or on deposit for secured debt, the excess collateral pledged and unencumbered loans as of February 29, 2016 and May 31, 2015.

Table 10: Unencumbered Loans

(Dollars in thousands)	February 29, 2016	May 31, 2015
Total loans outstanding ⁽¹⁾	\$ 23,134,215	\$ 21,459,220
Less: Total secured debt or debt requiring collateral on deposit.....	(14,661,825)	(13,386,713)
Excess collateral pledged or on deposit ⁽²⁾	(1,838,178)	(1,351,255)
Unencumbered loans	\$ 6,634,212	\$ 6,721,252
Unencumbered loans as a percentage of total loans	29%	31%

⁽¹⁾Excludes unamortized deferred loan origination costs of \$10 million as of February 29, 2016 and May 31, 2015.

⁽²⁾ Excludes cash collateral pledged to secure debt. Unless and until there is an event of default, we can withdraw excess collateral as long as there is 100% coverage of the secured debt. If there is an event of default under most of our indentures, we can only withdraw this excess collateral if we substitute cash or permitted investments of equal value.

See “Note 3—Loans and Commitments—Pledging of Loans and Loans on Deposit” for additional information related to collateral.

Equity

Total equity of \$716 million as of February 29, 2016 decreased by \$195 million from May 31, 2015. The decrease was attributable to the net loss of \$156 million for the nine months ended February 29, 2016 and the board authorized patronage capital retirement of \$39 million.

In July 2015, the CFC Board of Directors authorized additional allocations of fiscal year 2015 net earnings that included \$1 million to the Cooperative Educational Fund, \$16 million to the members’ capital reserve and \$78 million to members in the form of patronage capital. In July 2015, the CFC Board of Directors also authorized the retirement of allocated net earnings totaling \$39 million, which represented 50% of the fiscal year 2015 allocation. This amount was returned to members in cash in September 2015. The amount of patronage capital allocated each year by CFC’s Board of Directors is based on non-GAAP adjusted net income, which excludes the impact of derivative forward value gains (losses). See “Non-GAAP Financial Measures” for information on adjusted net income.

The CFC Board of Directors is required to make annual allocations of net earnings, if any. Future retirements of allocated amounts are determined based on CFC’s financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable cooperative law.

Debt Ratio Analysis

Leverage Ratio

The leverage ratio is calculated by dividing the sum of total liabilities and guarantees outstanding by total equity. Based on this formula, the leverage ratio was 34.32-to-1 as of February 29, 2016, an increase from 25.14-to-1 as of May 31, 2015. The increase in the leverage ratio was due to the increase of \$1,742 million in total liabilities and the decrease of \$195 million in total equity, partially offset by the decrease of \$71 million in total guarantees.

For covenant compliance under our revolving credit agreements and for internal management purposes, the leverage ratio calculation is adjusted to exclude derivative liabilities, debt used to fund loans guaranteed by RUS, subordinated deferrable debt and subordinated certificates from liabilities; uses members’ equity rather than total equity; and adds subordinated deferrable debt and subordinated certificates to calculate adjusted equity.

The adjusted leverage ratio was 6.97-to-1 and 6.58-to-1 as of February 29, 2016 and May 31, 2015, respectively. The increase in the adjusted leverage ratio was due to the increase of \$1,527 million in adjusted liabilities, partially offset by the increase of \$35 million in adjusted equity and by the decrease of \$71 million in guarantees as discussed under “Off-Balance Sheet Arrangements.” See “Non-GAAP Financial Measures” for further explanation and a reconciliation of the adjustments we make to our leverage ratio calculation to derive the adjusted leverage ratio.

Debt-to-Equity Ratio

The debt-to-equity ratio is calculated by dividing the sum of total liabilities outstanding by total equity. The debt-to-equity ratio was 33.04-to-1 as of February 29, 2016, an increase from 24.06-to-1 as of May 31, 2015. The increase in the debt-to-equity ratio is due to the increase of \$1,742 million in total liabilities and the decrease of \$195 million in total equity.

We adjust the components of the debt-to-equity ratio to calculate an adjusted debt-to-equity ratio that is used for internal management analysis purposes. The adjusted debt-to-equity ratio was 6.67-to-1 as of February 29, 2016, compared with 6.26-to-1 as of May 31, 2015. The increase in the adjusted debt-to-equity ratio was due to the increase of \$1,527 million in adjusted liabilities, partially offset by the increase of \$35 million in adjusted equity. See “Non-GAAP Financial Measures” for further explanation and a reconciliation of the adjustments made to the debt-to-equity ratio calculation to derive the adjusted debt-to-equity ratio.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in financial transactions that are not presented on our condensed consolidated balance sheets, or may be recorded on our condensed consolidated balance sheets in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements consist primarily of guarantees of member obligations and unadvanced loan commitments intended to meet the financial needs of our members.

Guarantees

We provide guarantees for certain contractual obligations of our members to assist them in obtaining various forms of financing. We use the same credit policies and monitoring procedures in providing guarantees as we do for loans and commitments. If a member defaults on its obligation, we are obligated to pay required amounts pursuant to our guarantees. Meeting our guarantee obligations satisfies the underlying obligation of our member systems and prevents the exercise of remedies by the guarantee beneficiary based upon a payment default by a member. In general, the member is required to repay any amount advanced by us with interest, pursuant to the documents evidencing the member’s reimbursement obligation. Table 11 shows our guarantees outstanding, by guarantee type and by company, as of February 29, 2016 and May 31, 2015.

Table 11: Guarantees Outstanding

(Dollars in thousands)	February 29, 2016	May 31, 2015	Increase/ (Decrease)
Guarantee type:			
Long-term tax-exempt bonds	\$ 476,860	\$ 489,520	\$ (12,660)
Letters of credit	324,710	382,233	(57,523)
Other guarantees	113,789	114,747	(958)
Total	<u>\$ 915,359</u>	<u>\$ 986,500</u>	<u>\$ (71,141)</u>
Company:			
CFC	\$ 895,116	\$ 952,875	\$ (57,759)
RTFC	1,574	1,574	—
NCSC	18,669	32,051	(13,382)
Total	<u>\$ 915,359</u>	<u>\$ 986,500</u>	<u>\$ (71,141)</u>

The decrease in total guarantees during the nine months ended February 29, 2016 was primarily due to a decrease in the total amount of letters of credit outstanding. We recorded a guarantee liability of \$18 million and \$20 million respectively, as of February 29, 2016 and May 31, 2015, related to the contingent and non-contingent exposures for guarantee and liquidity obligations associated with our members' debt. Of our total guarantee amounts, 65% and 56% as of February 29, 2016 and May 31, 2015, respectively, were secured by a mortgage lien on substantially all of the system's assets and future revenue of the borrowers.

In addition to the letters of credit presented in the above table, we had master letter of credit facilities in place as of February 29, 2016, under which we may be required to issue up to an additional \$85 million in letters of credit to third parties for the benefit of our members. All of our master letter of credit facilities as of February 29, 2016 were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit under these facilities, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

In addition to the guarantees described above, we were the liquidity provider for variable-rate, tax-exempt bonds, issued for our member cooperatives, totaling \$483 million as of February 29, 2016. As liquidity provider on these tax-exempt bonds, we may be required to purchase bonds that are tendered or put by investors. Investors provide notice to the remarketing agent that they will tender or put a certain amount of bonds at the next interest rate reset date. If the remarketing agent is unable to sell such bonds to other investors by the next interest rate reset date, we have unconditionally agreed to purchase such bonds. Our obligation as liquidity provider is in the form of a letter of credit on \$76 million of the tax-exempt bonds, which is included in the letters of credit amount in Table 11. We were not required to perform as liquidity provider pursuant to these obligations during the nine months ended February 29, 2016. In addition to being a liquidity provider, we also provided a guarantee for payment of all principal and interest amounts on \$407 million of these bonds as of February 29, 2016, which is included in long-term tax-exempt bond guarantees in Table 11.

Table 12 summarizes our off-balance sheet obligations as of February 29, 2016, and maturity of amounts during each of the next five fiscal years and thereafter.

Table 12: Maturities of Guarantee Obligations

(Dollars in thousands)	Outstanding Balance	Maturities of Guaranteed Obligations					
		2016	2017	2018	2019	2020	Thereafter
Guarantees.....	\$ 915,359	\$ 28,168	\$147,023	\$213,263	\$ 14,443	\$ 61,861	\$ 450,601

See "Note 10—Guarantees" for additional information.

Unadvanced Loan Commitments

Unadvanced commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. The table below displays the amount of unadvanced loan commitments, which consist of line of credit and long-term loan commitments, as of February 29, 2016 and May 31, 2015. Our line of credit commitments include both contracts that are not subject to material adverse change clauses and contracts that are subject to material adverse change clauses.

Table 13: Unadvanced Loan Commitments

(Dollars in thousands)	February 29, 2016	% of Total	May 31, 2015	% of Total
Line of credit commitments:				
Not conditional ⁽¹⁾	\$ 2,457,435	19%	\$ 2,764,968	20%
Conditional ⁽²⁾	6,452,125	48	6,529,159	46
Total line of credit unadvanced commitments.....	8,909,560	67	9,294,127	66
Total long-term loan unadvanced commitments.....	4,402,860	33	4,835,623	34
Total	\$ 13,312,420	100%	\$ 14,129,750	100%

⁽¹⁾Represents amount related to facilities that are not subject to material adverse change clauses.

⁽²⁾Represents amount related to facilities that are subject to material adverse change clauses.

For contracts not subject to a material adverse change clause, we are generally required to advance amounts on the committed facilities as long as the borrower is in compliance with the terms and conditions of the facility. As displayed in Table 13, unadvanced line of credit commitments not subject to material adverse change clauses at the time of each advance totaled \$2,457 million and \$2,765 million as of February 29, 2016 and May 31, 2015, respectively. We record a liability for credit losses on our condensed consolidated balance sheets for unadvanced commitments related to facilities that are not subject to a material adverse change clause because we do not consider these commitments to be conditional. Table 14 summarizes the available balance under committed lines of credit that are not subject to a material adverse change clause as of February 29, 2016, and the maturity of available amounts during each of the next five fiscal years and thereafter.

Table 14: Notional Maturities of Unconditional Committed Lines of Credit

(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit					
		2016	2017	2018	2019	2020	Thereafter
Committed lines of credit...	\$ 2,457,435	\$ 11,000	\$ 125,377	\$ 683,351	\$ 673,109	\$ 591,526	\$ 373,072

For contracts subject to a material adverse change clause, the advance of additional amounts is conditional. Prior to making an advance on these facilities, we confirm that there have been no material adverse changes in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the loan terms and conditions. The substantial majority of our line of credit commitments relate to contracts that include material adverse change clauses. Unadvanced commitments that are subject to a material adverse change clause are classified as contingent liabilities.

Table 15 summarizes the available balance under unadvanced commitments as of February 29, 2016 and the related maturities by fiscal year and thereafter by loan type:

Table 15: Notional Maturities of Unadvanced Loan Commitments

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Commitments					
		2016	2017	2018	2019	2020	Thereafter
Line of credit loans	\$ 8,909,560	\$ 280,881	\$ 5,200,892	\$ 1,120,869	\$ 909,795	\$ 742,503	\$ 654,620
Long-term loans	4,402,860	126,400	1,029,474	700,609	1,078,147	882,742	585,488
Total	<u>\$13,312,420</u>	<u>\$ 407,281</u>	<u>\$ 6,230,366</u>	<u>\$ 1,821,478</u>	<u>\$1,987,942</u>	<u>\$1,625,245</u>	<u>\$1,240,108</u>

Line of credit commitments are generally revolving facilities for periods that do not exceed five years. Historically, borrowers have not fully drawn the commitment amounts for line of credit loans, and the utilization rates have been low regardless of whether a material adverse change clause provision exists at the time of advance. Also, borrowers historically have not fully drawn the commitments related to long-term loans, and borrowings have generally been advanced in multiple transactions over an extended period of time. We believe these conditions are likely to continue because of the nature of the business of our electric cooperative borrowers and the terms of our loan commitments. See “MD&A—Off-Balance Sheet Arrangements” in our 2015 Form 10-K for additional information.

RISK MANAGEMENT

Overview

Risk is an inherent part of our business activities. Our business exposes us to four major types of risks: credit risk, liquidity risk, market risk and operational risk. We must manage these risks to achieve our primary objective of providing cost-based financial products to our rural electric members while maintaining sound financial results required for investment-grade

credit ratings on our debt instruments. We discuss our exposures to and management of credit risk, liquidity risk and market risk in the following sections. We discuss operational risk under “MD&A—Operational Risk” in our 2015 Form 10-K.

Risk Management Framework

The CFC Board of Directors is responsible for the oversight and direction of risk management, while CFC’s management has primary responsibility for day-to-day management of the risks associated with CFC’s business. In fulfilling its risk management oversight duties, the CFC Board of Directors receives periodic reports on business activities from executive management and from various operating groups and committees across the organization, including the Credit Risk Management group, Internal Audit group and the Corporate Compliance group, as well as the Asset Liability Committee, the Corporate Credit Committee and the Disclosure Committee. The CFC Board of Directors also reviews CFC’s risk profile and management’s response to those risks throughout the year at its meetings. The board of directors establishes CFC’s loan policies and has established a Loan Committee of the board comprising no fewer than 10 directors that reviews the performance of the loan portfolio in accordance with those policies.

For additional information about the role of the CFC Board of Directors in risk oversight, see “Item 10. Directors, Executive Officers and Corporate Governance” in our 2015 Form 10-K for additional information.

CREDIT RISK

Credit risk is the risk of loss associated with a borrower or counterparty’s failure to meet its obligations in accordance with agreed upon terms. Our loan portfolio, which represents the largest component of assets on our balance sheet, and guarantees account for the substantial majority of our credit risk exposure. We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of investment securities and entering into derivative transactions to manage our interest rate risk.

Loan and Guarantee Portfolio Credit Risk

Below we provide information on the credit risk profile of our loan portfolio and guarantees, including security provisions, loan concentration, credit performance and our allowance for loan losses.

Security Provisions

Except when providing line of credit loans, we generally lend to our members on a senior secured basis. Long-term loans are generally secured on parity with other secured lenders (primarily RUS), if any, by all assets and revenue of the borrower with exceptions typical in utility mortgages. Line of credit loans are generally unsecured. In addition to the collateral pledged to secure our loans, borrowers also are required to set rates charged to customers to achieve certain financial ratios. Of our total loans outstanding, 92% were secured and 8% were unsecured as of February 29, 2016. As of May 31, 2015, of our total loans outstanding, 91% were secured and 9% were unsecured. Table 16 presents, by loan type and by company, the amount and percentage of secured and unsecured loans in our loan portfolio.

Table 16 : Loan Portfolio Security Profile

(Dollars in thousands)	February 29, 2016				
	Secured	% of Total	Unsecured	% of Total	Total
Loan type:					
Long-term fixed-rate loans	\$ 20,293,672	96%	\$ 833,370	4%	\$ 21,127,042
Long-term variable-rate loans	647,619	90	70,574	10	718,193
Loans guaranteed by RUS	174,990	100	—	—	174,990
Line of credit loans	129,282	12	984,708	88	1,113,990
Total loans outstanding ⁽¹⁾	<u>\$ 21,245,563</u>	92	<u>\$ 1,888,652</u>	8	<u>\$ 23,134,215</u>
Company:					
CFC.....	\$ 20,476,293	93%	\$ 1,602,719	7%	\$ 22,079,012
RTFC	345,170	96	12,797	4	357,967
NCSC.....	424,100	61	273,136	39	697,236
Total loans outstanding ⁽¹⁾	<u>\$ 21,245,563</u>	92	<u>\$ 1,888,652</u>	8	<u>\$ 23,134,215</u>
(Dollars in thousands)	May 31, 2015				
	Secured	% of Total	Unsecured	% of Total	Total
Loan type:					
Long-term fixed-rate loans	\$ 18,526,068	95%	\$ 1,017,206	5%	\$ 19,543,274
Long-term variable-rate loans	628,115	90	70,380	10	698,495
Loans guaranteed by RUS	179,241	100	—	—	179,241
Line of credit loans	107,781	10	930,429	90	1,038,210
Total loans outstanding ⁽¹⁾	<u>\$ 19,441,205</u>	91	<u>\$ 2,018,015</u>	9	<u>\$ 21,459,220</u>
Company:					
CFC.....	\$ 18,635,818	92%	\$ 1,706,172	8%	\$ 20,341,990
RTFC	370,924	96	14,785	4	385,709
NCSC.....	434,463	59	297,058	41	731,521
Total loans outstanding ⁽¹⁾	<u>\$ 19,441,205</u>	91	<u>\$ 2,018,015</u>	9	<u>\$ 21,459,220</u>

⁽¹⁾ Excludes deferred loan origination costs of \$10 million as of February 29, 2016 and May 31, 2015.

As part of our strategy to manage our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We have designated, and Farmer Mac has approved an initial tranche of loans with an aggregate outstanding principal balance of \$520 million as of August 31, 2015, which has been reduced by loan principal payments to \$511 million as of February 29, 2016.

Loan Concentration

We serve electric and telecommunications members throughout the United States and its territories, including 49 states, the District of Columbia, American Samoa and Guam. The largest concentration of loans to borrowers in any one state represented approximately 15% of total loans outstanding as of February 29, 2016 and May 31, 2015.

The largest total outstanding exposure to a single borrower or controlled group represented approximately 2% of total loans and guarantees outstanding as of February 29, 2016 and May 31, 2015. The 20 largest borrowers consisted of 11 distribution

systems and 9 power supply systems as of February 29, 2016. The 20 largest borrowers consisted of 12 distribution systems and 8 power supply systems as of May 31, 2015. Table 17 displays the outstanding exposure of the 20 largest borrowers, by exposure type and by company, as of February 29, 2016 and May 31, 2015.

Table 17: Credit Exposure to 20 Largest Borrowers

	February 29, 2016		May 31, 2015		
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Increase/ (Decrease)
By exposure type:					
Loans.....	\$ 5,418,950	23%	\$ 5,478,977	24%	\$ (60,027)
Guarantees.....	523,091	2	374,189	2	148,902
Total exposure to 20 largest borrowers.....	<u>\$ 5,942,041</u>	<u>25%</u>	<u>\$ 5,853,166</u>	<u>26%</u>	<u>\$ 88,875</u>
By company:					
CFC.....	\$ 5,928,041	25%	\$ 5,837,463	26%	\$ 90,578
NCSC.....	14,000	—	15,703	—	(1,703)
Total exposure to 20 largest borrowers.....	<u>\$ 5,942,041</u>	<u>25%</u>	<u>\$ 5,853,166</u>	<u>26%</u>	<u>\$ 88,875</u>

Credit Performance

As part of our credit risk management process, we monitor and evaluate each borrower and loan in our loan portfolio and assign numeric internal risk ratings based on quantitative and qualitative assessments. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard and doubtful. Internal risk rating and payment status trends are indicators, among others, of the level of credit risk in our loan portfolio. As displayed in “Note 3—Loans and Commitments,” 0.2% of the loans in our portfolio were classified as criticized as of February 29, 2016 and May 31, 2015. Below we provide information on certain additional credit quality indicators, including modified loans classified as troubled debt restructurings (“TDRs”) and nonperforming loans.

Troubled Debt Restructurings

We actively monitor underperforming loans and, from time to time, attempt to work with borrowers to manage such exposures through loan workouts or modifications that better align with the borrower’s current ability to pay. Modified loans in which we grant one or more concessions to a borrower experiencing financial difficulty are accounted for and reported as a TDR. Loans modified in a TDR are generally initially placed on nonaccrual status, although in many cases such loans were already on nonaccrual status prior to modification. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against earnings. These loans may be returned to performing status and the accrual of interest resumed if the borrower performs under the modified terms for an extended period of time, and we expect the borrower to continue to perform in accordance with the modified terms. In certain limited circumstances in which a modified loan is current at the modification date, the loan is not placed on nonaccrual status at the time of modification. We had modified loans, all of which met the definition of a TDR, totaling \$17 million and \$12 million as of February 29, 2016 and May 31, 2015, respectively. Table 18 presents TDR loans as of February 29, 2016 and May 31, 2015. These loans were considered individually impaired as of the end of each period presented.

Table 18: TDR Loans

(Dollars in thousands)	February 29, 2016		May 31, 2015	
	Amount	% of Total Loans	Amount	% of Total Loans
TDR loans:				
CFC/Distribution	\$ 6,716	0.03%	\$ 7,221	0.03%
NCSC	—	—	294	—
RTFC	10,723	0.05	4,221	0.02
Total TDR loans	<u>\$ 17,439</u>	<u>0.08%</u>	<u>\$ 11,736</u>	<u>0.05%</u>
TDR loans performance status:				
Performing TDR loans	\$ 13,933	0.06%	\$ 11,736	0.05%
Nonperforming TDR loans	3,506	0.02	—	—
Total TDR loans	<u>\$ 17,439</u>	<u>0.08%</u>	<u>\$ 11,736</u>	<u>0.05%</u>

All loans classified as performing TDR loans were performing in accordance with the terms of the restructured loan agreement as of February 29, 2016 and May 31, 2015. The TDR loans classified as performing as of May 31, 2015 were on nonaccrual status as of that date. These loans were returned to accrual status during the nine months ended February 29, 2016.

Nonperforming Loans

In addition to nonperforming TDR loans, we also have nonperforming loans that have not been modified and classified as a TDR. We classify such loans as nonperforming at the earlier of the date when we determine: (i) interest or principal payments on the loan is past due 90 days or more; (ii) as a result of court proceedings, the collection of interest or principal payments based on the original contractual terms is not expected; or (iii) the full and timely collection of interest or principal is otherwise uncertain. Once a loan is classified as nonperforming, we generally place the loan on nonaccrual status. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against earnings.

Table 19 below presents nonperforming loans as of February 29, 2016 and May 31, 2015.

Table 19: Nonperforming Loans

(Dollars in thousands)	February 29, 2016		May 31, 2015	
	Amount	% of Total Loans	Amount	% of Total Loans
Nonperforming loans: ⁽¹⁾				
RTFC	\$ 2,358	0.01%	\$ —	—%
Total	<u>\$ 2,358</u>	<u>0.01%</u>	<u>\$ —</u>	<u>—%</u>

⁽¹⁾Foregone interest on nonperforming loans, including nonperforming TDR loans presented above in Table 18, was less than \$1 million for the three and nine months ended February 29, 2016 and February 28, 2015.

We provide additional information on the credit quality of our loan portfolio in “Note 3—Loans and Commitments.”

Allowance for Loan Losses

The allowance for loan losses is determined based upon evaluation of the loan portfolio, past loss experience, specific problem loans, economic conditions and other pertinent factors that, in management’s judgment, could affect the risk of loss in the loan portfolio. We review and adjust the allowance quarterly to cover estimated probable losses in the portfolio. All loans are written off in the period that it becomes evident that collectability is highly unlikely; however, our efforts to

recover all charged-off amounts may continue. Management believes the allowance for loan losses is appropriate to cover estimated probable portfolio losses.

Table 20 summarizes activity in the allowance for loan losses for the three and nine months ended February 29, 2016 and a comparison of the allowance by company as of February 29, 2016 and May 31, 2015.

Table 20: Allowance for Loan Losses

	Three Months Ended February 29, 2016	Nine Months Ended February 29, 2016
Beginning balance	\$ 39,600	\$ 33,690
Provision for loan losses	(1,735)	4,067
Net recoveries	53	161
Ending balance.....	<u>\$ 37,918</u>	<u>\$ 37,918</u>
	February 29, 2016	May 31, 2015
Allowance for loan losses by company:		
CFC	\$ 25,617	\$ 23,716
RTFC	6,716	4,533
NCSC	5,585	5,441
Total	<u>\$ 37,918</u>	<u>\$ 33,690</u>
Allowance coverage ratios:		
Percentage of total loans outstanding.....	0.16%	0.16 %
Percentage of total performing TDR loans outstanding.....	272.15	287.07
Percentage of total nonperforming TDR loans outstanding....	1,081.52	—
Percentage of total nonperforming loans outstanding.....	1,608.06	—
Percentage of loans on nonaccrual status.....	646.62	287.07

Our allowance for loan losses increased by \$4 million during the nine months ended February 29, 2016 to \$38 million as of February 29, 2016, due to an increase in loans identified as individually impaired and the related specific allowance for these loans.

We consider a loan to be individually impaired when, based on an assessment of the borrower's financial condition and the adequacy of collateral, if any, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan. Individually impaired loans are subject to the specific allowance methodology. A loan that has been modified in a TDR is generally considered to be individually impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms. On a quarterly basis, we review all restructured and nonperforming loans, as well as certain additional loans selected based on known facts and circumstances, to evaluate whether the loans are impaired and if there have been changes in the status of previously identified impaired loans. We calculate impairment for loans identified as individually impaired based on the fair value of the underlying collateral securing the loan for collateral-dependent loans or based on the expected future cash flows for loans that are not collateral dependent. As events related to the borrower take place and economic conditions and our assumptions change, the impairment calculations may change. Our individually impaired loans totaled \$20 million and \$12 million as of February 29, 2016 and May 31, 2015, respectively, and the specific allowance related to these loans totaled \$5 million and \$0.4 million, respectively.

See "Results of Operations—Provision for Loan Losses" and "Note 3—Loans and Commitments" for additional information on our allowance for loan losses. We discuss our allowance methodology in "Note 1—Summary of Significant Accounting Policies" in our 2015 Form 10-K.

Counterparty Credit Risk

We are exposed to counterparty risk related to the performance of the parties with which we entered into financial transactions, primarily for derivative instruments and cash and time deposits that we have with various financial institutions. To mitigate this risk, we only enter into these transactions with financial institutions with investment-grade ratings. Our cash and time deposits with financial institutions have an original maturity of less than one year.

We manage our derivative counterparty credit risk by requiring that derivative counterparties participate in one of our revolving credit agreements, monitoring the overall credit worthiness of each counterparty, using counterparty specific credit risk limits, executing master netting arrangements and diversifying our derivative transactions among multiple counterparties. Our derivative counterparties had credit ratings ranging from Aa3 to Baa3 by Moody's Investors Service ("Moody's") and from AA-to BBB+ by Standard & Poor's Ratings Services ("S&P") as of February 29, 2016. Our largest counterparty exposure, based on the outstanding notional amount, represented approximately 25% and 19% of the total outstanding notional amount of derivatives as of February 29, 2016 and May 31, 2015, respectively.

Credit Risk-Related Contingent Features

Our derivative contracts typically contain mutual credit rating downgrade provisions, referred to as rating triggers. Under these mutual rating trigger provisions, CFC or the derivative counterparty may, but is not obligated to, terminate and settle the agreement if the credit rating of the other counterparty falls to a level specified in the agreement.

Our senior unsecured credit ratings from Moody's and S&P were A2 and A, respectively, as of February 29, 2016. Moody's had our ratings on stable outlook as of February 29, 2016, while S&P had our ratings on negative outlook as of February 29, 2016. Table 21 displays the notional amounts of our derivative contracts with rating triggers as of February 29, 2016, and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings below A3/A-, below Baa1/BBB+, to or below Baa2/BBB, below Baa3/BBB-, or to or below Ba2/BB+ by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements for each counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

Table 21: Rating Triggers for Derivatives

(Dollars in thousands)	Notional Amount	Payable Due From CFC	Receivable Due to CFC	Net (Payable)/Receivable
Impact of mutual rating downgrade trigger:				
Falls below A3/A- ⁽¹⁾	\$ 63,295	\$ (19,794)	\$ —	\$ (19,794)
Falls below Baa1/BBB+	6,556,100	(348,858)	—	(348,858)
Falls to or below Baa2/BBB ⁽²⁾	162,325	(3,955)	—	(3,955)
Falls below Baa3/BBB-	400,000	(31,606)	—	(31,606)
Total	<u>\$ 7,181,720</u>	<u>\$ (404,213)</u>	<u>\$ —</u>	<u>\$ (404,213)</u>

⁽¹⁾ Rating trigger for CFC falls below A3/A-, while rating trigger for counterparty falls below Baa1/BBB+ by Moody's or S&P, respectively.

⁽²⁾ Rating trigger for CFC falls to or below Baa2/BBB, while rating trigger for counterparty falls to or below Ba2/BB+ by Moody's or S&P, respectively.

The aggregate amount, including the credit risk valuation adjustment, of all derivatives with rating triggers that were in a net liability position was \$412 million as of February 29, 2016. There were no derivatives with rating triggers that were in a net asset position as of February 29, 2016. There were no counterparties that fell below the rating trigger levels in our interest swap contracts as of February 29, 2016. If a counterparty has a rating that falls below the rating trigger level specified in the interest swap contract, we have the option to terminate all of derivatives with the counterparty. However, we generally do not terminate such agreements early because our interest rate swaps are critical to our matched funding strategy.

For additional information about the risks related to our business, see “Item 1A. Risk Factors” in our 2015 Form 10-K.

LIQUIDITY RISK

Liquidity risk is the risk that we will be unable to repay our obligations as they become due or issue new instruments to fund loans to borrowers. Our Asset Liability Committee monitors liquidity risk by establishing and monitoring liquidity targets, developing strategies to meet those targets, and ensuring that sufficient liquidity is available for unanticipated contingencies. We maintain liquidity reserves as one of our strategies in managing our rollover risk. Table 22 below presents a comparison of the composition of our liquidity reserves as of February 29, 2016 and May 31, 2015.

Table 22: Available Liquidity Reserve Access

(Dollars in millions)	February 29, 2016	May 31, 2015
Cash and time deposits	\$ 639	\$ 734
Committed revolving line of credit agreements with banks	3,309	3,419
Committed loan facilities from the FFB	350	750
Revolving note purchase agreement with Farmer Mac dated July 31, 2015	300	—
Revolving note purchase agreement with Farmer Mac dated March 24, 2011 ⁽¹⁾ ...	2,187	2,589
Available liquidity reserve access.....	<u>\$ 6,785</u>	<u>\$ 7,492</u>

⁽¹⁾Availability subject to market conditions.

Under the terms of the revolving note purchase agreement with Farmer Mac dated July 31, 2015, we can borrow up to \$300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

Under the terms of the revolving note purchase agreement with Farmer Mac dated March 24, 2011, we can borrow up to \$4,500 million at any time through January 11, 2020, and thereafter automatically extend the agreement on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides CFC with a notice that the draw period would not be extended beyond the remaining term. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit, provided that the principal amount at any time outstanding is not more than the total available under the agreement. The amount available under this agreement of \$2,187 million as of February 29, 2016, presented in Table 22 above, reflects the total available amount less outstanding borrowings of \$2,313 million as of February 29, 2016.

We use our bank revolving lines of credit primarily as backup liquidity for dealer and member commercial paper. As indicated in Table 22 above, we had \$3,309 million in available revolving lines of credit with various financial institutions as of February 29, 2016. We have been and expect to continue to be in compliance with the covenants under our revolving credit agreements; therefore, we could draw on these facilities to repay dealer or member commercial paper that cannot be rolled over in the event of market disruptions.

Commercial paper, select notes and daily liquidity fund notes, including member investments, scheduled to mature during the next 12 months totaled \$3,107 million as of February 29, 2016. We expect to continue to maintain member investments in commercial paper, select notes and daily liquidity fund notes at recent levels of approximately \$2,152 million. Dealer commercial paper decreased to \$955 million as of February 29, 2016, from \$985 million as of May 31, 2015. We intend to maintain a balance on our dealer commercial paper below \$1,250 million for the foreseeable future.

Long-term debt maturing in the next 12 months and medium-term notes with an original maturity of one year or less totaled \$1,355 million as of February 29, 2016. In addition to our access to the dealer and member commercial paper markets as discussed above, we believe we will be able to refinance these maturing obligations through the capital markets and private debt issuances as discussed in further detail under “Sources of Liquidity.”

As discussed in further detail above under “Off-Balance Sheet Arrangements,” we were the liquidity provider for variable-rate tax-exempt bonds issued for our member cooperatives totaling \$483 million as of February 29, 2016. We were not required to perform as liquidity provider pursuant to these obligations during the nine months ended February 29, 2016.

We had letters of credit outstanding for the benefit of our members totaling \$325 million as of February 29, 2016. This amount includes \$76 million of letters of credit that provide liquidity for pollution control bonds. The remaining \$249 million represents obligations for which we may be required to advance funds based on various trigger events specified in the letters of credit agreements. If we are required to advance funds, the member is obligated to pay such amounts to CFC.

Below we summarize our expected near-term sources and uses of liquidity and provide a discussion of our primary sources and uses of liquidity. We also provide information on compliance with our debt covenants and collateral pledged.

Projected Near-Term Sources and Uses of Liquidity

Table 23 shows the projected sources and uses of cash by quarter through the quarter ending August 31, 2017. In analyzing our projected liquidity position, we track key items identified in the table below. Our estimates assume that the balance of our time deposit investments will remain consistent with current levels over the next six quarters. The long-term debt maturities represent the scheduled maturities of our outstanding term debt for the period presented. The long-term loan advances represent our current best estimate of the member demand for our loans, the amount and the timing of which are subject to change. The long-term loan amortization and repayments represent the scheduled long-term loan amortization for the outstanding loans as of February 29, 2016, as well as our current estimate for the repayment of long-term loans. The estimate of the amount and timing of long-term loan repayments is subject to change. The other loan repayments and advances in the table primarily include line of credit advances and repayments. Such amounts represent the current best estimate of activity communicated to us by our members and, as such, the amount and timing of these amounts are subject to change. We only include such estimates for the near term. We assumed the issuance of commercial paper, medium-term notes and other long-term debt, including collateral trust bonds and private placement of term debt, to maintain matched funding within our loan portfolio and to allow our revolving lines of credit to provide backup liquidity for our outstanding commercial paper. As displayed in Table 23, we expect that estimated long-term loan advances over the next six quarters of \$2,704 million will exceed expected long-term loan repayments of \$1,821 million by \$883 million.

Table 23: Projected Sources and Uses of Liquidity⁽¹⁾

(Dollars in millions)	Projected Sources of Liquidity				Projected Uses of Liquidity				Cumulative Excess Sources over Uses of Liquidity ⁽²⁾
	Long-term Loan Amortization and Repayments	Other Loan Repayments	Long-term Debt Issuance	Total Sources of Liquidity	Long-term Loan Advances	Other Loan Advances	Long-term Debt Maturities ⁽³⁾	Total Uses of Liquidity	
Feb16									\$ 639
May16.....	\$ 291	\$ —	\$ 430	\$ 721	\$ 468	\$ 31	\$ 364	\$ 863	497
Aug16	317	—	260	577	423	—	153	576	498
Nov16.....	299	—	600	899	469	—	429	898	499
Feb17	340	—	670	1,010	599	—	410	1,009	500
May17.....	285	—	1,450	1,735	351	—	1,378	1,729	506
Aug17	289	—	150	439	394	—	50	444	501
Total.....	\$ 1,821	\$ —	\$ 3,560	\$ 5,381	\$ 2,704	\$ 31	\$ 2,784	\$ 5,519	

⁽¹⁾ The dates presented are intended to reflect the end of each quarterly period through the quarter ending August 31, 2017.

⁽²⁾ Cumulative excess sources over uses of liquidity includes cash and time deposits.

⁽³⁾ Long-term debt maturities also includes medium-term notes with an original maturity of less than one year.

The information presented above in Table 23 represents our best estimate of our funding requirements and how we expect to manage those requirements through August 31, 2017. We expect that these estimates will change quarterly based on the factors described above.

Primary Sources of Liquidity

Capital Market Debt Issuance

As a well-known seasoned issuer, we have the following effective shelf registration statements on file with the SEC for the issuance of debt:

- unlimited amount of collateral trust bonds until September 2016;
- unlimited amount of senior and subordinated debt securities, including medium-term notes, member capital securities and subordinated deferrable debt, until November 2017; and
- daily liquidity fund notes for a total of \$20,000 million with a \$3,000 million limitation on the aggregate principal amount outstanding at any time until March 2019.

While we register member capital securities and the daily liquidity fund with the SEC, these securities are not available for sale to the general public. Medium-term notes are available for sale to both the general public and members. On March 31, 2016, we filed a new registration statement for the daily liquidity fund to replace the expiring registration statement for a total of \$20,000 million with a \$3,000 million limitation on the aggregate principal amount outstanding at any time until March 2019.

We issued a total of \$1,450 million collateral trust bonds with an average coupon of 2.48% and maturities ranging between 2019 and 2025 during the nine months ended February 29, 2016. On February 16, 2016, we redeemed \$300 million of 3.05% collateral trust bonds due March 1, 2016. The premium and unamortized issuance costs totaling \$0.3 million were recorded as a loss on early extinguishment of debt during the third quarter of fiscal year 2016.

Commercial paper issued through dealers totaled \$955 million and represented 4% of total debt outstanding as of February 29, 2016.

Private Debt Issuance

We have access to liquidity from private debt issuances through note purchase agreements with Farmer Mac. Under the terms of our March 2011 note purchase agreement as amended, we can borrow up to \$4,500 million at any time from the date of the agreement through January 11, 2020 and such date shall automatically extend on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides CFC with a notice that the draw period will not be extended beyond the remaining term. We borrowed a total of \$430 million under the note purchase agreement with Farmer Mac during the nine months ended February 29, 2016. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit. Each borrowing under the note purchase agreement is evidenced by a secured note setting forth the interest rate, maturity date and other related terms as we may negotiate with Farmer Mac at the time of each such borrowing. We may select a fixed rate or variable rate at the time of each advance with a maturity as determined in the applicable pricing agreement. We had up to \$2,187 million available under this revolving note purchase agreement with Farmer Mac as of February 29, 2016.

On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac totaling \$300 million. Under the terms of the new agreement, we can borrow up to \$300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time. Each borrowing under the note purchase agreement is evidenced by a secured note setting forth the maturity date and other related terms. We had up to \$300 million available under this revolving note purchase agreement with Farmer Mac as of February 29, 2016.

We also have access to unsecured notes payable under bond purchase agreements with the FFB and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program which supports the Rural Economic Development Loan and Grant program and provides guarantees to the FFB. During the nine months ended February 29, 2016, we borrowed \$400 million under the Guaranteed Underwriter Program. As of February 29, 2016, we had up to \$350 million available under committed loan facilities from the FFB as part of this program, of which a total of \$100 million is available for advance through October 15, 2016 and a total of \$250 million is available for advance through October 15, 2017. On March 29, 2016, we closed on a \$250 million committed loan facility ("Series K") from the FFB guaranteed by the RUS pursuant to the Guaranteed Underwriter Program. Under the Series K facility, we are able to borrow any time before January

15, 2019, with each advance having a final maturity no longer than 20 years from the advance date. This new commitment increases total funding available to CFC under committed loan facilities from the FFB to \$600 million on a secured basis.

Member Loan Repayments

We expect long-term loan repayments from scheduled loan amortization and prepayments to be \$1,247 million over the next 12 months.

Member Loan Interest Payments

During the nine months ended February 29, 2016, interest income on the loan portfolio was \$750 million. For the past three fiscal years, interest income on the loan portfolio has averaged \$948 million. As of February 29, 2016, 92% of the total loans outstanding had a fixed rate of interest, and 8% of loans outstanding had a variable rate of interest.

Bank Revolving Credit Agreements

Our bank revolving lines of credit may be used for general corporate purposes; however, we use them primarily as backup liquidity for dealer and member commercial paper. We had \$3,420 million commitments under revolving credit agreements as of February 29, 2016 and May 31, 2015. Under our current revolving credit agreements, we have the ability to request up to \$300 million of letters of credit, which would result in a reduction in the remaining available under the facilities. On November 19, 2015, we amended and restated the \$1,665 million three-year and \$1,645 million five-year revolving credit agreements to extend the maturity dates to November 19, 2018 and November 19, 2020, respectively, from October 28, 2017 and October 28, 2019, respectively. Commitments of \$25 million under the three-year agreement will expire at the prior maturity date of October 28, 2017. Commitments of \$45 million under the five-year agreement will expire at the prior maturity date of October 28, 2019. Also, as part of the amendment, the commitments from three banks were increased by \$45 million.

Prior to this amendment, NCSC assumed \$155 million in commitments from one of the banks, which was reduced to \$110 million as part of the amendment on November 19, 2015. Although the total commitment amount under our new revolving credit agreements is unchanged from the previous total of \$3,420 million, NCSC's commitment amount is excluded from the commitment amount from third parties of \$3,310 million because NCSC receives all of its funding from CFC and NCSC's financial results are consolidated with CFC. The NCSC assumption of \$110 million of commitments under the revolving credit agreements also reduces the total letters of credit from third parties, to \$290 million.

Table 24 presents the total commitment, the net amount available for use and the outstanding letters of credit under our revolving credit agreements as of February 29, 2016 and May 31, 2015.

Table 24: Revolving Credit Agreements

(Dollars in millions)	February 29, 2016			May 31, 2015			Maturity	Annual Facility Fee ⁽²⁾
	Total Commitment	Letters of Credit Outstanding	Net Available for Use ⁽¹⁾	Total Commitment	Letters of Credit Outstanding	Net Available for Use ⁽¹⁾		
3-year agreement ..	\$ 25	\$ —	\$ 25	\$ 1,720	\$ —	\$ 1,720	October 28, 2017	7.5 bps
5-year agreement ..	45	—	45	1,700	1	1,699	October 28, 2019	10 bps
3-year agreement ..	1,640	—	1,640	—	—	—	November 19, 2018	7.5 bps
5-year agreement ..	1,600	1	1,599	—	—	—	November 19, 2020	10 bps
Total	<u>\$ 3,310</u>	<u>\$ 1</u>	<u>\$ 3,309</u>	<u>\$ 3,420</u>	<u>\$ 1</u>	<u>\$ 3,419</u>		

⁽¹⁾ Reflects amounts available from unaffiliated third parties that are not consolidated by CFC.

⁽²⁾ Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

The revolving credit agreements do not contain a material adverse change clause or ratings triggers that limit the banks' obligations to fund under the terms of the agreements, but we must be in compliance with their requirements to draw down

on the facilities, including financial ratios. As shown below in Table 28, we were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures as of February 29, 2016.

Member Investments

Table 25 shows the components of our member investments included in total debt outstanding as of February 29, 2016 and May 31, 2015.

Table 25: Member Investments

(Dollars in thousands)	February 29, 2016		May 31, 2015		Increase/ (Decrease)
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	
Commercial paper	\$ 865,611	48%	\$ 736,162	43%	\$ 129,449
Select notes.....	741,927	100	671,635	100	70,292
Daily liquidity fund notes.....	544,503	100	509,131	100	35,372
Medium-term notes	563,012	17	618,170	18	(55,158)
Members' subordinated certificates.....	1,444,515	100	1,505,420	100	(60,905)
Total.....	<u>\$ 4,159,568</u>		<u>\$ 4,040,518</u>		<u>\$ 119,050</u>
Percentage of total debt outstanding	18%		19%		

⁽¹⁾ Represents the percentage of each line item outstanding to our members.

Member investments averaged \$4,194 million outstanding over the last three years. We view member investments as a more stable source of funding than capital market issuances.

Cash, Investments and Time Deposits

Cash and time deposits totaled \$639 million as of February 29, 2016. The interest rate earned on the time deposits provides an overall benefit to our net interest yield. The total balance of cash and time deposits represents an additional source of liquidity that is available to support our operations.

Cash Flows from Operations

Cash flows provided by operating activities totaled \$197 million for the nine months ended February 29, 2016, compared with \$223 million for the same prior-year period. Our cash flows from operating activities are driven primarily by a combination of cash flows from operations and the timing and amount of loan interest payments we received compared with interest payments we made on our debt.

Primary Uses of Liquidity

Loan Advances

Loan advances are either from new loans approved to a borrower or from the unadvanced portion of loans previously approved. Unadvanced loan commitments totaled \$13,312 million as of February 29, 2016. Of that total, \$2,457 million represented unadvanced commitments related to line of credit loans that are not subject to a material adverse change clause at the time of each loan advance. As such, we would be required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the loan. New advances under 22% of these \$2,457 million committed line of credit loans would be advanced at rates determined by CFC based on our cost and, therefore, any increase in CFC's costs to obtain funding required to make the advance could be passed on to the borrower. The other 78% of committed line of credit loans represent loan syndications where the pricing is set at a spread over a market index as agreed upon by all of the participating banks and market conditions at the time of syndication. The remaining \$10,855 million of unadvanced loan commitments as of February 29, 2016 were generally subject to material adverse change clauses. Prior to making an advance on these facilities, we would confirm that there has been no material adverse change in the borrower's

business or condition, financial or otherwise, since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by use of proceeds restrictions, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

Since we generally do not charge a fee for the borrower to have an unadvanced amount on a loan facility that is subject to a material adverse change clause, our borrowers tend to request amounts in excess of their immediate estimated loan requirements. Historically, we have not experienced significant loan advances from the long-term unadvanced loan amounts that are subject to material adverse change clauses at the time of the loan advance. We have a very low historical average utilization rate on all our line of credit facilities, including committed line of credit facilities. Unadvanced commitments related to line of credit loans are typically revolving facilities for periods not to exceed five years. Long-term unadvanced commitments generally expire five years from the date of the loan agreement. These reasons, together with the other limitations on advances as described above, all contribute to our expectation that the majority of the unadvanced commitments reported will expire without being fully drawn upon and that the total commitment amount does not necessarily represent future cash funding requirements as of February 29, 2016.

We currently expect to make long-term loan advances to our members totaling approximately \$1,959 million over the next 12 months.

Principal Repayments on Long-Term Debt

Table 26 summarizes the principal amount of long-term debt, subordinated deferrable debt and members' subordinated certificates maturing by fiscal year and thereafter as of February 29, 2016.

Table 26: Principal Maturity of Long-Term Debt

(Dollars in thousands)	Amount Maturing ⁽¹⁾	% of Total
May 31, 2016	\$ 298,667	2%
May 31, 2017	2,228,194	12
May 31, 2018	1,055,087	5
May 31, 2019	2,198,050	11
May 31, 2020	1,060,481	6
Thereafter	12,426,050	64
Total	\$ 19,266,529	100%

⁽¹⁾ Excludes loan subordinated certificates totaling \$101 million that amortize annually based on the outstanding balance of the related loan and \$0.3 million in subscribed and unissued certificates for which a payment has been received. There are many items that affect the amortization of a loan, such as loan conversions, loan repricing at the end of an interest rate term and prepayments; therefore, an amortization schedule cannot be maintained for these certificates. Over the past fiscal year, annual amortization on these certificates was \$11 million. In fiscal year 2015, amortization represented 10% of amortizing loan subordinated certificates outstanding.

Interest Expense and Derivative Cash Settlements

Interest expense totaled \$504 million for the nine months ended February 29, 2016. Annual interest expense over the past three fiscal years has averaged \$661 million. Net derivative cash settlements totaled \$65 million for the nine months ended February 29, 2016 and averaged \$71 million over the past three fiscal years.

Patronage Capital Retirements

CFC has made annual retirements of allocated net earnings in 35 of the last 36 fiscal years. In July 2015, the CFC Board of Directors approved the allocation of \$78 million from fiscal year 2015 net earnings to CFC's members. CFC made a cash payment of \$39 million to its members in September 2015 as retirement of 50% of allocated net earnings from the prior year as approved by the CFC Board of Directors. The remaining portion of allocated net earnings will be retained by CFC for 25

years under guidelines adopted by the CFC Board of Directors in June 2009. The board of directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulation.

Credit Ratings

Our credit ratings impact our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, industry position, member support, management, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Our credit ratings are presented in Table 27.

Table 27: Credit Ratings

	February 29, 2016			
	Senior Secured Debt	Senior Unsecured Debt	Commercial Paper	Outlook
Moody's.....	A1	A2	P-1	Stable
S&P.....	A	A	A-1	Negative
Fitch.....	A+	A	F1	Stable

The notes payable to the FFB under the Guaranteed Underwriter Program of \$4,786 million as of February 29, 2016 contain a rating trigger provision that pertains to our senior secured credit ratings from Moody's, S&P and Fitch. A rating trigger event occurs if our senior secured debt does not have at least two of the following ratings: (i) A3 or higher from Moody's, (ii) A- or higher from S&P, (iii) A- or higher from Fitch or (iv) an equivalent rating from a successor rating agency to any of the above rating agencies. If our senior secured credit ratings fall below the levels listed above, the mortgage notes on deposit at that time, which totaled \$5,405 million as of February 29, 2016, would be pledged as collateral rather than held on deposit. On March 29, 2016, in connection with the closing of the Series K facility, the mortgage notes held on deposit pursuant to the Guaranteed Underwriting Program were pledged and the rating trigger provision relating to the collateral was removed. Also, if during any portion of a fiscal year, our senior secured credit ratings fall below the levels listed above, we may not make cash patronage capital distributions in excess of 5% of total patronage capital.

In order to access the commercial paper markets at attractive rates, we believe we need to maintain our current commercial paper credit ratings of P-1 by Moody's, A-1 by S&P and F1 by Fitch.

The majority of our interest rate swap agreements have credit risk-related contingent features referred to as rating triggers. Under these rating triggers, if the senior unsecured credit rating for either counterparty falls to the level specified in the agreement, the other counterparty may, but is not obligated to, terminate the agreement. We provide additional information on derivative counterparty rating triggers above under "Credit Risk—Counterparty Credit Risk."

There have been no changes in our ratings or outlook by Moody's, S&P or Fitch since February 29, 2016.

Compliance with Debt Covenants

We were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures as of February 29, 2016. Table 28 represents our required and actual financial ratios under the revolving credit agreements at or for the periods ended February 29, 2016 and May 31, 2015.

Table 28: Financial Ratios under Revolving Credit Agreements

	Requirement	Actual	
		February 29, 2016	May 31, 2015
Minimum average adjusted TIER over the six most recent fiscal quarters ⁽¹⁾	1.025	1.27	1.28
Minimum adjusted TIER for the most recent fiscal year ⁽¹⁾⁽²⁾	1.05	1.30	1.30
Maximum ratio of adjusted senior debt-to-total equity ⁽¹⁾	10.00	6.31	5.93

(1) In addition to the adjustments made to the leverage ratio set forth under “Non-GAAP Financial Measures,” senior debt excludes guarantees to member systems that have certain investment-grade ratings from Moody’s and S&P. The TIER and debt-to-equity calculations include the adjustments set forth under “Non-GAAP Financial Measures” and exclude the results of operations and other comprehensive income for CAH.

(2) We must meet this requirement to retire patronage capital.

The revolving credit agreements prohibit liens on loans to members except liens:

- under our indentures,
- related to taxes that are not delinquent or contested,
- stemming from certain legal proceedings that are being contested in good faith,
- created by CFC to secure guarantees by CFC of indebtedness, the interest on which is excludable from the gross income of the recipient for federal income tax purposes,
- granted by any subsidiary to CFC, and
- to secure other indebtedness of CFC of up to \$10,000 million plus an amount equal to the incremental increase in CFC’s allocated Guaranteed Underwriter Program obligations, provided that the aggregate amount of such indebtedness may not exceed \$12,500 million. The amount of our secured indebtedness for purposes of this provision of all three revolving credit agreements was \$7,114 million as of February 29, 2016.

The revolving credit agreements limit total investments in foreclosed assets held by CAH to \$275 million without consent by the required banks. These investments did not exceed this limit as of February 29, 2016.

Table 29 summarizes our required and actual financial ratios, as defined under our 1994 collateral trust bonds indenture and our medium-term notes indentures in the U.S. markets, as of February 29, 2016 and May 31, 2015.

Table 29: Financial Ratios under Indentures

	Requirement	Actual	
		February 29, 2016	May 31, 2015
Maximum ratio of adjusted senior debt to total equity ⁽¹⁾	20.00	8.83	7.41

(1) The ratio calculation includes the adjustments made to the leverage ratio under “Non-GAAP Financial Measures,” with the exception of the adjustments to exclude the non-cash impact of derivative financial instruments and adjustments from total liabilities and total equity.

In addition to the above financial ratio requirements, we are required to pledge or maintain collateral on deposit pursuant to the provisions of certain of our borrowing agreements. We provide information on collateral pledged or on deposit above under “Consolidated Balance Sheet Analysis—Debt—Pledging of Loans and Loans on Deposit.”

MARKET RISK

Interest rate risk represents our primary market risk. We are subject to interest rate risk because our assets and liabilities may mature or reprice at different times, at the same time but by different amounts, short-term and long-term interest rates may change by different amounts or the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change.

Interest Rate Risk

Our interest rate risk exposure is related to the funding of the fixed-rate loan portfolio. The Asset Liability Committee reviews a complete interest rate risk analysis, reviews proposed modifications, if any, to our interest rate risk management strategy and considers adopting strategy changes. Our Asset Liability Committee monitors interest rate risk and generally meets monthly to review and discuss information such as national economic forecasts, federal funds and interest rate forecasts, interest rate gap analysis, our liquidity position, loan and debt maturities, short-term and long-term funding needs, anticipated loan demands, credit concentration risk, derivative counterparty exposure and financial forecasts. The Asset Liability Committee also discusses the composition of fixed-rate versus variable-rate lending, new funding opportunities, changes to the nature and mix of assets and liabilities for structural mismatches, and interest rate swap transactions.

Matched Funding Practice

We provide our members with many options on loans with regard to interest rates, the term for which the selected interest rate is in effect and the ability to convert or prepay the loan. Long-term loans have maturities of up to 35 years. Borrowers may select fixed interest rates for periods of one year through the life of the loan. We do not match fund the majority of our fixed-rate loans with a specific debt issuance at the time the loans are advanced. To monitor and mitigate interest rate risk in the funding of fixed-rate loans, we perform a monthly interest rate gap analysis that provides a comparison between fixed-rate assets repricing or maturing by year and fixed-rate liabilities and members' equity maturing by year, which is presented in Table 30 below. Fixed-rate liabilities include debt issued at a fixed rate as well as variable-rate debt swapped to a fixed rate using interest rate swaps. Fixed-rate debt swapped to a variable rate using interest rate swaps is excluded from the analysis since it is used to match fund the variable-rate loan pool. With the exception of members' subordinated certificates, which are generally issued with extended maturities, and commercial paper, our liabilities have average maturities that closely match the repricing terms (but not the maturities) of our fixed-interest-rate loans.

We fund the amount of fixed-rate assets that exceed fixed-rate debt and members' equity with short-term debt, primarily commercial paper. We also have the option to enter into pay fixed-receive variable interest rate swaps. Our funding objective is to manage the matched funding of asset and liability repricing terms within a range of total assets (excluding derivative assets) deemed appropriate by the Asset Liability Committee based on the current environment and extended outlook for interest rates. Due to the flexibility we offer our borrowers, there is a possibility of significant changes in the composition of the fixed-rate loan portfolio, and the management of the interest rate gap is very fluid. We may use interest rate swaps to manage the interest rate gap based on our needs for fixed-rate or variable-rate funding as changes arise. We consider the interest rate risk on variable-rate loans to be minimal as the loans are eligible to be repriced at least monthly, which minimizes the variance to the cost of variable-rate debt used to fund the loans. Loans with variable interest rates accounted for 8% of our total loan portfolio as of February 29, 2016 and May 31, 2015.

Interest Rate Gap Analysis

Our interest rate gap analysis allows us to consider various scenarios in order to evaluate the impact on adjusted TIER of issuing certain amounts of debt with various maturities at a fixed rate. See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments to TIER to derive adjusted TIER.

Table 30 shows the scheduled amortization and repricing of fixed-rate assets and liabilities outstanding as of February 29, 2016.

Table 30: Interest Rate Gap Analysis

(Dollars in millions)	Prior to 5/31/16	Two Years 6/1/16 to 5/31/18	Two Years 6/1/18 to 5/31/20	Five Years 6/1/20 to 5/31/25	Ten Years 6/1/25 to 5/31/35	6/1/35 and Thereafter	Total
Asset amortization and repricing	\$ 416	\$ 4,049	\$ 2,905	\$ 5,333	\$ 5,936	\$ 2,663	\$ 21,302
Liabilities and members' equity:							
Long-term debt	\$ 169	\$ 3,829	\$ 3,316	\$ 4,853	\$ 4,042	\$ 1,466	\$ 17,675
Subordinated certificates	8	48	40	670	296	751	1,813
Members' equity ⁽¹⁾	—	—	26	89	569	607	1,291
Total liabilities and members' equity	\$ 177	\$ 3,877	\$ 3,382	\$ 5,612	\$ 4,907	\$ 2,824	\$ 20,779
Gap ⁽²⁾	\$ 239	\$ 172	\$ (477)	\$ (279)	\$ 1,029	\$ (161)	\$ 523
Cumulative gap	239	411	(66)	(345)	684	523	
Cumulative gap as a % of total assets	0.98%	1.68%	(0.27)%	(1.41)%	2.80%	2.14%	
Cumulative gap as a % of adjusted total assets ⁽³⁾	0.98	1.69	(0.27)	(1.42)	2.82	2.15	

⁽¹⁾ Includes the portion of the allowance for loan losses and subordinated deferrable debt allocated to fund fixed-rate assets and excludes non-cash adjustments from the accounting for derivative financial instruments.

⁽²⁾Calculated based on the amount of assets amortizing and repricing less total liabilities and members' equity displayed in Table 30.

⁽³⁾Adjusted total assets represents total assets reported in our condensed consolidated balance sheets less derivative assets.

We had \$21,302 million of fixed-rate loans amortizing or repricing as of February 29, 2016. These assets were funded by \$17,675 million of fixed-rate liabilities maturing during the next 30 years and \$3,104 million of members' equity and members' subordinated certificates. A portion of members' equity does not have a scheduled maturity. The difference, or gap, of \$523 million reflects the amount of fixed-rate assets that are funded with short-term debt as of February 29, 2016. The gap of \$523 million represented 2.14% of total assets and 2.15% of total assets excluding derivative assets, or adjusted total assets, as of February 29, 2016.

Our Asset Liability Committee provides oversight over maintaining our interest rate position within prescribed policy limits using approved strategies. Our primary strategies for managing our exposure to interest rate risk include the use of derivatives and limiting the amount of fixed-rate assets that can be funded by short-term debt to a specified percentage of adjusted total assets based on market conditions. Funding fixed-rate loans with short-term debt increases interest rate and liquidity risk, as the maturing debt would need to be replaced to fund the fixed-rate loans through their repricing or maturity date. We discuss how we manage our liquidity risk above under "Liquidity Risk."

We maintain an unmatched position on our fixed-rate assets within a limited percentage of adjusted total assets. The limited unmatched position is intended to provide flexibility to ensure that we are able to match the current maturing portion of long-term fixed rate loans based on maturity date and the opportunity in the current low interest rate environment to maximize the gross yield on our fixed rate assets without taking what we would consider to be excessive risk.

NON-GAAP FINANCIAL MEASURES

In addition to financial measures determined in accordance with GAAP, management also evaluates performance based on certain non-GAAP measures, which we refer to as "adjusted" measures. We provide a reconciliation of our adjusted measures to the most comparable GAAP measures in this section. We believe these adjusted non-GAAP metrics provide meaningful information and are useful to investors because the financial covenants in our revolving credit agreements and debt indentures are based on these adjusted measures.

Statements of Operations Non-GAAP Adjustments and Calculation of Adjusted TIER

Table 31 provides a reconciliation of adjusted interest expense, adjusted net interest income and adjusted net income to the comparable GAAP measures. The adjusted amounts are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 31: Adjusted Financial Measures — Income Statement

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Interest expense	\$ (171,189)	\$ (156,850)	\$ (504,013)	\$ (471,677)
Plus: Derivative cash settlements.....	(22,556)	(21,512)	(65,285)	(63,377)
Adjusted interest expense	<u>\$ (193,745)</u>	<u>\$ (178,362)</u>	<u>\$ (569,298)</u>	<u>\$ (535,054)</u>
Net interest income.....	\$ 82,444	\$ 81,890	\$ 252,061	\$ 239,589
Less: Derivative cash settlements	(22,556)	(21,512)	(65,285)	(63,377)
Adjusted net interest income	<u>\$ 59,888</u>	<u>\$ 60,378</u>	<u>\$ 186,776</u>	<u>\$ 176,212</u>
Net loss	\$ (174,382)	\$ (34,196)	\$ (155,775)	\$ (49,496)
Less: Derivative forward value	220,480	77,258	290,952	159,832
Adjusted net income	<u>\$ 46,098</u>	<u>\$ 43,062</u>	<u>\$ 135,177</u>	<u>\$ 110,336</u>

We consider the cost of derivatives to be an inherent cost of funding and hedging our loan portfolio and therefore economically similar to the interest expense that we recognize on debt issued for funding. We therefore include derivative cash settlements in our adjusted interest expense and exclude the unrealized forward value of derivatives from our adjusted net income.

TIER Calculation

Table 32 presents our TIER and adjusted TIER for the three and nine months ended February 29, 2016 and February 28, 2015.

Table 32: TIER and Adjusted TIER

	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
TIER ⁽¹⁾	(0.02)	0.78	0.69	0.90
Adjusted TIER ⁽²⁾	1.24	1.24	1.24	1.21

⁽¹⁾ TIER is calculated based on net income plus interest expense for the period divided by interest expense for the period.

⁽²⁾ Adjusted TIER is calculated based on adjusted net income plus adjusted interest expense for the period divided by adjusted interest expense for the period.

Adjustments to the Calculation of Leverage and Debt-to-Equity Ratios

Table 33 provides a reconciliation between the liabilities and equity used to calculate the leverage and debt-to-equity ratios and these financial measures adjusted to exclude the non-cash effects of derivatives adjustments, to subtract debt used to fund loans that are guaranteed by RUS from total liabilities, and to subtract from total liabilities, and add to total equity, debt with equity characteristics.

Table 33: Adjusted Financial Measures — Balance Sheet

(Dollars in thousands)	February 29, 2016	May 31, 2015
Total liabilities	\$ 23,676,529	\$ 21,934,273
Less:		
Derivative liabilities	(688,998)	(408,382)
Debt used to fund loans guaranteed by RUS	(174,990)	(179,241)
Subordinated deferrable debt	(395,754)	(395,699)
Subordinated certificates	(1,444,515)	(1,505,420)
Adjusted liabilities	\$ 20,972,272	\$ 19,445,531
Total equity	\$ 716,496	\$ 911,786
Less:		
Prior year cumulative derivative forward value adjustments	299,274	185,181
Current year-to-date derivative forward value losses, net	290,952	114,093
Accumulated other comprehensive income ⁽¹⁾	(4,685)	(5,371)
Plus:		
Subordinated certificates	1,444,515	1,505,420
Subordinated deferrable debt	395,754	395,699
Adjusted total equity	\$ 3,142,306	\$ 3,106,808
Guarantees ⁽²⁾	\$ 915,359	\$ 986,500

⁽¹⁾ Represents the accumulated other comprehensive income related to derivatives. Excludes \$5 million and \$4 million of accumulated other comprehensive income as of February 29, 2016 and May 31, 2015, respectively, related to the unrecognized gains on our investments. It also excludes \$4 million of accumulated other comprehensive loss related to foreclosed assets as of February 29, 2016 and May 31, 2015 and \$1 million of accumulated other comprehensive loss related to a defined benefit pension plan.

⁽²⁾ Guarantees are used in the calculation of leverage and adjusted leverage ratios below.

Table 34 presents the calculations of our leverage and debt-to-equity ratios and our adjusted leverage and debt-to-equity ratios as of February 29, 2016 and May 31, 2015.

Table 34: Leverage and Debt-to-Equity Ratios

	February 29, 2016	May 31, 2015
Leverage ratio ⁽¹⁾	34.32	25.14
Adjusted leverage ratio ⁽²⁾	6.97	6.58
Debt-to-equity ratio ⁽³⁾	33.04	24.06
Adjusted debt-to-equity ratio ⁽⁴⁾	6.67	6.26

⁽¹⁾ Calculated based on total liabilities and guarantees at period end divided by total equity at period end.

⁽²⁾ Calculated based on adjusted total liabilities and guarantees at period end divided by adjusted total equity at period end, such calculation is presented in Table 33 above.

⁽³⁾ Calculated based on total liabilities at period end divided by total equity at period end.

⁽⁴⁾ Calculated based on adjusted total liabilities at period end divided by adjusted total equity at period end, such calculation is presented in Table 33 above.

Item 1. Financial Statements

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Interest income	\$ 253,633	\$ 238,740	\$ 756,074	\$ 711,266
Interest expense	(171,189)	(156,850)	(504,013)	(471,677)
Net interest income	82,444	81,890	252,061	239,589
Provision for loan losses.....	1,735	(2,304)	(4,067)	3,475
Net interest income after provision for loan losses .	84,179	79,586	247,994	243,064
Non-interest income:				
Fee and other income.....	5,604	5,020	17,336	19,249
Derivative losses.....	(243,036)	(98,770)	(356,237)	(223,209)
Results of operations of foreclosed assets	1,472	(1,369)	1,605	(33,059)
Total non-interest income	(235,960)	(95,119)	(337,296)	(237,019)
Non-interest expense:				
Salaries and employee benefits	(11,346)	(10,949)	(33,779)	(32,274)
Other general and administrative expenses	(11,006)	(7,059)	(31,639)	(22,514)
Losses on early extinguishment of debt	(333)	(703)	(333)	(703)
Other	(509)	(7)	(875)	50
Total non-interest expense	(23,194)	(18,718)	(66,626)	(55,441)
Loss before income taxes	(174,975)	(34,251)	(155,928)	(49,396)
Income tax benefit (expense).....	593	55	153	(100)
Net loss	(174,382)	(34,196)	(155,775)	(49,496)
Less: Net loss attributable to noncontrolling interests.....	1,401	217	1,982	213
Net loss attributable to CFC	\$ (172,981)	\$ (33,979)	\$ (153,793)	\$ (49,283)

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Net loss	\$ (174,382)	\$ (34,196)	\$ (155,775)	\$ (49,496)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale investment securities	(2,297)	1,644	589	5,246
Reclassification of derivative gains to net income	(218)	(239)	(689)	(722)
Defined benefit plan adjustments	43	(1,062)	131	(1,062)
Other comprehensive income (loss)	(2,472)	343	31	3,462
Total comprehensive loss	(176,854)	(33,853)	(155,744)	(46,034)
Less: Total comprehensive loss attributable to noncontrolling interests	1,402	220	1,985	221
Total comprehensive loss attributable to CFC	\$ (175,452)	\$ (33,633)	\$ (153,759)	\$ (45,813)

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in thousands)	February 29, 2016	May 31, 2015
Assets:		
Cash and cash equivalents	\$ 299,024	\$ 248,836
Restricted cash	4,268	485
Time deposits	340,000	485,000
Investment securities available for sale, at fair value	85,061	84,472
Loans to members	23,144,099	21,469,017
Less: Allowance for loan losses	(37,918)	(33,690)
Loans to members, net	23,106,181	21,435,327
Accrued interest and other receivables	179,212	197,828
Fixed assets, net	110,597	110,540
Debt service reserve funds	17,151	25,602
Foreclosed assets, net	118,411	116,507
Derivative assets	104,535	115,276
Other assets	28,585	26,186
Total assets	\$ 24,393,025	\$ 22,846,059
Liabilities:		
Accrued interest payable	\$ 185,758	\$ 123,697
Debt outstanding:		
Short-term debt	3,309,020	3,127,754
Long-term debt	17,527,497	16,244,794
Subordinated deferrable debt	395,754	395,699
Members' subordinated certificates:		
Membership subordinated certificates	629,977	645,035
Loan and guarantee subordinated certificates	594,492	640,889
Member capital securities	220,046	219,496
Total members' subordinated certificates	1,444,515	1,505,420
Total debt outstanding	22,676,786	21,273,667
Deferred income	65,548	75,579
Derivative liabilities	688,998	408,382
Other liabilities	59,439	52,948
Total liabilities	23,676,529	21,934,273
Commitments and contingencies		
Equity:		
CFC equity:		
Retained equity	686,417	880,242
Accumulated other comprehensive income	4,114	4,080
Total CFC equity	690,531	884,322
Noncontrolling interests	25,965	27,464
Total equity	716,496	911,786
Total liabilities and equity	\$ 24,393,025	\$ 22,846,059

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

(Dollars in thousands)	Membership Fees and Educational Fund	Patronage Capital Allocated	Members' Capital Reserve	Unallocated Net Income (Loss)	CFC Retained Equity	Accumulated Other Comprehensive Income	Total CFC Equity	Non- controlling Interests	Total Equity
Balance as of May 31, 2015 ..	\$ 2,743	\$ 668,980	\$ 501,731	\$ (293,212)	\$ 880,242	\$ 4,080	\$ 884,322	\$ 27,464	\$ 911,786
Net loss	—	—	—	(153,793)	(153,793)	—	(153,793)	(1,982)	(155,775)
Other comprehensive income	—	—	—	—	—	34	34	(3)	31
Patronage capital retirement ..	—	(39,384)	—	—	(39,384)	—	(39,384)	—	(39,384)
Other	(648)	—	(429)	429	(648)	—	(648)	486	(162)
Balance as of February 29, 2016	<u>\$ 2,095</u>	<u>\$ 629,596</u>	<u>\$ 501,302</u>	<u>\$ (446,576)</u>	<u>\$ 686,417</u>	<u>\$ 4,114</u>	<u>\$ 690,531</u>	<u>\$ 25,965</u>	<u>\$ 716,496</u>
Balance as of May 31, 2014 ..	\$ 2,751	\$ 630,340	\$ 485,447	\$ (178,650)	\$ 939,888	\$ 3,649	\$ 943,537	\$ 26,837	\$ 970,374
Net loss	—	—	—	(49,283)	(49,283)	—	(49,283)	(213)	(49,496)
Other comprehensive income	—	—	—	—	—	3,470	3,470	(8)	3,462
Patronage capital retirement ..	—	(39,662)	—	—	(39,662)	—	(39,662)	—	(39,662)
Other	(638)	(1)	1	—	(638)	—	(638)	464	(174)
Balance as of February 28, 2015	<u>\$ 2,113</u>	<u>\$ 590,677</u>	<u>\$ 485,448</u>	<u>\$ (227,933)</u>	<u>\$ 850,305</u>	<u>\$ 7,119</u>	<u>\$ 857,424</u>	<u>\$ 27,080</u>	<u>\$ 884,504</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended	
	February 29, 2016	February 28, 2015
Cash flows from operating activities:		
Net loss.....	\$ (155,775)	\$ (49,496)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred income	(15,792)	(8,730)
Amortization of debt issuance costs and deferred charges.....	6,253	5,440
Amortization of discount on long-term debt	6,433	4,424
Amortization of issuance costs for revolving bank lines of credit	4,242	4,725
Depreciation	5,592	4,693
Provision for loan losses.....	4,067	(3,475)
Results of operations of foreclosed assets	(1,605)	33,059
Derivative forward value	290,952	159,832
Changes in operating assets and liabilities:		
Accrued interest and other receivables	125	3,137
Accrued interest payable.....	62,061	66,585
Deferred income	5,760	7,091
Other	(14,849)	(4,524)
Net cash provided by operating activities	<u>197,464</u>	<u>222,761</u>
Cash flows from investing activities:		
Advances on loans.....	(6,765,131)	(6,409,934)
Principal collections on loans.....	5,090,296	5,673,899
Net investment in fixed assets	(5,992)	(7,181)
Proceeds from foreclosed assets.....	4,050	13,088
Investments in foreclosed assets	(4,349)	(7,650)
Proceeds from sale of time deposits	145,000	165,000
Investments in equity securities available for sale	—	(25,000)
Change in restricted cash.....	(3,782)	485
Net cash used in investing activities	<u>(1,539,908)</u>	<u>(597,293)</u>
Cash flows from financing activities:		
Proceeds from issuances of (repayments of) short-term debt, net	239,235	(879,998)
Proceeds from issuances of short-term debt with original maturity greater than 90 days	455,065	391,974
Repayments of short term-debt with original maturity greater than 90 days.....	(513,034)	(397,447)
Payments for issuance costs for revolving bank lines of credit	(3,211)	(3,249)
Proceeds from issuance of long-term debt	2,678,713	2,245,478
Payments for retirement of long-term debt	(1,408,641)	(912,614)
Proceeds from issuance of members' subordinated certificates.....	4,973	74,657
Payments for retirement of members' subordinated certificates.....	(21,618)	(145,015)
Payments for retirement of patronage capital	(38,850)	(39,198)
Net cash provided by financing activities	<u>1,392,632</u>	<u>334,588</u>
Net increase (decrease) in cash and cash equivalents	50,188	(39,944)
Beginning cash and cash equivalents	248,836	338,715
Ending cash and cash equivalents	<u>\$ 299,024</u>	<u>\$ 298,771</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended	
	February 29, 2016	February 28, 2015
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 425,024	\$ 390,503
Cash paid for income taxes	72	130
Non-cash financing and investing activities:		
Subordinated certificates applied against loan balances	\$ 711	\$ 228
Noncontrolling interest patronage capital applied against loan balances	8	—
Net decrease in debt service reserve funds/debt service reserve certificates	(8,451)	(13,751)

See accompanying notes to condensed consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes.

Basis of Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain prior period amounts have been reclassified to conform to the current period presentation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair presentation of this interim financial information. The results of operations in the interim financial statements are not necessarily indicative of the results that may be expected for the full year.

These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included in CFC’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015 (“2015 Form 10-K”).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CFC, Rural Telephone Finance Cooperative (“RTFC”), National Cooperative Services Corporation (“NCSC”) and subsidiaries created and controlled by CFC to hold foreclosed assets. All intercompany balances and transactions have been eliminated. RTFC was established to provide private financing for the rural telecommunications industry. NCSC may provide financing to members of CFC, government or quasi-government entities which own electric utility systems that meet the Rural Electrification Act definition of “rural”, and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. CFC currently has one entity, Caribbean Asset Holdings, LLC (“CAH”), that holds foreclosed assets. CAH, which is classified as held for sale, is a holding company for various U.S. Virgin Islands, British Virgin Islands and St. Maarten-based telecommunications operating entities that were transferred to CAH as a result of a loan default by a borrower and subsequent bankruptcy proceedings. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities.

Variable Interest Entities

Based on the accounting standards governing consolidations, equity and earnings of RTFC and NCSC are reported as noncontrolling interest.

CFC manages the lending activities of RTFC and NCSC. We are required to consolidate the financial results of RTFC and NCSC because CFC is the primary beneficiary of variable interests in RTFC and NCSC due to its exposure to absorbing the majority of their expected losses.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Under separate guarantee agreements, RTFC and NCSC pay CFC a fee to indemnify them against loan losses. CFC is the sole lender to and manages the business operations of RTFC through a management agreement in effect until December 1, 2016, which is automatically renewed for one-year terms thereafter unless terminated by either party. CFC is the primary source of funding to, and manages the lending activities of, NCSC through a management agreement that is automatically renewable on an annual basis unless terminated by either party. NCSC funds its lending programs through loans from CFC or debt guaranteed by CFC. In connection with these guarantees, NCSC must pay a guarantee fee.

RTFC and NCSC creditors have no recourse against CFC in the event of a default by RTFC and NCSC, unless there is a guarantee agreement under which CFC has guaranteed NCSC or RTFC debt obligations to a third party. CFC had guaranteed \$49 million of NCSC debt, derivative instruments and guarantees with third parties, and CFC's maximum potential exposure for these instruments totaled \$53 million as of February 29, 2016. The maturities for NCSC obligations guaranteed by CFC extend through 2032. Guarantees of NCSC debt and derivative instruments are not included in "Note 10 —Guarantees" because the debt and derivatives are reported on the condensed consolidated balance sheets. CFC guaranteed \$2 million of RTFC guarantees with third parties as of February 29, 2016. The maturities for RTFC obligations guaranteed by CFC extend through 2017 and are renewed on an annual basis. All CFC loans to RTFC and NCSC are secured by all assets and revenue of RTFC and NCSC, respectively. RTFC had total assets of \$464 million including loans outstanding to members of \$358 million, and NCSC had total assets of \$711 million including loans outstanding of \$697 million as of February 29, 2016. CFC had committed to lend RTFC up to \$4,000 million, of which \$340 million was outstanding, as of February 29, 2016. CFC had committed to provide up to \$3,000 million of credit to NCSC, of which \$725 million was outstanding, representing \$676 million of outstanding loans and \$49 million of credit enhancements as of February 29, 2016.

Interest Income

Interest income on loans is recognized using the effective interest method. The following table presents the components of interest income for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Interest on long-term fixed-rate loans ⁽¹⁾	\$ 240,933	\$ 224,770	\$ 716,736	\$ 669,121
Interest on long-term variable-rate loans	5,077	4,836	14,919	15,099
Interest on line of credit loans	6,335	6,707	18,919	20,335
Interest on restructured loans	163	—	293	10
Interest on nonperforming loans	81	—	110	—
Interest on investments	1,323	2,395	5,905	6,516
Fee income ⁽²⁾	(279)	32	(808)	185
Total interest income	<u>\$ 253,633</u>	<u>\$ 238,740</u>	<u>\$ 756,074</u>	<u>\$ 711,266</u>

⁽¹⁾ Includes loan conversion fees, which are deferred and recognized in interest income using the effective interest method. Also includes a small portion of conversion fees, which are intended to cover the administrative costs related to the conversion and are recognized into income immediately at conversion.

⁽²⁾ Primarily related to amortization of loan origination costs and late payment fees. For the three and nine months ended February 29, 2016, it excludes loan upfront and arranger fees, which are not based on interest rates and are included in the fee and other income line of the condensed consolidated statements of operations.

Deferred income on the condensed consolidated balance sheets primarily consists of deferred loan conversion fees, which totaled \$60 million and \$70 million as of February 29, 2016 and May 31, 2015, respectively.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Interest Expense

The following table presents the components of interest expense for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Interest expense on debt: ⁽¹⁾⁽²⁾⁽³⁾				
Short-term debt	\$ 4,387	\$ 2,982	\$ 10,311	\$ 11,786
Medium-term notes	21,773	17,774	62,745	52,640
Collateral trust bonds	83,810	79,026	248,410	232,290
Subordinated deferrable debt	4,785	4,782	14,356	14,352
Subordinated certificates	15,022	15,280	45,425	48,131
Long-term notes payable	41,412	37,006	122,766	112,478
Total interest expense	<u>\$ 171,189</u>	<u>\$ 156,850</u>	<u>\$ 504,013</u>	<u>\$ 471,677</u>

⁽¹⁾ Represents interest expense and the amortization of discounts on debt.

⁽²⁾ Includes underwriter's fees, legal fees, printing costs and certain accounting fees, which are deferred and recognized in interest expense using the effective interest method. Also includes issuance costs related to dealer commercial paper, which are recognized immediately as incurred.

⁽³⁾ Includes fees related to funding activities, including fees paid to banks participating in our revolving credit agreements. Amounts are recognized as incurred or amortized on a straight-line basis over the life of the agreement.

Accounting Standards Adopted in Fiscal Year 2016

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which amends the current presentation of debt issuance costs in the financial statements by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. The guidance, which does not affect the recognition and measurement requirements for debt issuance costs, is effective for the first quarter of fiscal year 2017. However, we early-adopted this guidance in the first quarter of fiscal year 2016, and applied its provisions retrospectively, which resulted in the reclassification of unamortized debt issuance costs of \$47 million as of May 31, 2015, from total assets on our condensed consolidated balance sheet to total debt outstanding. We previously presented debt issuance costs as a separate line item under total assets on our condensed consolidated balance sheets. Other than this reclassification, the adoption of the guidance did not impact our consolidated financial statements.

Recently Issued but Not Yet Adopted Accounting Standards

Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. Under the new guidance, entities will be required to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. For financial liabilities measured using the fair value option, entities will be required to record changes in fair value caused by a change in instrument-specific credit risk (own credit risk) separately in other comprehensive income. The accounting for other financial instruments, such as loans and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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investments in debt securities is largely unchanged. The classification and measurement guidance is effective for public entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This update will be effective in the first quarter of fiscal year 2019. We are in the process of evaluating the impact of this update on our consolidated financial statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which is intended to improve upon and simplify the consolidation assessment required to evaluate whether organizations should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures. This update is effective in the first quarter of fiscal year 2017. We do not expect the adoption of the update to have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue from contracts with customers and will replace most existing revenue recognition in GAAP when it becomes effective. In July 2015, the FASB approved a one year deferral of the effective date of this standard, with a revised effective date for fiscal years beginning after December 15, 2017. Early adoption is permitted, although not prior to fiscal years beginning after December 15, 2016. The new accounting guidance, which does not apply to financial instruments, is effective beginning in the first quarter of fiscal year 2018. We do not expect the new guidance to have a material impact on our consolidated financial statements, as CFC's primary business and source of revenue is from lending.

NOTE 2—INVESTMENT SECURITIES

Our investment securities consist of holdings of Federal Agricultural Mortgage Corporation ("Farmer Mac") preferred and common stock. The following tables present the amortized cost, gross unrealized gains and losses and fair value of our investment securities, all of which are classified as available for sale, as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Farmer Mac—Series A Non-Cumulative Preferred Stock ..	\$ 30,000	\$ 687	\$ —	\$ 30,687
Farmer Mac—Series B Non-Cumulative Preferred Stock ..	25,000	1,920	—	26,920
Farmer Mac—Series C Non-Cumulative Preferred Stock ..	25,000	60	—	25,060
Farmer Mac—Class A Common Stock	538	1,856	—	2,394
Total available-for-sale investment securities	<u>\$ 80,538</u>	<u>\$ 4,523</u>	<u>\$ —</u>	<u>\$ 85,061</u>

(Dollars in thousands)	May 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Farmer Mac—Series A Non-Cumulative Preferred Stock ..	\$ 30,000	\$ 264	\$ —	\$ 30,264
Farmer Mac—Series B Non-Cumulative Preferred Stock ..	25,000	1,250	—	26,250
Farmer Mac—Series C Non-Cumulative Preferred Stock ..	25,000	900	—	25,900
Farmer Mac—Class A Common Stock	538	1,520	—	2,058
Total available-for-sale investment securities	<u>\$ 80,538</u>	<u>\$ 3,934</u>	<u>\$ —</u>	<u>\$ 84,472</u>

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We did not have any investment securities in an unrealized loss position as of February 29, 2016 and May 31, 2015. For additional information regarding the unrealized gains (losses) recorded on our available-for-sale investment securities, see “Note 9—Equity—Accumulated Other Comprehensive Income”.

NOTE 3—LOANS AND COMMITMENTS

The table below presents the outstanding principal balance of loans to members, including deferred loan origination costs, and unadvanced loan commitments, by loan type and member class, as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016		May 31, 2015	
	Loans Outstanding	Unadvanced Commitments ⁽¹⁾	Loans Outstanding	Unadvanced Commitments ⁽¹⁾
Loan type: ⁽²⁾				
Long-term fixed-rate loans.....	\$ 21,127,042	\$ —	\$ 19,543,274	\$ —
Long-term variable-rate loans	718,193	4,402,860	698,495	4,835,623
Loans guaranteed by RUS.....	174,990	—	179,241	—
Line of credit loans	1,113,990	8,909,560	1,038,210	9,294,127
Total loans outstanding ⁽³⁾	23,134,215	13,312,420	21,459,220	14,129,750
Deferred loan origination costs	9,884	—	9,797	—
Loans to members.....	<u>\$ 23,144,099</u>	<u>\$ 13,312,420</u>	<u>\$ 21,469,017</u>	<u>\$ 14,129,750</u>
Member class: ⁽²⁾				
CFC:				
Distribution.....	\$ 17,700,859	\$ 9,045,185	\$ 16,095,043	\$ 9,474,568
Power supply	4,322,069	3,219,631	4,181,481	3,273,501
Statewide and associate	56,084	135,624	65,466	127,473
CFC total	22,079,012	12,400,440	20,341,990	12,875,542
RTFC.....	357,967	258,690	385,709	288,810
NCSC	697,236	653,290	731,521	965,398
Total loans outstanding ⁽³⁾	<u>\$ 23,134,215</u>	<u>\$ 13,312,420</u>	<u>\$ 21,459,220</u>	<u>\$ 14,129,750</u>

⁽¹⁾ The interest rate on unadvanced commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

⁽²⁾ Includes nonperforming and restructured loans.

⁽³⁾ Represents the unpaid principal balance excluding deferred loan origination costs.

Unadvanced Loan Commitments

Unadvanced loan commitments totaled \$2,457 million and \$2,765 million as of February 29, 2016 and May 31, 2015, respectively, related to committed lines of credit loans that are not subject to a material adverse change clause at the time of each loan advance. As such, we are required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the facility.

The following table summarizes the available balance under unconditional committed lines of credit, and the related maturities by fiscal year and thereafter, as of February 29, 2016.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit					
		2016	2017	2018	2019	2020	Thereafter
Committed lines of credit .	\$2,457,435	\$11,000	\$125,377	\$683,351	\$673,109	\$591,526	\$373,072

The remaining unadvanced commitments totaling \$10,855 million and \$11,365 million as of February 29, 2016 and May 31, 2015, respectively, were generally subject to material adverse change clauses. Prior to making an advance on these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by the designated purpose, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

The following table summarizes the available balance under unadvanced commitments as of February 29, 2016 and the related maturities by fiscal year and thereafter by loan type:

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Commitments					
		2016	2017	2018	2019	2020	Thereafter
Line of credit loans	\$ 8,909,560	\$ 280,881	\$5,200,892	\$1,120,869	\$ 909,795	\$ 742,503	\$ 654,620
Long-term loans.....	4,402,860	126,400	1,029,474	700,609	1,078,147	882,742	585,488
Total.....	<u>\$13,312,420</u>	<u>\$ 407,281</u>	<u>\$6,230,366</u>	<u>\$1,821,478</u>	<u>\$1,987,942</u>	<u>\$1,625,245</u>	<u>\$1,240,108</u>

Unadvanced commitments related to line of credit loans are typically for periods not to exceed five years and are generally revolving facilities used for working capital and backup liquidity purposes. Historically, we have experienced a very low utilization rate on line of credit loan facilities, whether or not there is a material adverse change clause. Since we generally do not charge a fee on the unadvanced portion of the majority of our loan facilities, our borrowers will typically request long-term facilities to fund construction work plans and other capital expenditures for periods of up to five years and draw down on the facility over that time. In addition, borrowers will typically request an amount in excess of their immediate estimated loan requirements to avoid the expense related to seeking additional loan funding for unexpected items. These factors contribute to our expectation that the majority of the unadvanced commitments will expire without being fully drawn upon and that the total unadvanced amount does not necessarily represent future cash funding requirements.

Loan Sales

We transfer some of our loans to third parties, generally at par value, under our direct loan sale program. Our loan transfers meet the applicable accounting criteria for sale accounting. Accordingly, we remove the loans from our condensed consolidated balance sheets when control has been surrendered and recognize a gain or loss. Because the loans are sold at par, we record immaterial losses on the sale of these loans for unamortized deferred loan origination costs. We retain the servicing performance obligations on these loans and recognize related servicing fees on an accrual basis over the period for which servicing activity is provided, as we believe the servicing fee represents adequate compensation. We do not hold any continuing interest in the loans sold to date other than servicing performance obligations. We have no obligation to repurchase loans from the purchaser, except in the case of breaches of representations and warranties.

We sold CFC loans with outstanding balances totaling \$84 million and \$25 million, at par for cash, during the nine months ended February 29, 2016 and February 28, 2015, respectively.

Credit Quality

We closely monitor loan performance trends to manage and evaluate our credit risk exposure. Our goal is to provide a balance between the credit needs of our members while also ensuring sound credit quality of our loan portfolio. Payment status and internal risk rating trends are indicators, among others, of the level of credit risk within our loan portfolios. As part of our strategy to reduce our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac,

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and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We have designated, and Farmer Mac has approved an initial tranche of loans with an aggregate outstanding principal balance of \$520 million as of August 31, 2015, which were reduced by subsequent loan principal payments to \$511 million as of February 29, 2016. We are paying Farmer Mac a monthly fee based on the unpaid principal balance of the loans in the tranche(s) for the commitment to purchase loans under the agreement.

Payment Status of Loans

The tables below present the payment status of loans outstanding by member class as of February 29, 2016 and May 31, 2015.

February 29, 2016						
(Dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due ⁽¹⁾	Total Past Due	Total Financing Receivables	Nonaccrual Loans
CFC:						
Distribution	\$ 17,700,859	\$ —	\$ —	\$ —	\$ 17,700,859	\$ —
Power supply	4,322,069	—	—	—	4,322,069	—
Statewide and associate...	56,084	—	—	—	56,084	—
CFC total	22,079,012	—	—	—	22,079,012	—
RTFC	354,461	—	3,506	3,506	357,967	5,864
NCSC	697,236	—	—	—	697,236	—
Total loans outstanding ...	<u>\$ 23,130,709</u>	<u>\$ —</u>	<u>\$ 3,506</u>	<u>\$ 3,506</u>	<u>\$ 23,134,215</u>	<u>\$ 5,864</u>
As a % of total loans	99.98%	—%	0.02%	0.02%	100.00%	0.03%

May 31, 2015						
(Dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due ⁽¹⁾	Total Past Due	Total Financing Receivables	Nonaccrual Loans
CFC:						
Distribution	\$ 16,095,043	\$ —	\$ —	\$ —	\$ 16,095,043	\$ 7,221
Power supply	4,181,481	—	—	—	4,181,481	—
Statewide and associate...	65,466	—	—	—	65,466	—
CFC total	20,341,990	—	—	—	20,341,990	7,221
RTFC	385,709	—	—	—	385,709	4,221
NCSC	731,521	—	—	—	731,521	294
Total loans outstanding ...	<u>\$ 21,459,220</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,459,220</u>	<u>\$ 11,736</u>
As a % of total loans	100.00%	—%	—%	—%	100.00%	0.05%

⁽¹⁾ All loans 90 days or more past due are on nonaccrual status.

Internal Risk Ratings of Loans

We evaluate the credit quality of our loans using an internal risk rating system that employs similar criteria for all member classes. Our internal risk rating system is based on a determination of a borrower's risk of default utilizing both quantitative and qualitative measurements. We have grouped our risk ratings into the categories of pass and criticized based on the criteria below.

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- (i) Pass: Borrowers that are not experiencing difficulty and/or not showing a potential or well-defined credit weakness.
- (ii) Criticized: Includes borrowers categorized as special mention, substandard and doubtful as described below:
- Special mention: Borrowers that may be characterized by a potential credit weakness or deteriorating financial condition that is not sufficiently serious to warrant a classification of substandard or doubtful.
 - Substandard: Borrowers that display a well-defined credit weakness that may jeopardize the full collection of principal and interest.
 - Doubtful: Borrowers that have a well-defined weakness and the full collection of principal and interest is questionable or improbable.

Borrowers included in the pass, special mention, and substandard categories are generally reflected in the general portfolio of loans. Borrowers included in the doubtful category are reflected in the impaired portfolio of loans. Each risk rating is reassessed annually based on the receipt of the borrower's audited financial statements; however, interim downgrades and upgrades may take place at any time as significant events or trends occur.

The following table presents our loan portfolio by risk rating category and member class based on available data as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016			May 31, 2015		
	Pass	Criticized	Total	Pass	Criticized	Total
CFC:						
Distribution	\$ 17,667,879	\$ 32,980	\$ 17,700,859	\$ 16,062,516	\$ 32,527	\$ 16,095,043
Power supply	4,322,069	—	4,322,069	4,181,481	—	4,181,481
Statewide and associate	55,827	257	56,084	65,200	266	65,466
CFC total	22,045,775	33,237	22,079,012	20,309,197	32,793	20,341,990
RTFC	344,886	13,081	357,967	373,087	12,622	385,709
NCSC	694,268	2,968	697,236	727,159	4,362	731,521
Total loans outstanding	<u>\$ 23,084,929</u>	<u>\$ 49,286</u>	<u>\$ 23,134,215</u>	<u>\$ 21,409,443</u>	<u>\$ 49,777</u>	<u>\$ 21,459,220</u>

Allowance for Loan Losses

We maintain an allowance for loan losses at a level estimated by management to provide for probable losses inherent in the loan portfolio as of each balance sheet date. The tables below summarize changes, by company, in the allowance for loan losses as of and for the nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended February 29, 2016			
	CFC	RTFC	NCSC	Total
Balance as of November 30, 2015	\$ 27,700	\$ 5,918	\$ 5,982	\$ 39,600
Provision for loan losses	(2,136)	798	(397)	(1,735)
Recoveries	53	—	—	53
Balance as of February 29, 2016	<u>\$ 25,617</u>	<u>\$ 6,716</u>	<u>\$ 5,585</u>	<u>\$ 37,918</u>

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	Three Months Ended February 28, 2015			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of November 30, 2014.....	\$ 41,185	\$ 5,027	\$ 4,545	\$ 50,757
Provision for loan losses	2,366	(193)	131	2,304
Recoveries.....	53	—	—	53
Balance as of February 28, 2015	<u>\$ 43,604</u>	<u>\$ 4,834</u>	<u>\$ 4,676</u>	<u>\$ 53,114</u>

	Nine Months Ended February 29, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2015	\$ 23,716	\$ 4,533	\$ 5,441	\$ 33,690
Provision for loan losses	1,740	2,183	144	4,067
Recoveries.....	161	—	—	161
Balance as of February 29, 2016	<u>\$ 25,617</u>	<u>\$ 6,716</u>	<u>\$ 5,585</u>	<u>\$ 37,918</u>

	Nine Months Ended February 28, 2015			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2014	\$ 45,600	\$ 4,282	\$ 6,547	\$ 56,429
Provision for loan losses	(2,156)	552	(1,871)	(3,475)
Recoveries.....	160	—	—	160
Balance as of February 28, 2015	<u>\$ 43,604</u>	<u>\$ 4,834</u>	<u>\$ 4,676</u>	<u>\$ 53,114</u>

Our allowance for loan losses consists of a specific allowance for loans individually evaluated for impairment and a collective allowance for loans collectively evaluated for impairment. The tables below present, by company, the components of our allowance for loan losses and the recorded investment of the related loans as of February 29, 2016 and May 31, 2015.

	February 29, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated.....	\$ 25,617	\$ 2,162	\$ 5,585	\$ 33,364
Individually evaluated.....	—	4,554	—	4,554
Total ending balance of the allowance	<u>\$ 25,617</u>	<u>\$ 6,716</u>	<u>\$ 5,585</u>	<u>\$ 37,918</u>
Recorded investment in loans:				
Collectively evaluated.....	\$ 22,072,296	\$ 344,886	\$ 697,236	\$ 23,114,418
Individually evaluated.....	6,716	13,081	—	19,797
Total recorded investment in loans.....	<u>\$ 22,079,012</u>	<u>\$ 357,967</u>	<u>\$ 697,236</u>	<u>\$ 23,134,215</u>
Loans to members, net ⁽¹⁾	\$ 22,053,395	\$ 351,251	\$ 691,651	\$ 23,096,297

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(Dollars in thousands)	May 31, 2015			
	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated.....	\$ 23,716	\$ 4,138	\$ 5,441	\$ 33,295
Individually evaluated.....	—	395	—	395
Total ending balance of the allowance	<u>\$ 23,716</u>	<u>\$ 4,533</u>	<u>\$ 5,441</u>	<u>\$ 33,690</u>
Recorded investment in loans:				
Collectively evaluated.....	\$ 20,334,769	\$ 381,488	\$ 731,227	\$ 21,447,484
Individually evaluated.....	7,221	4,221	294	11,736
Total recorded investment in loans.....	<u>\$ 20,341,990</u>	<u>\$ 385,709</u>	<u>\$ 731,521</u>	<u>\$ 21,459,220</u>
Loans to members, net ⁽¹⁾	\$ 20,318,274	\$ 381,176	\$ 726,080	\$ 21,425,530

⁽¹⁾ Excludes deferred origination costs of \$10 million as of February 29, 2016 and May 31, 2015.

Impaired Loans

Our recorded investment in individually-impaired loans, which consists of the unpaid principal balance, and the related specific valuation allowance, by member class, as of February 29, 2016 and May 31, 2015 are summarized below.

(Dollars in thousands)	February 29, 2016		May 31, 2015	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
With no specific allowance recorded:				
CFC/Distribution	\$ 6,716	\$ —	\$ 7,221	\$ —
NCSC.....	—	—	294	—
Total	<u>6,716</u>	<u>—</u>	<u>7,515</u>	<u>—</u>
With a specific allowance recorded:				
RTFC.....	<u>13,081</u>	<u>4,554</u>	<u>4,221</u>	<u>395</u>
Total	<u>13,081</u>	<u>4,554</u>	<u>4,221</u>	<u>395</u>
Total impaired loans.....	<u>\$ 19,797</u>	<u>\$ 4,554</u>	<u>\$ 11,736</u>	<u>\$ 395</u>

The tables below represent the average recorded investment in impaired loans and the interest income recognized, by member class, for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended			
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	Average Recorded Investment		Interest Income Recognized	
CFC/Distribution.....	\$ 6,716	\$ 7,221	\$ 130	\$ —
NCSC	—	312	—	—
RTFC.....	<u>13,362</u>	<u>1,580</u>	<u>113</u>	<u>—</u>
Total impaired loans.....	<u>\$ 20,078</u>	<u>\$ 9,113</u>	<u>\$ 243</u>	<u>\$ —</u>

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	Nine Months Ended			
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
CFC/Distribution	\$ 6,884	\$ 7,342	\$ 260	\$ —
NCSC	—	334	—	10
RTFC	9,092	1,656	142	—
Total impaired loans.....	<u>\$ 15,976</u>	<u>\$ 9,332</u>	<u>\$ 402</u>	<u>\$ 10</u>

Troubled Debt Restructured (“TDR”) and Nonperforming Loans

TDR Loans

The table below summarizes modified loans accounted for and reported as TDRs, the performance status of the loan, and the related unadvanced commitments, by member class, as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016			May 31, 2015		
	Loans Outstanding	% of Total Loans	Unadvanced Commitments ⁽¹⁾	Loans Outstanding	% of Total Loans	Unadvanced Commitments ⁽¹⁾
TDR loans:						
Nonperforming TDR loans:						
RTFC	\$ 3,506		\$ —	\$ —		\$ —
Total nonperforming TDR loans	<u>3,506</u>	<u>0.02%</u>	<u>—</u>	<u>—</u>	<u>—%</u>	<u>—</u>
Performing TDR loans:						
CFC/Distribution ⁽²⁾	6,716		—	7,221		—
NCSC	—		—	294		—
RTFC	7,217		—	4,221		—
Total performing TDR loans.....	<u>13,933</u>	<u>0.06</u>	<u>—</u>	<u>11,736</u>	<u>0.05</u>	<u>—</u>
Total TDR loans	<u>\$ 17,439</u>	<u>0.08%</u>	<u>\$ —</u>	<u>\$ 11,736</u>	<u>0.05%</u>	<u>\$ —</u>

⁽¹⁾ The interest rate on unadvanced commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

⁽²⁾ A borrower in this category also had a line of credit loan outstanding that was classified as performing as of February 29, 2016 and May 31, 2015. Unadvanced commitments related to this line of credit loan totaled \$3 million and \$2 million as of February 29, 2016 and May 31, 2015, respectively.

All loans classified as performing TDR loans were performing in accordance with the terms of the restructured loan agreement as of February 29, 2016 and May 31, 2015. The TDR loans classified as performing as of May 31, 2015 were on nonaccrual status as of that date. These loans were returned to accrual status during the nine months ended February 29, 2016.

Nonperforming Loans

The table below summarizes nonperforming loans and the related unadvanced commitments, by member class, as of February 29, 2016 and May 31, 2015.

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(Dollars in thousands)	February 29, 2016			May 31, 2015		
	Loans Outstanding	% of Total Loans	Unadvanced Commitments ⁽¹⁾	Loans Outstanding	% of Total Loans	Unadvanced Commitments ⁽¹⁾
Nonperforming loans:						
RTFC	\$ 2,358		\$ —	\$ —		\$ —
Total nonperforming loans	<u>\$ 2,358</u>	<u>0.01%</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—%</u>	<u>\$ —</u>

⁽¹⁾ The interest rate on unadvanced commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

The following table shows foregone interest income as a result of holding loans on nonaccrual status for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Nonperforming loans	\$ 2	\$ 23	\$ 14	\$ 74
Performing TDR loans	—	132	166	396
Nonperforming TDR loans	31	—	77	—
Total	<u>\$ 33</u>	<u>\$ 155</u>	<u>\$ 257</u>	<u>\$ 470</u>

Pledging of Loans and Loans on Deposit

We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt.

The following table summarizes our loans outstanding as collateral pledged to secure our collateral trust bonds, Clean Renewable Energy Bonds and notes payable to Farmer Mac and the amount of the corresponding debt outstanding as of February 29, 2016 and May 31, 2015, See “Note 5—Short-Term Debt and Credit Arrangements” and “Note 6—Long-Term Debt”) for information on our borrowings.

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(Dollars in thousands)	February 29, 2016	May 31, 2015
Collateral trust bonds:		
2007 indenture:		
Distribution system mortgage notes	\$ 7,335,292	\$ 6,551,836
RUS guaranteed loans qualifying as permitted investments	152,966	156,665
Total pledged collateral	\$ 7,488,258	\$ 6,708,501
Collateral trust bonds outstanding	6,747,711	6,197,711
1994 indenture:		
Distribution system mortgage notes	\$ 852,944	\$ 905,656
Collateral trust bonds outstanding	800,000	855,000
Farmer Mac:		
Distribution and power supply system mortgage notes	\$ 2,736,592	\$ 2,160,805
Notes payable outstanding	2,312,616	1,910,688
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes	\$ 17,656	\$ 19,260
Cash	—	485
Total pledged collateral	\$ 17,656	\$ 19,745
Notes payable outstanding	14,871	16,529

We are required to maintain collateral on deposit in an amount at least equal to the balance of debt outstanding to the Federal Financing Bank (“FFB”) of the United States Treasury issued under the Guaranteed Underwriter Program of the USDA (the “Guaranteed Underwriter Program”). See “Note 5—Short-Term Debt and Credit Arrangements” and “Note 6—Long-Term Debt.”

The following table shows the collateral on deposit and the amount of the corresponding debt outstanding as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016	May 31, 2015
FFB:		
Distribution and power supply system mortgage notes on deposit	\$ 5,404,553	\$ 4,943,746
Notes payable outstanding	4,786,627	4,406,785

On March 29, 2016, we entered into a second amended restated and consolidated pledge agreement with RUS and U.S. Bank National Association to pledge all mortgage notes previously held on deposit pursuant to the Guaranteed Underwriter Program and, in connection with any advance, pledge collateral satisfactory to RUS pursuant to the terms of the facility. The agreement replaces the previous pledge agreement, dated December 13, 2012, and will govern all collateral under the Guaranteed Underwriting Program.

NOTE 4—FORECLOSED ASSETS

CAH is the only entity in which we held foreclosed assets as of February 29, 2016. CAH had total assets, which consisted primarily of property, plant and equipment and goodwill and other intangible assets of \$164 million as of February 29, 2016. CAH had total liabilities of \$241 million as of February 29, 2016 and an equity deficit of \$77 million. CAH’s total liabilities

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included loans and interest payable to CFC, which have been eliminated in consolidation, of \$190 million as of February 29, 2016.

Sale of CAH

On September 30, 2015, CFC entered into a Purchase Agreement with CAH, ATN VI Holdings, LLC (“Atlantic”) and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. We expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event.

Foreclosed Asset Activity

The table below summarizes amounts recorded in our consolidated financial statements for CAH as of and for the nine months ended February 29, 2016.

(Dollars in thousands)	Nine Months Ended February 29, 2016
Balance as of May 31, 2015	\$ 116,507
Change in estimated net proceeds ⁽¹⁾	1,904
Balance as of February 29, 2016	<u>\$ 118,411</u>

⁽¹⁾Included as a component of results of foreclosed assets on our consolidated statements of operations.

The amount recorded on our condensed consolidated balance sheet for CAH of \$118 million as of February 29, 2016 reflects the expected net proceeds from the completion of the CAH sales transaction. The expected net proceeds is based on the contractual purchase price of \$145 million, plus agreed-upon purchase price adjustments less estimated selling costs.

NOTE 5—SHORT-TERM DEBT AND CREDIT ARRANGEMENTS

The following is a summary of short-term debt outstanding as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016	May 31, 2015
Short-term debt:		
Commercial paper sold through dealers, net of discounts ⁽¹⁾	\$ 954,884	\$ 984,954
Commercial paper sold directly to members, at par ⁽¹⁾⁽²⁾	865,611	736,162
Select notes	741,927	671,635
Daily liquidity fund notes	544,503	509,131
Medium-term notes sold to members	202,095	225,872
Total short-term debt.....	<u>\$ 3,309,020</u>	<u>\$ 3,127,754</u>

⁽¹⁾ Backup liquidity is provided by our revolving credit agreements.

⁽²⁾ Includes commercial paper sold directly to associates and affiliates.

Revolving Credit Agreements

We had \$3,420 million of commitments under revolving credit agreements as of February 29, 2016 and May 31, 2015.

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Under our current revolving credit agreements, we have the ability to request up to \$300 million of letters of credit, which would result in a reduction in the remaining available under the facilities. On November 19, 2015, we amended and restated the \$1,665 million three-year and \$1,645 million five-year revolving credit agreements to extend the maturity dates to November 19, 2018 and November 19, 2020, respectively, from October 28, 2017 and October 28, 2019, respectively. Commitments of \$25 million under the three-year agreement will expire at the prior maturity date of October 28, 2017. Commitments of \$45 million under the five-year agreement will expire at the prior maturity date of October 28, 2019. Also, as part of the amendment, the commitments from three banks were increased by \$45 million.

Prior to this amendment, NCSC assumed \$155 million in commitments from one of the banks, which was reduced to \$110 million as part of the amendment on November 19, 2015. Although the total commitment amount under our new revolving credit agreements is unchanged from the previous total of \$3,420 million, NCSC's commitment amount is excluded from the commitment amount from third parties of \$3,310 million because NCSC receives all of its funding from CFC and NCSC's financial results are consolidated with CFC. The NCSC assumption of \$110 million of commitments under the revolving credit agreements also reduces the total letters of credit from third parties, to \$290 million.

The following table presents the total commitment, the net amount available for use and the outstanding letters of credit under our revolving credit agreements as of February 29, 2016 and May 31, 2015.

(Dollars in millions)	February 29, 2016			May 31, 2015			Maturity	Annual Facility Fee ⁽²⁾
	Total Commitment	Letters of Credit Outstanding	Net Available for Use ⁽¹⁾	Total Commitment	Letters of Credit Outstanding	Net Available for Use ⁽¹⁾		
3-year agreement ..	\$ 25	\$ —	\$ 25	\$ 1,720	\$ —	\$ 1,720	October 28, 2017	7.5 bps
5-year agreement ..	45	—	45	1,700	1	1,699	October 28, 2019	10 bps
3-year agreement ..	1,640	—	1,640	—	—	—	November 19, 2018	7.5 bps
5-year agreement ..	1,600	1	1,599	—	—	—	November 19, 2020	10 bps
Total	<u>\$ 3,310</u>	<u>\$ 1</u>	<u>\$ 3,309</u>	<u>\$ 3,420</u>	<u>\$ 1</u>	<u>\$ 3,419</u>		

⁽¹⁾ Reflects amounts available from unaffiliated third parties that are not consolidated by CFC.

⁽²⁾ Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

The following represents our required and actual financial ratios under the revolving credit agreements as of February 29, 2016 and May 31, 2015.

	Requirement	Actual	
		February 29, 2016	May 31, 2015
Minimum average adjusted TIER over the six most recent fiscal quarters ⁽¹⁾	1.025	1.27	1.28
Minimum adjusted TIER for the most recent fiscal year ^{(1) (2)}	1.05	1.30	1.30
Maximum ratio of adjusted senior debt to total equity ⁽¹⁾	10.00	6.31	5.93

⁽¹⁾ In addition to the adjustments made to the leverage ratio set forth in "Item 7. MD&A—Non-GAAP Financial Measures," senior debt excludes guarantees to member systems that have certain investment-grade ratings by Moody's and S&P. The TIER and debt-to-equity calculations include the adjustments set forth in "Item 7. MD&A—Non-GAAP Financial Measures" and exclude the results of operations and other comprehensive income for CAH.

⁽²⁾ We must meet or exceed the required ratios in order to retire patronage capital.

We were in compliance with all covenants and conditions under our revolving credit agreements and there were no borrowings outstanding under these agreements as of February 29, 2016 and May 31, 2015.

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NOTE 6—LONG-TERM DEBT

The following is a summary of long-term debt outstanding as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016	May 31, 2015
Unsecured long-term debt:		
Medium-term notes sold through dealers	\$ 2,793,119	\$ 2,749,894
Medium-term notes sold to members	360,917	392,298
Subtotal medium-term notes	3,154,036	3,142,192
Unamortized discount	(580)	(706)
Debt issuance costs	(17,190)	(15,335)
Total unsecured medium-term notes	3,136,266	3,126,151
Guaranteed Underwriter Program notes payable	4,786,627	4,406,785
Debt issuance costs	(300)	(320)
Total Guaranteed Underwriter Program notes payable	4,786,327	4,406,465
Other unsecured notes payable	29,092	31,168
Unamortized discount	(527)	(626)
Debt issuance costs	(130)	(155)
Total other unsecured notes payable	28,435	30,387
Total unsecured notes payable	4,814,762	4,436,852
Total unsecured long-term debt	7,951,028	7,563,003
Secured long-term debt:		
Collateral trust bonds	7,547,711	7,052,711
Unamortized discount	(268,024)	(271,201)
Debt issuance costs	(30,283)	(26,443)
Total collateral trust bonds	7,249,404	6,755,067
Farmer Mac notes payable	2,312,616	1,910,688
Other secured notes payable	14,871	16,529
Debt issuance costs	(422)	(493)
Total other secured notes payable	14,449	16,036
Total secured notes payable	2,327,065	1,926,724
Total secured long-term debt	9,576,469	8,681,791
Total long-term debt	\$ 17,527,497	\$ 16,244,794

Collateral Trust Bonds

During the nine months ended February 29, 2016, we issued a total of \$1,450 million collateral trust bonds with an average coupon of 2.48% and maturities ranging between 2019 and 2025. On February 16, 2016, we redeemed \$300 million of 3.05% collateral trust bonds due March 1, 2016. The premium and unamortized issuance costs totaling \$0.3 million were recorded as a loss on early extinguishment of debt during the third quarter of fiscal year 2016.

Unsecured Notes Payable

As of February 29, 2016 and May 31, 2015, we had unsecured notes payable totaling \$4,786 million and \$4,407 million, respectively, outstanding under bond purchase agreements with the FFB and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program, which provides guarantees to the FFB. We pay RUS a fee of 30 basis points per year on the total amount borrowed. As of February 29, 2016, \$4,786 million of unsecured notes payable outstanding under the Guaranteed Underwriter Program require us to place mortgage notes on deposit in an amount at least equal to the principal balance of the notes outstanding. See “Note 3—Loans and Commitments” for additional information on the

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mortgage notes held on deposit and the triggering events that result in these mortgage notes becoming pledged as collateral. During the nine months ended February 29, 2016, we borrowed \$400 million under the Guaranteed Underwriter Program. As of February 29, 2016, we had up to \$350 million available under committed loan facilities from the Federal Financing Bank as part of this program. We are required to maintain collateral on deposit in an amount at least equal to the balance of debt outstanding to the FFB under this program. On September 28, 2015, we received a commitment from RUS to guarantee a loan from the Federal Financing Bank for additional funding of \$250 million as part of the Guaranteed Underwriter Program. As a result, we will have an additional \$250 million available under the Guaranteed Underwriter Program with a 20-year maturity repayment period during the three-year period following the date of closing.

Secured Notes Payable

As of February 29, 2016 and May 31, 2015, secured notes payable include \$2,313 million and \$1,911 million, respectively, in debt outstanding to Farmer Mac under a note purchase agreement totaling \$4,500 million. Under the terms of the note purchase agreement, we can borrow up to \$4,500 million at any time through January 11, 2020, and thereafter automatically extend the agreement on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides CFC with a notice that the draw period would not be extended beyond the remaining term. During the nine months ended February 29, 2016, we borrowed a total of \$430 million under the note purchase agreement with Farmer Mac. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac totaling \$300 million. Under the terms of the new agreement, we can borrow up to \$300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

We are required to pledge eligible distribution system or power supply system loans as collateral in an amount at least equal to the total principal amount of notes outstanding under the Farmer Mac agreements. See “Note 3—Loans and Commitments” for additional information on the collateral pledged to secure notes payable under these programs.

As of February 29, 2016 and May 31, 2015, we were in compliance with all covenants and conditions under our senior debt indentures.

NOTE 7—SUBORDINATED DEFERRABLE DEBT

As of both February 29, 2016 and May 31, 2015, we had \$396 million of 4.75% subordinated deferrable debt outstanding due in 2043. The outstanding balance is presented net of \$4 million in unamortized debt issuance costs for both periods. Subordinated deferrable debt currently outstanding is callable at par on or after April 30, 2023.

NOTE 8—DERIVATIVE FINANCIAL INSTRUMENTS

Use of Derivatives

We are an end user of derivative financial instruments and do not engage in derivative trading. We use derivatives, primarily interest rate swaps and treasury rate locks, to manage interest rate risk. Derivatives may be privately negotiated contracts, which are often referred to as over-the-counter (“OTC”) derivatives, or they may be listed and traded on an exchange. We generally engage in OTC derivative transactions.

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Accounting for Derivatives

In accordance with the accounting standards for derivatives and hedging activities, we record derivative instruments at fair value as either a derivative asset or derivative liability on our condensed consolidated balance sheets. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master netting agreements or collateral netting. Derivatives in a gain position are reported as derivative assets on our condensed consolidated balance sheets, while derivatives in a loss position are reported as derivative liabilities. Accrued interest related to derivatives is reported on our condensed consolidated balance sheets as a component of either accrued interest and other receivables or accrued interest payable.

If we do not elect hedge accounting treatment, changes in the fair value of derivative instruments, which consist of net accrued periodic derivative cash settlements and derivative forward value amounts, are recognized in our consolidated statements of operations under derivative gains (losses). If we elect hedge accounting treatment for derivatives, we formally document, designate and assess the effectiveness of the hedge relationship. Changes in the fair value of derivatives designated as qualifying fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any related ineffectiveness. Changes in the fair value of derivatives designated as qualifying cash flow hedges are recorded as a component of other comprehensive income ("OCI"), to the extent that the hedge relationships are effective, and reclassified AOCI to earnings using the effective interest method over the term of the forecasted transaction. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statement of operations.

We generally do not designate interest rate swaps, which represent the substantial majority of our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). Net periodic cash settlements related to interest rate swaps are classified as an operating activity in our consolidated statements of cash flows.

We typically designate treasury rate locks as cash flow hedges of forecasted debt issuances. Accordingly, changes in the fair value of the derivative instruments are recorded as a component of OCI and reclassified to interest expense when the forecasted transaction occurs using the effective interest method. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statements of operations. We did not have any derivatives designated as accounting hedges as of February 29, 2016 and May 31, 2015.

Outstanding Notional Amount of Derivatives

The notional amount provides an indication of the volume of our derivatives activity, but this amount is not recorded on our condensed consolidated balance sheets. The notional amount is used only as the basis on which interest payments are determined and is not the amount exchanged. The following table shows the outstanding notional amounts and the weighted-average rate paid and received for our interest rate swaps, by type, as of February 29, 2016 and May 31, 2015. The substantial majority of our interest rate exchange agreements use an index based on the London Interbank Offered Rate ("LIBOR") for either the pay or receive leg of the swap agreement.

(Dollars in thousands)	February 29, 2016			May 31, 2015		
	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,731,641	2.95%	0.61%	\$ 5,776,533	3.15%	0.28%
Receive-fixed swaps.....	3,499,000	1.01	2.82	3,849,000	0.79	3.09
Total interest rate swaps.....	<u>\$10,230,641</u>	<u>2.29</u>	<u>1.36</u>	<u>\$ 9,625,533</u>	<u>2.21</u>	<u>1.40</u>

In addition to the notional amount of swaps shown in the chart above, we have \$40 million notional amount of forward starting swaps with an effective date of June 30, 2016. As of February 29, 2016, the \$40 million notional amount of

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forward starting swaps had a related fair value recorded on our condensed consolidated balance sheet. Because these swaps were not effective as of February 29, 2016, there have been no accrued cash settlement amounts as of this date.

Impact of Derivatives on Condensed Consolidated Balance Sheets

The following table displays the fair value of the derivative assets and derivative liabilities recorded on our condensed consolidated balance sheets and the related outstanding notional amount of our interest rate swaps as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016		May 31, 2015	
	Fair Value	Notional Balance	Fair Value	Notional Balance
Derivative assets	\$ 104,535	\$ 3,499,000	\$ 115,276	\$ 3,448,615
Derivative liabilities	(688,998)	6,731,641	(408,382)	6,176,918
Total	<u>\$ (584,463)</u>	<u>\$ 10,230,641</u>	<u>\$ (293,106)</u>	<u>\$ 9,625,533</u>

All of our master swap agreements include legally enforceable netting provisions that allow for offsetting of all contracts with a given counterparty in the event of default by one of the two parties. However, as indicated above, we report derivative asset and liability amounts on a gross basis based on individual contracts. The following table presents the gross fair value of derivative assets and liabilities reported on our condensed consolidated balance sheets as of February 29, 2016 and May 31, 2015, and provides information on the impact of netting provisions and collateral pledged.

(Dollars in thousands)	February 29, 2016					
	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps.....	\$ 104,535	\$ —	\$ 104,535	\$ 104,535	\$ —	\$ —
Derivative liabilities:						
Interest rate swaps.....	688,998	—	688,998	104,535	—	584,463

(Dollars in thousands)	May 31, 2015					
	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps.....	\$ 115,276	\$ —	\$ 115,276	\$ 115,276	\$ —	\$ —
Derivative liabilities:						
Interest rate swaps.....	408,382	—	408,382	115,276	—	293,106

Impact of Derivatives on Condensed Consolidated Statements of Operations

Derivative gains (losses) reported in our condensed consolidated statements of operations consist of derivative cash settlements and derivative forward value. Derivative cash settlements represent net contractual interest expense accruals on

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interest rate swaps during the period. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in the estimate of future interest rates over the remaining life of our derivative contracts.

The following table presents the components of the derivative gains (losses) reported in our condensed consolidated statements of operations for our interest rate swaps for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Derivative cash settlements	\$ (22,556)	\$ (21,512)	\$ (65,285)	\$ (63,377)
Derivative forward value	(220,480)	(77,258)	(290,952)	(159,832)
Derivative losses	<u>\$ (243,036)</u>	<u>\$ (98,770)</u>	<u>\$ (356,237)</u>	<u>\$ (223,209)</u>

Credit-Risk-Related Contingent Features

Our derivative contracts typically contain mutual credit rating downgrade provisions, referred to as rating triggers. Under the mutual rating trigger provisions, a counterparty may, but is not obligated to, terminate and settle the agreement if the credit rating of the other counterparty falls to a level specified in the agreement. Our senior unsecured credit ratings from Moody's and S&P were A2 and A, respectively, as of February 29, 2016. Moody's had our ratings on stable outlook as of February 29, 2016, while S&P had our ratings on negative outlook as of February 29, 2016.

The table below displays the notional amounts of our derivative contracts with rating triggers as of February 29, 2016 and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings below A3/A-, below Baa1/BBB+, to or below Baa2/BBB, below Baa3/BBB-, or to or below Ba2/BB+ by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements for each counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

(Dollars in thousands)	Notional Amount	Payable Due From CFC	Receivable Due to CFC	Net (Payable)/ Receivable
Impact of mutual rating downgrade trigger:				
Falls below A3/A- ⁽¹⁾	\$ 63,295	\$ (19,794)	\$ —	\$ (19,794)
Falls below Baa1/BBB+	6,556,100	(348,858)	—	(348,858)
Falls to or below Baa2/BBB ⁽²⁾	162,325	(3,955)	—	(3,955)
Falls below Baa3/BBB-	400,000	(31,606)	—	(31,606)
Total	<u>\$ 7,181,720</u>	<u>\$ (404,213)</u>	<u>\$ —</u>	<u>\$ (404,213)</u>

⁽¹⁾ Rating trigger for CFC falls below A3/A-, while rating trigger for counterparty falls below Baa1/BBB+ by Moody's or S&P, respectively.

⁽²⁾ Rating trigger for CFC falls to or below Baa2/BBB, while rating trigger for counterparty falls to or below Ba2/BB+ by Moody's or S&P, respectively.

The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was \$412 million as of February 29, 2016. There were no interest rate swaps with rating triggers that were in a net asset position as of February 29, 2016.

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NOTE 9—EQUITY

Total equity decreased by \$195 million during the nine months ended February 29, 2016 to \$716 million as of February 29, 2016. The decrease in total equity was primarily attributable to our net loss of \$156 million for the period and patronage capital retirement of \$39 million.

In July 2015, the CFC Board of Directors authorized the allocation of the fiscal year 2015 net earnings as follows: \$1 million to the Cooperative Educational Fund, \$16 million to the members' capital reserve and \$78 million to members in the form of patronage.

In July 2015, the CFC Board of Directors authorized the retirement of allocated net earnings totaling \$39 million, representing 50% of the fiscal year 2015 allocation. This amount was returned to members in cash in September 2015. Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors with due regard for its financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulations.

Equity includes the following components as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016	May 31, 2015
Membership fees.....	\$ 972	\$ 976
Educational fund.....	1,123	1,767
Total membership fees and educational fund.....	2,095	2,743
Patronage capital allocated.....	629,596	668,980
Members' capital reserve.....	501,302	501,731
Unallocated net income (loss) ⁽¹⁾	129,999	(6,135)
Total members equity ⁽¹⁾	1,262,992	1,167,319
Prior years cumulative derivative forward value adjustments.....	(287,077)	(172,412)
Current year derivative forward value loss ⁽²⁾	(289,498)	(114,665)
Cumulative derivative forward value adjustments.....	(576,575)	(287,077)
CFC retained equity.....	686,417	880,242
Accumulated other comprehensive income.....	4,114	4,080
Total CFC equity.....	690,531	884,322
Noncontrolling interests.....	25,965	27,464
Total equity.....	<u>\$ 716,496</u>	<u>\$ 911,786</u>

⁽¹⁾ Excludes derivative forward value.

⁽²⁾ Represents the derivative forward value income (loss) recorded by CFC for the year-to-date period.

Accumulated Other Comprehensive Income

The activity in the accumulated other comprehensive income account is summarized below by component as of and for the three and nine months ended February 29, 2016 and February 28, 2015.

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Three Months Ended February 29, 2016

(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	\$ 6,820	\$ 4,902	\$ (4,248)	\$ (889)	\$ 6,585
Unrealized losses	(2,297)	—	—	—	(2,297)
Losses reclassified into earnings	—	—	—	43	43
Gains reclassified into earnings	—	(217)	—	—	(217)
Other comprehensive income (loss) ..	(2,297)	(217)	—	43	(2,471)
Ending balance	<u>\$ 4,523</u>	<u>\$ 4,685</u>	<u>\$ (4,248)</u>	<u>\$ (846)</u>	<u>\$ 4,114</u>

Three Months Ended February 28, 2015

(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	\$ 3,241	\$ 5,842	\$ (2,310)	\$ —	\$ 6,773
Unrealized gains	1,644	—	—	—	1,644
Unrealized losses	—	—	—	(1,091)	(1,091)
Losses reclassified into earnings	—	—	—	29	29
Gains reclassified into earnings	—	(236)	—	—	(236)
Other comprehensive income	1,644	(236)	—	(1,062)	346
Ending balance	<u>\$ 4,885</u>	<u>\$ 5,606</u>	<u>\$ (2,310)</u>	<u>\$ (1,062)</u>	<u>\$ 7,119</u>

Nine Months Ended February 29, 2016

(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	\$ 3,934	\$ 5,371	\$ (4,248)	\$ (977)	\$ 4,080
Unrealized gains	589	—	—	—	589
Losses reclassified into earnings	—	—	—	131	131
Gains reclassified into earnings	—	(686)	—	—	(686)
Other comprehensive income	589	(686)	—	131	34
Ending balance	<u>\$ 4,523</u>	<u>\$ 4,685</u>	<u>\$ (4,248)</u>	<u>\$ (846)</u>	<u>\$ 4,114</u>

Nine Months Ended February 28, 2015

(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	\$ (361)	\$ 6,320	\$ (2,310)	\$ —	\$ 3,649
Unrealized gains	5,246	—	—	—	5,246
Unrealized losses	—	—	—	(1,091)	(1,091)
Losses reclassified into earnings	—	—	—	29	29
Gains reclassified into earnings	—	(714)	—	—	(714)
Other comprehensive income	5,246	(714)	—	(1,062)	3,470
Ending balance	<u>\$ 4,885</u>	<u>\$ 5,606</u>	<u>\$ (2,310)</u>	<u>\$ (1,062)</u>	<u>\$ 7,119</u>

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NOTE 10—GUARANTEES

The following table summarizes total guarantees by type of guarantee and member class as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016	May 31, 2015
Total by type:		
Long-term tax-exempt bonds	\$ 476,860	\$ 489,520
Letters of credit	324,710	382,233
Other guarantees.....	113,789	114,747
Total	<u>\$ 915,359</u>	<u>\$ 986,500</u>
Total by member class:		
CFC:		
Distribution	\$ 132,391	\$ 172,104
Power supply.....	745,640	763,746
Statewide and associate.....	17,085	17,025
CFC total	<u>895,116</u>	<u>952,875</u>
RTFC	1,574	1,574
NCSC	18,669	32,051
Total	<u>\$ 915,359</u>	<u>\$ 986,500</u>

The maturities for the long-term tax-exempt bonds and the related guarantees run through calendar year 2042. Amounts in the table represent the outstanding principal amount of the guaranteed bonds. As of February 29, 2016, our maximum potential exposure for the \$70 million of fixed-rate tax-exempt bonds is \$99 million, representing principal and interest. Of the amounts shown in the table above for long-term tax-exempt bonds, \$407 million and \$418 million as of February 29, 2016 and May 31, 2015, respectively, are adjustable or floating-rate bonds that may be converted to a fixed rate as specified in the applicable indenture for each bond offering. We are unable to determine the maximum amount of interest that we could be required to pay related to the remaining adjustable and floating-rate bonds. Many of these bonds have a call provision that in the event of a default allow us to trigger the call provision. This would limit our exposure to future interest payments on these bonds. Our maximum potential exposure is secured by mortgage liens on all of the systems' assets and future revenue. If a system's debt is accelerated because of a determination that the interest thereon is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan.

The maturities for letters of credit run through calendar year 2024. The amounts shown in the table above represent our maximum potential exposure, of which \$119 million is secured as of February 29, 2016. As of February 29, 2016 and May 31, 2015, the letters of credit include \$76 million to provide the standby liquidity for adjustable and floating-rate tax-exempt bonds issued for the benefit of our members, respectively. Security provisions include a mortgage lien on substantially all of the system's assets, future revenue and the system's investment in our commercial paper.

In addition to the letters of credit listed in the table above, under master letter of credit facilities in place as of February 29, 2016, we may be required to issue up to an additional \$85 million in letters of credit to third parties for the benefit of our members. As of February 29, 2016, all of our master letter of credit facilities were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

The maturities for other guarantees listed in the table run through calendar year 2025. The maximum potential exposure for these other guarantees is \$115 million, all of which is unsecured.

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As of February 29, 2016 and May 31, 2015, we had \$320 million and \$434 million of guarantees, respectively, representing 35% and 44%, respectively, of total guarantees, under which our right of recovery from our members was not secured.

In addition to the guarantees described above, as of February 29, 2016, we were the liquidity provider for a total of \$483 million of variable-rate tax-exempt bonds issued for our member cooperatives. While the bonds are in variable-rate mode, in return for a fee, we have unconditionally agreed to purchase bonds tendered or put for redemption if the remarketing agents are unable to sell such bonds to other investors. During the nine months ended February 29, 2016, we were not required to perform as liquidity provider pursuant to these obligations.

Guarantee Liability

As of February 29, 2016 and May 31, 2015, we recorded a guarantee liability of \$18 million and \$20 million respectively, which represents the contingent and non-contingent exposures related to guarantees and liquidity obligations. The contingent guarantee liability as of February 29, 2016 and May 31, 2015 was \$1 million based on management's estimate of exposure to losses within the guarantee portfolio. The remaining balance of the total guarantee liability of \$17 million and \$19 million as of February 29, 2016 and May 31, 2015, respectively, relates to our non-contingent obligation to stand ready to perform over the term of our guarantees and liquidity obligations that we have entered into or modified since January 1, 2003.

NOTE 11—FAIR VALUE MEASUREMENTS

We use fair value measurements to record fair value adjustments for certain assets and liabilities and to determine fair value disclosures. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). Assets and liabilities accounted for and reported at fair value in our consolidated financial statements on a recurring basis each reporting period include our available-for-sale investment securities and derivative instruments. Assets that are not measured at fair value each reporting period but are subject to fair value measurements on a nonrecurring basis in certain circumstances include impaired loans and long-lived assets classified as held for sale. The adjustments related to assets measured at fair value on a nonrecurring basis usually result from the application of lower-of-cost-market accounting or impairment of individual assets.

Fair Value Hierarchy

The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on the markets in which the assets or liabilities trade and whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are summarized below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities
- Level 3: Unobservable inputs

For additional information regarding the fair value hierarchy and a description of the methodologies we use to measure fair value, see "Note 13—Fair Value Measurements" and "Note 14—Fair Value of Financial Instruments" to the Consolidated Financial Statements in our 2015 Form 10-K.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Recurring Fair Value Measurements

The table below presents the carrying value and fair value of financial instruments reported in our condensed consolidated financial statements at fair value on a recurring basis as of February 29, 2016 and May 31, 2015, and the classification level of the fair value methodology within the fair value measurement hierarchy.

(Dollars in thousands)	February 29, 2016			May 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Investment securities, available for sale..	\$ 85,061	\$ —	\$ 85,061	\$ 84,472	\$ —	\$ 84,472
Deferred compensation investments.....	3,953	—	3,953	4,294	—	4,294
Derivative assets.....	—	104,535	104,535	—	115,276	115,276
Derivative liabilities	—	688,998	688,998	—	408,382	408,382

Transfers Between Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between levels. We did not have any transfers between levels for financial instruments measured at fair value on a recurring basis for the nine months ended February 29, 2016 and February 28, 2015.

Nonrecurring Fair Value

The table below presents the carrying value and fair value of assets reported in our condensed consolidated financial statements at fair value on a nonrecurring basis as of February 29, 2016 and May 31, 2015, and unrealized losses for the three and nine months ended February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Level 3 Fair Value		Unrealized Losses Three Months Ended,		Unrealized Losses Nine Months Ended,	
	February 29, 2016	May 31, 2015	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Impaired loans, net of specific reserves ⁽¹⁾	\$ 8,527	\$ —	\$ (1,890)	\$ —	\$ (3,901)	\$ (943)

⁽¹⁾ Excludes impaired loans for which there is no specific allowance recorded.

Significant Unobservable Level 3 Inputs

Impaired Loans

We utilize the fair value of the collateral underlying the loan or the estimated cash flows to determine the fair value and specific allowance for impaired loans. In estimating the fair value of the collateral, we may use third-party valuation specialists, internal estimates or a combination of both. The valuation technique used to determine fair value of the impaired loans provided by both our internal staff and third-party specialists includes market multiples (i.e., comparable companies). The significant unobservable inputs used in the determination of fair value for individually impaired loans is a multiple of earnings before interest, taxes, depreciation and amortization based on various factors (i.e., financial condition of the borrower). The significant unobservable inputs for estimating the fair value of impaired collateral-dependent loans are reviewed by our Credit Risk Management group to assess the reasonableness of the assumptions used and the accuracy of the work performed. In cases where we rely on third-party inputs, we use the final unadjusted third-party valuation analysis as support for any adjustments to our consolidated financial statements and disclosures.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Because of the limited amount of impaired loans as of February 29, 2016 and May 31, 2015, we do not believe that potential changes in the significant unobservable inputs used in the determination of the fair value for impaired loans will have a material impact on the fair value measurement of these assets or our results of operations.

NOTE 12—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying value and fair value, and the classification level within the fair value measurement hierarchy, of our financial instruments as of February 29, 2016 and May 31, 2015.

(Dollars in thousands)	February 29, 2016		Fair Value Measurements Using		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents.....	\$ 299,024	\$ 299,024	\$ 299,024	\$ —	\$ —
Restricted cash	4,268	4,268	4,268	—	—
Time deposits	340,000	340,000	—	340,000	—
Investment securities, available for sale	85,061	85,061	85,061	—	—
Deferred compensation investments	3,953	3,953	3,953	—	—
Loans to members, net	23,106,181	23,424,554	—	—	23,424,554
Accrued interest and other receivables .	179,212	179,212	179,212	—	—
Debt service reserve funds	17,151	17,151	17,151	—	—
Derivative assets	104,535	104,535	—	104,535	—
Liabilities:					
Short-term debt	3,309,020	3,308,517	1,499,503	1,809,014	—
Long-term debt.....	17,527,497	18,611,196	—	11,311,512	7,299,684
Accrued interest payable	185,758	185,758	185,758	—	—
Guarantee liability	18,155	20,144	—	—	20,144
Derivative liabilities	688,998	688,998	—	688,998	—
Subordinated deferrable debt	395,754	389,220	—	389,220	—
Members' subordinated certificates	1,444,515	1,444,539	—	—	1,444,539

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands)	May 31, 2015		Fair Value Measurements Using		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents.....	\$ 248,836	\$ 248,836	\$ 248,836	\$ —	\$ —
Restricted cash	485	485	485	—	—
Time deposits	485,000	485,000	—	485,000	—
Investment securities, available for sale	84,472	84,472	84,472	—	—
Deferred compensation investments	4,294	4,294	4,294	—	—
Loans to members, net	21,435,327	21,961,048	—	—	21,961,048
Accrued interest and other receivables .	197,828	197,828	197,828	—	—
Debt service reserve funds	25,602	25,602	25,602	—	—
Derivative instruments	115,276	115,276	—	115,276	—
Liabilities:					
Short-term debt	3,127,754	3,127,541	1,494,131	1,633,410	—
Long-term debt.....	16,244,794	17,356,223	—	10,878,302	6,477,921
Accrued interest payable	123,697	123,697	123,697	—	—
Guarantee liability	19,917	22,545	—	—	22,545
Derivative instruments	408,382	408,382	—	408,382	—
Subordinated deferrable debt	395,699	406,000	—	406,000	—
Members' subordinated certificates	1,505,420	1,505,444	—	—	1,505,444

We consider observable prices in the principal market in our valuations where possible. Fair value estimates were developed at the reporting date and may not necessarily be indicative of amounts that could ultimately be realized in a market transaction at a future date. For additional information regarding the fair value hierarchy and a description of the methodologies we use to measure fair value, see “Note 13—Fair Value Measurements” and “Note 14—Fair Value of Financial Instruments” to the Consolidated Financial Statements in our 2015 Form 10-K. See “Note 11—Fair Value Measurement” for additional information on assets and liabilities reported at fair value on a recurring and nonrecurring basis on our condensed consolidated balance sheets.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 13—SEGMENT INFORMATION

The following tables display segment results for the three and nine months ended February 29, 2016 and February 28, 2015, and assets attributable to each segment as of February 29, 2016 and February 28, 2015.

(Dollars in thousands)	Three Months Ended February 29, 2016			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 250,814	\$ 11,367	\$ (8,548)	\$ 253,633
Interest expense	(170,872)	(8,865)	8,548	(171,189)
Net interest income.....	79,942	2,502	—	82,444
Provision for loan losses.....	1,735	—	—	1,735
Net interest income after provision for loan losses	81,677	2,502	—	84,179
Non-interest income:				
Fee and other income.....	5,341	984	(721)	5,604
Derivative losses	(240,363)	(2,673)	—	(243,036)
Results of operations of foreclosed assets	1,472	—	—	1,472
Total non-interest income.....	(233,550)	(1,689)	(721)	(235,960)
Non-interest expense:				
General and administrative expenses.....	(20,266)	(2,341)	255	(22,352)
Losses on early extinguishment of debt.....	(333)	—	—	(333)
Other	(509)	(466)	466	(509)
Total non-interest expense.....	(21,108)	(2,807)	721	(23,194)
Loss before income taxes.....	(172,981)	(1,994)	—	(174,975)
Income tax benefit	—	593	—	593
Net loss	\$ (172,981)	\$ (1,401)	\$ —	\$ (174,382)

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(Dollars in thousands)	Three Months Ended February 28, 2015			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 235,616	\$ 11,791	\$ (8,667)	\$ 238,740
Interest expense	(156,489)	(9,028)	8,667	(156,850)
Net interest income.....	79,127	2,763	—	81,890
Provision for loan losses.....	(2,304)	—	—	(2,304)
Net interest income after provision for loan losses	76,823	2,763	—	79,586
Non-interest income:				
Fee and other income	4,928	922	(830)	5,020
Derivative losses	(97,424)	(1,346)	—	(98,770)
Results of operations from foreclosed assets	(1,369)	—	—	(1,369)
Total non-interest income.....	(93,865)	(424)	(830)	(95,119)
Non-interest expense:				
General and administrative expenses.....	(16,227)	(2,024)	243	(18,008)
Losses on early extinguishment of debt.....	(703)	—	—	(703)
Other	(7)	(587)	587	(7)
Total non-interest expense.....	(16,937)	(2,611)	830	(18,718)
Loss before income taxes.....	(33,979)	(272)	—	(34,251)
Income tax benefit	—	55	—	55
Net loss	<u>\$ (33,979)</u>	<u>\$ (217)</u>	<u>\$ —</u>	<u>\$ (34,196)</u>

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended February 29, 2016			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 747,490	\$ 34,693	\$ (26,109)	\$ 756,074
Interest expense	(503,061)	(27,061)	26,109	(504,013)
Net interest income.....	244,429	7,632	—	252,061
Provision for loan losses.....	(4,067)	—	—	(4,067)
Net interest income after provision for loan losses	240,362	7,632	—	247,994
Non-interest income:				
Fee and other income	16,020	3,898	(2,582)	17,336
Derivative losses	(352,153)	(4,084)	—	(356,237)
Results of operations of foreclosed assets	1,605	—	—	1,605
Total non-interest income.....	(334,528)	(186)	(2,582)	(337,296)
Non-interest expense:				
General and administrative expenses.....	(58,419)	(7,762)	763	(65,418)
Losses on early extinguishment of debt.....	(333)	—	—	(333)
Other	(875)	(1,819)	1,819	(875)
Total non-interest expense.....	(59,627)	(9,581)	2,582	(66,626)
Loss before income taxes.....	(153,793)	(2,135)	—	(155,928)
Income tax benefit	—	153	—	153
Net loss	\$ (153,793)	\$ (1,982)	\$ —	\$ (155,775)

(Dollars in thousands)	February 29, 2016			
	CFC	Other	Elimination	Consolidated Total
Assets:				
Total loans outstanding.....	\$ 23,095,053	\$ 1,055,203	\$ (1,016,041)	\$ 23,134,215
Deferred loan origination costs.....	9,884	—	—	9,884
Less: Allowance for loan losses	(37,918)	—	—	(37,918)
Loans to members, net.....	23,067,019	1,055,203	(1,016,041)	23,106,181
Other assets.....	1,270,625	120,001	(103,782)	1,286,844
Total assets.....	\$ 24,337,644	\$ 1,175,204	\$ (1,119,823)	\$ 24,393,025

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended February 28, 2015			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 701,924	\$ 34,926	\$ (25,584)	\$ 711,266
Interest expense	(470,635)	(26,626)	25,584	(471,677)
Net interest income.....	231,289	8,300	—	239,589
Provision for loan losses.....	3,475	—	—	3,475
Net interest income after provision for loan losses	234,764	8,300	—	243,064
Non-interest income:				
Fee and other income	18,800	2,653	(2,204)	19,249
Derivative losses	(219,656)	(3,553)	—	(223,209)
Results of operations from foreclosed assets	(33,059)	—	—	(33,059)
Total non-interest income.....	(233,915)	(900)	(2,204)	(237,019)
Non-interest expense:				
General and administrative expenses.....	(49,479)	(6,039)	730	(54,788)
Losses on early extinguishment of debt.....	(703)			(703)
Other	50	(1,474)	1,474	50
Total non-interest expense.....	(50,132)	(7,513)	2,204	(55,441)
Loss before income taxes.....	(49,283)	(113)	—	(49,396)
Income tax expense.....	—	(100)	—	(100)
Net loss	<u>\$ (49,283)</u>	<u>\$ (213)</u>	<u>\$ —</u>	<u>\$ (49,496)</u>

(Dollars in thousands)	February 28, 2015			
	CFC	Other	Elimination	Consolidated Total
Assets:				
Total loans outstanding.....	\$ 21,187,603	\$ 1,117,252	\$ (1,102,456)	\$ 21,202,399
Deferred loan origination costs.....	9,693	—	—	9,693
Less: Allowance for loan losses	(53,114)	—	—	(53,114)
Loans to members, net.....	21,144,182	1,117,252	(1,102,456)	21,158,978
Other assets	1,448,655	157,122	(115,834)	1,489,943
Total assets	<u>\$ 22,592,837</u>	<u>\$ 1,274,374</u>	<u>\$ (1,218,290)</u>	<u>\$ 22,648,921</u>

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see “Part I—Item 2. MD&A—Market Risk” and “Note 8—Derivatives.”

Item 4. Controls and Procedures

As of the end of the period covered by this report, senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting that occurred during the three months ended February 29, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, CFC is subject to certain legal proceedings and claims in the ordinary course of business, including litigation with borrowers related to enforcement or collection actions. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, liquidity, or results of operations. CFC establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Accordingly, no reserve has been recorded with respect to any legal proceedings at this time. In June 2015, RTFC received a notice of deficiency from the Virgin Islands Bureau of Internal Revenue (“BIR”) alleging that RTFC owes tax or other amounts, plus interest, in connection with tax years 1996 and 1997, and 1999 through 2005. On September 4, 2015, RTFC filed a petition with the District Court of the Virgin Islands in response to the BIR's notice of deficiency. The BIR filed an answer to RTFC's petition with the District Court of the Virgin Islands on December 11, 2015. The matter remains pending before the court. RTFC believes that these allegations are without merit and will continue to contest this determination.

Item 1A. Risk Factors

Refer to “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K for information regarding factors that could affect our results of operations, financial condition and liquidity. We are not aware of any material changes in the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On March 29, 2016, we closed on a \$250 million Series K committed loan facility from the FFB guaranteed by the United States of America, acting through the RUS. Under this Series K facility, CFC is able to borrow any time before January 15, 2019, with each advance having a final maturity not longer than 20 years from the advance date. We also entered into a

second amended, restated and consolidated pledge agreement to pledge all mortgage notes previously held on deposit pursuant to the Guaranteed Underwriter Program and, in connection with any advance, pledge collateral satisfactory to RUS pursuant to the terms of the facility. Interest rates, including all fees (30 basis points of which are used to support the United States Department of Agriculture's Rural Economic Development Loan and Grant Program), will be at a spread over comparable maturity Treasury Bonds as follows:

10 years or less	42.5 basis points
Greater than 10 years	55 basis points

This new commitment increases total funding available to CFC under committed loan facilities from the FFB to \$600 million. The proceeds of the guaranteed loans are to be used by CFC to make loans for electrification (excluding generation) or telephone purposes, eligible for assistance under the Rural Electrification Act of 1936, as amended, or to refinance bonds or notes issued for such purposes.

The foregoing description is a summary and is qualified in its entirety by reference to the agreements themselves, copies of which are filed as exhibits to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

The following exhibits are incorporated by reference or filed as part of this Report.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1*	— Series K Bond Purchase Agreement between the Registrant, Federal Financing Bank and Rural Utilities Service dated as of March 29, 2016 for up to \$250,000,000
10.2*	— Series K Future Advance Bond from the Registrant to the Federal Financing Bank dated as of March 29, 2016 for up to \$250,000,000 maturing on January 15, 2039
10.3*	— Second Amended, Restated and Consolidated Pledge Agreement dated as of March 29, 2016 between the Registrant, the Rural Utilities Service and U.S. Bank National Association
10.4*	— Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of March 29, 2016 between the Registrant and the Rural Utilities Service
12*	— Computation of Ratio of Earnings to Fixed Charges
31.1*	— Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	— Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	— Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	— Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Calculation Linkbase Document
101.LAB*	— XBRL Taxonomy Label Linkbase Document
101.PRE*	— XBRL Taxonomy Presentation Linkbase Document
101.DEF*	— XBRL Taxonomy Definition Linkbase Document

*Indicates a document being filed with this Report.

^ Identifies a management contract or compensatory plan or arrangement.

†Indicates a document that is furnished with this Report, which shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

Date: April 4, 2016

By: /s/ J. ANDREW DON
J. Andrew Don
Senior Vice President and Chief Financial Officer

By: /s/ ROBERT E. GEIER
Robert E. Geier
Controller (Principal Accounting Officer)

SERIES K BOND PURCHASE AGREEMENT

by and among

FEDERAL FINANCING BANK,

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION,

and

ADMINISTRATOR of the RURAL UTILITIES SERVICE

made as of

March 29, 2016

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EXHIBIT A FORM OF ADVANCE REQUEST

EXHIBIT B FORM OF BOND

EXHIBIT C FORM OF CERTIFICATE SPECIFYING AUTHORIZED BORROWER
OFFICIALS

EXHIBIT D FORM OF CERTIFICATE SPECIFYING AUTHORIZED RUS
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EXHIBIT E FORM OF OPINION OF BORROWER'S COUNSEL re: BORROWER'S
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EXHIBIT F FORM OF OPINION OF RUS'S COUNSEL re: RUS GUARANTEE

EXHIBIT G FORM OF RUS CERTIFICATE

EXHIBIT H FORM OF RUS GUARANTEE

SERIES K BOND PURCHASE AGREEMENT

made as of March 29, 2016, by and among the **FEDERAL FINANCING BANK ("FFB")**, a body corporate and instrumentality of the United States of America, the **NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION** (the "**Borrower**"), a cooperative association organized and existing under the laws of the District of Columbia, and the **ADMINISTRATOR** of the **RURAL UTILITIES SERVICE ("RUS")**, a Rural Development agency of the United States Department of Agriculture.

WHEREAS, RUS is authorized, pursuant to the Guarantee Authority (as hereinafter defined), to guarantee loans that meet the requirements of the Guarantee Authority; and

WHEREAS, FFB is authorized, under section 6(a) of the FFB Act (as hereinafter defined), to make commitments to purchase, and to purchase on terms and conditions determined by FFB, any obligation that is issued, sold, or guaranteed by an agency of the United States of America; and

WHEREAS, FFB is entering into this Series K Bond Purchase Agreement, as authorized by section 6(a) of the FFB Act, setting out, among other things, FFB's agreement to purchase, pursuant to the FFB Act, the Bond (as hereinafter defined) to be issued by the Borrower, when the terms and conditions specified herein have been satisfied, as hereinafter provided; and

WHEREAS, RUS has determined that the Borrower meets the qualifications for being a "lender," as that term is used in the Guarantee Authority, and for being a "Guaranteed Lender," as that term is used in the regulations promulgated by RUS to carry out the Guarantee Authority; and

WHEREAS, RUS is authorized to enter into this Series K Bond Purchase Agreement; and

WHEREAS, the Borrower is authorized to enter into this Series K Bond Purchase Agreement.

NOW, THEREFORE, for and in consideration of the mutual agreements herein contained and for other good and valuable consideration, the receipt and

sufficiency of which is hereby acknowledged, FFB, RUS, and the Borrower agree as follows:

ARTICLE 1

DEFINITIONS AND RULES OF INTERPRETATION

Section 1.1 Definitions.

As used in this Agreement, the following terms shall have the respective meanings specified in this section 1.1, unless the context clearly requires otherwise.

"Advance" shall mean an advance of funds made by FFB under the Bond in accordance with the provisions of article 7 of this Agreement.

"Advance Identifier" shall mean, for each Advance, the particular sequence of letters and numbers constituting the Bond Identifier plus the particular sequence of additional numbers assigned by FFB to the respective Advance in the interest rate confirmation notice relating to such Advance delivered by FFB in accordance with section 7.7 of this Agreement.

"Advance Request" shall mean a letter from a Borrower requesting an Advance under the Bond, in the form of letter attached as Exhibit A to this Agreement.

"Advance Request Approval Notice" shall mean the written notice from RUS located at the end of an Advance Request advising FFB that such Advance Request has been approved on behalf of RUS.

"Bond" shall mean a future advance bond of the Borrower payable to FFB, in the form of bond that is attached as Exhibit B to this Agreement, as such bond may be amended, supplemented, and restated from time to time in accordance with its terms.

"Bond Guarantee Agreement" shall mean the Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of March 29, 2016, made between RUS and the Borrower, as such agreement may be amended, supplemented, and restated from time to time in accordance with its terms.

"Bond Identifier" shall mean the particular sequence of letters and numbers assigned by FFB to the Bond in the Principal Instruments acceptance notice relating to the Bond delivered by FFB in accordance with section 5.1 of this Agreement.

"Borrower Instruments" shall have the meaning specified in section 3.2.1 of this Agreement.

"Business Day" shall mean any day on which FFB and the Federal Reserve Bank of New York are both open for business.

"Certificate Specifying Authorized Borrower Officials" shall mean a certificate of the Borrower specifying the names and titles of those officials of the Borrower who are authorized to execute and deliver from time to time Advance Requests on behalf of the Borrower, and containing the original signature of each of those officials, substantially in the form of the Certificate Specifying Authorized Borrower Officials attached as Exhibit C to this Agreement.

"Certificate Specifying Authorized RUS Officials" shall mean a certificate specifying the names and titles of those officials of RUS who are authorized to execute and deliver Advance Request Approval Notices from time to time on behalf of RUS and setting out the original signature of each of those authorized officials, and specifying the name and title of those officials of RUS who are authorized to confirm telephonically the authenticity of the Advance Request Approval Notices from time to time on behalf of RUS and setting out the telephone number of each of those authorized officials, in the form of the Certificate Specifying Authorized RUS Officials attached as Exhibit D to this Agreement.

"FFB Act" shall mean the Federal Financing Bank Act of 1973 (Pub. L. No. 93-224, 87 Stat. 937, codified at 12 U.S.C. § 2281 et seq.), as amended.

"FFB Financing Options Fee" shall mean the fee, expressed in terms of a basis point increment in the basic interest rate established for an Advance, payable by the Borrower to the Holder if the Borrower elects to have a Fixed Premium Prepayment/Refinancing Privilege apply to such Advance, as described in section 11.3 of this Agreement.

"First Call Date" shall have the meaning specified in section 11.3.2(a) of this Agreement.

"Fixed Premium Prepayment/Refinancing Privilege" shall have the meaning specified in section 11.3.1 of this Agreement.

"Governmental Authority" shall mean any federal, state, county, municipal, or regional authority, or any other entity of a similar nature, exercising any executive, legislative, judicial, regulatory, or administrative function of government.

"Guarantee Authority" shall mean section 313A of the Rural Electrification Act of 1936, as amended (codified at 7 U.S.C. § 940c-1).

"Holder" shall mean FFB, for so long as it shall be the holder of the Bond, and any successor or assignee of FFB, for so long as such successor or assignee shall be the holder of the Bond.

"Loan Commitment Amount" shall mean \$250,000,000.00.

"Market Value Premium (or Discount)" shall have the meaning specified in section 11.2 of this Agreement.

"Market Value Prepayment/Refinancing Privilege" shall have the meaning specified in section 11.2 of this Agreement.

"Maturity Date" shall have the meaning specified in section 7.3.1(a)(5) of this Agreement.

"No-Call Period" shall have the meaning specified in section 11.3.2 of this Agreement.

"Opinion of Borrower's Counsel re: Borrower Instruments" shall mean an opinion of counsel from the General Counsel of the Borrower, substantially in the form of opinion that is attached as Exhibit E to this Agreement.

"Opinion of RUS's Counsel re: RUS Guarantee" shall mean an opinion of counsel from the Acting General Counsel of the Department of Agriculture to the Administrator of RUS, substantially in the form of opinion that is attached as Exhibit F to this Agreement.

"Payment Date" shall mean January 15, April 15, July 15, and October 15 of each year.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, trust company, unincorporated organization or Governmental Authority.

"Pledge Agreement" shall mean the Second Amended, Restated and Consolidated Pledge Agreement dated as of March 29, 2016, made among the Borrower, RUS, and U.S. Bank National Association, a national association, as such agreement may be amended, supplemented, and restated from time to time in accordance with its terms.

"Principal Instruments" shall have the meaning specified in section 4.2 of this Agreement.

"Requested Advance Amount" shall have the meaning specified in section 7.3.1(a)(2) of this Agreement.

"Requested Advance Date" shall have the meaning specified in section 7.3.1(a)(3) of this Agreement.

"RUS Certificate" shall mean a certificate relating to the RUS Guarantee and other matters, in the form of certificate that is attached as Exhibit G to this Agreement.

"RUS Guarantee" shall mean a guarantee of the Bond issued by RUS, in the form of guarantee that is attached as Exhibit H to this Agreement.

"RUS Instruments" shall have the meaning specified in section 3.3.1 of this Agreement.

"this Agreement" shall mean this Series K Bond Purchase Agreement between FFB, RUS, and the Borrower.

"Uncontrollable Cause" shall mean, for FFB, an unforeseeable cause beyond the control and without the fault of FFB, being: act of God, fire, flood, severe weather, epidemic, quarantine restriction, explosion, sabotage, act of war, act of terrorism, riot, civil commotion, lapse of the statutory authority of the United States Department of the Treasury to raise cash through the issuance of Treasury debt instruments, disruption or failure of the Treasury Financial Communications System, closure of the Federal Government, or an unforeseen or unscheduled closure or evacuation of the FFB offices; and shall mean, for RUS, an unforeseeable cause beyond the control and without the fault of RUS, being: act of God, fire, flood, severe weather, epidemic, quarantine restriction,

explosion, sabotage, act of war, act of terrorism, riot, civil commotion, closure of the Federal Government, or an unforeseen or unscheduled closure or evacuation of the RUS offices.

Section 1.2 Rules of Interpretation.

Unless the context shall otherwise indicate, the terms defined in section 1.1 of this Agreement shall include the plural as well as the singular and the singular as well as the plural. The words "herein," "hereof," and "hereto," and words of similar import, refer to this Agreement as a whole.

ARTICLE 2

FFB COMMITMENT TO PURCHASE THE BOND

Subject to the terms and conditions of this Agreement, FFB agrees to purchase the Bond that is offered by the Borrower to FFB for purchase under this Agreement.

ARTICLE 3

COMMITMENT CONDITIONS

FFB shall be under no obligation to purchase the Bond under this Agreement unless and until each of the conditions specified in this article 3 has been satisfied.

Section 3.1 Commitment Amount Limit.

The maximum principal amount of the Bond that is offered for purchase shall not exceed the Loan Commitment Amount.

Section 3.2 Borrower Instruments.

3.2.1 Borrower Instruments. FFB shall have received from the Borrower the following instruments (such instruments being, collectively, the "Borrower Instruments"):

- (a) an original counterpart of this Agreement, duly executed by the Borrower; and

(b) the original Bond, duly executed by the Borrower.

3.2.2 Opinion of Borrower's Counsel re: Borrower Instruments. FFB shall have received from the Borrower an Opinion of Borrower's Counsel re: Borrower Instruments.

3.2.3 Certificate Specifying Authorized Borrower Officials. FFB shall have received from the Borrower a completed and signed Certificate Specifying Authorized Borrower Officials.

Section 3.3 RUS Instruments.

3.3.1 RUS Instruments. FFB shall have received from RUS the following instruments (such instruments being, collectively, the "RUS Instruments"):

(a) an original counterpart of this Agreement, duly executed by RUS;

(b) the original RUS Guarantee relating to the Bond, duly executed by RUS; and

(c) an original RUS Certificate relating to the RUS Guarantee and other matters, duly executed by RUS.

3.3.2 Opinion of RUS's Counsel re: RUS Guarantee. FFB shall have received a copy of the Opinion of RUS's Counsel re: RUS Guarantee.

3.3.3 Certificate Specifying Authorized RUS Officials. FFB shall have received from RUS a completed and signed Certificate Specifying Authorized RUS Officials.

ARTICLE 4

OFFER OF THE BOND FOR PURCHASE

The Bond that is to be offered to FFB for purchase under this Agreement shall be offered in accordance with the procedures described in this article 4.

Section 4.1 Delivery of Borrower Instruments to RUS.

The Borrower shall deliver to RUS, for redelivery to FFB, the following:

- (a) all of the Borrower Instruments, each duly executed by the Borrower;
- (b) an Opinion of Borrower's Counsel re: Borrower Instruments; and
- (c) a completed and signed Certificate Specifying Authorized Borrower Officials.

Section 4.2 Delivery of Principal Instruments by RUS to FFB.

RUS shall deliver to FFB all of the following instruments (collectively being the "Principal Instruments"):

- (a) all of the instruments described in section 4.1 of this Agreement;
- (b) all of the RUS Instruments, each duly executed by RUS;
- (c) a copy of the Opinion of RUS's Counsel re: RUS Guarantee; and
- (d) a completed and signed Certificate Specifying Authorized RUS Officials.

ARTICLE 5**PURCHASE OF THE BOND BY FFB****Section 5.1 Acceptance or Rejection of Principal Instruments.**

Within 5 Business Days after delivery to FFB of the Principal Instruments relating to the Bond that is offered for purchase under this Agreement, FFB shall deliver by facsimile transmission (fax) to RUS one of the following:

- (a) an acceptance notice, which notice shall:

(1) state that the Principal Instruments meet the terms and conditions detailed in article 3 of this Agreement, or are otherwise acceptable to FFB; and

(2) assign a Bond Identifier to the Bond for use by the Borrower and RUS in all communications to FFB making reference to the Bond; or

(b) a rejection notice, which notice shall state that one or more of the Principal Instruments does not meet the terms and conditions of this Agreement and specify how such instrument or instruments does not meet the terms and conditions of this Agreement.

Section 5.2 Purchase.

FFB shall not be deemed to have accepted the Bond offered for purchase under this Agreement until such time as FFB shall have delivered an acceptance notice accepting the Principal Instruments relating to the Bond; provided, however, that in the event that FFB shall make an Advance under the Bond, then FFB shall be deemed to have accepted the Bond offered for purchase.

ARTICLE 6

LOST, STOLEN, DESTROYED, OR MUTILATED BOND

Section 6.1 Borrower's Agreement.

In the event that the Bond purchased under this Agreement shall become lost, stolen, destroyed, or mutilated, the Borrower shall, upon the written request of FFB, execute and deliver, in replacement thereof, a new Bond of like tenor, dated and bearing interest from the date to which interest has been paid on such lost, stolen, destroyed, or mutilated Bond or, if no interest has been paid thereon, dated the same date as such lost, stolen, destroyed, or mutilated Bond. Upon delivery of such replacement Bond, the Borrower shall be released and discharged from any further liability on account of the lost, stolen, or destroyed Bond. If the Bond being replaced has been mutilated, such mutilated Bond shall be surrendered to the Borrower for cancellation.

Section 6.2 RUS's Agreement.

In the event that the Borrower delivers a replacement Bond for a lost, stolen, destroyed, or mutilated Bond, as provided in section 6.1 of this Agreement, RUS shall execute and deliver an RUS Guarantee of the replacement Bond in replacement of the RUS Guarantee of the lost, stolen, destroyed, or mutilated Bond.

Section 6.3 FFB's Agreement.

FFB agrees that, upon delivery by RUS of a replacement RUS Guarantee as provided in section 6.2 of this Agreement, RUS shall be released and discharged from any further liability on account of the RUS Guarantee of the lost, stolen, destroyed, or mutilated Bond.

ARTICLE 7

ADVANCES

Section 7.1 Commitment.

Subject to the terms and conditions of this Agreement, FFB agrees to make Advances under the Bond for the account of the Borrower.

Section 7.2 Treasury Policies Applicable to Advances.

Each of the Borrower and RUS understands and consents to the following Treasury financial management policies generally applicable to all advances of funds:

(a) each Advance will be requested by the Borrower, and each Advance Request will be approved by RUS, only at such time and in such amount as shall be necessary to meet the immediate payment or disbursing need of the Borrower;

(b) Advances for investment purposes, other than to make loans permitted by the Guarantee Authority, will not be requested by the Borrower or approved by RUS; and

(c) all interest earned on any lawful and permitted investment of Advances, other than loans permitted by the Guarantee Authority to be made, in excess of the interest accrued on such Advances, the fee payable under

paragraph 9 of the Bond accrued on such Advances, and the guarantee fee payable on such Advances under article IV of the Bond Guarantee Agreement, will be remitted to FFB.

Section 7.3 Conditions to Making Advances.

FFB shall be under no obligation to make any Advance under the Bond unless and until each of the conditions specified in this section 7.3 is satisfied.

7.3.1 Advance Requests. For each Advance, the Borrower shall have delivered to RUS, for review and approval before being forwarded to FFB, an Advance Request, which Advance Request:

(a) shall specify, among other things:

(1) the particular "Bond Identifier" that FFB assigned to this Bond (as provided in section 5.1 of this Agreement;

(2) the particular amount of funds that the Borrower requests to be advanced (such amount being the "Requested Advance Amount" for the respective Advance);

(3) the particular calendar date that the Borrower requests to be the date on which the respective Advance is to be made (such date being the "Requested Advance Date" for such Advance), which date must be a Business Day;

(4) the particular bank account to which the Borrower requests that the respective Advance be made;

(5) the particular calendar date that the Borrower selects to be the date on which the respective Advance is to mature (such date being the "Maturity Date" for such Advance), which date must meet all of the following criteria:

(A) the Maturity Date for the respective Advance must be a "Payment Date" (as that term is defined in paragraph 7 of the Bond);

(B) the Maturity Date for the respective Advance may not be a date that will occur after the twentieth

anniversary of the Requested Advance Date specified in the respective Advance Request;

(C) the Maturity Date for the respective Advance may not be a date that will occur after the particular date specified on page 1 of the Bond as being the "Final Maturity Date"; and

(D) the period of time between the Requested Advance Date for the respective Advance and the Maturity Date for such Advance may not be less than the period from the Requested Advance Date (if such date is a Payment Date) or the Payment Date immediately following the Requested Advance Date (if the Requested Advance Date is not a Payment Date) to the next Payment Date;

(6) the particular method for the repayment of principal of the respective Advance that the Borrower elects to apply to such Advance from among the three principal repayment methods described in paragraph 8(b) of the Bond; and

(7) with respect to each Advance for which the Borrower selects a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date specified in the respective Advance Request, the particular prepayment/refinancing privilege that the Borrower elects to apply to the respective Advance (i.e. either the Market Value Prepayment/Refinancing Privilege described in section 11.2 of this Agreement or the Fixed Premium Prepayment/Refinancing Privilege described in section 11.3 of this Agreement); and

(b) shall have been duly executed by an official of the Borrower whose name and signature appear on the Certificate Specifying Authorized Borrower Officials delivered by the Borrower to FFB pursuant to section 3.2.3 of this Agreement; and

(c) shall have been received by FFB not later than the third Business Day before the Requested Advance Date specified in such Advance Request.

7.3.2 Advance Request Approval Notice. For each Advance, RUS shall have delivered to FFB the Borrower's executed Advance

Request, together with RUS's executed Advance Request Approval Notice, which Advance Request Approval Notice:

(a) shall have been duly executed on behalf of RUS by an official of RUS whose name and signature appear on the Certificate Specifying Authorized RUS Officials delivered to FFB pursuant to section 3.3.3 of this Agreement; and

(b) shall have been received by FFB not later than the third Business Day before the Requested Advance Date specified in such Advance Request.

7.3.3 Telephonic Confirmation of Authenticity of Advance Request Approval Notices. For each Advance, FFB shall have obtained telephonic confirmation of the authenticity of the related Advance Request Approval Notice from an official of RUS (a) whose name, title, and telephone number appear on the Certificate Specifying Authorized RUS Officials that has been delivered by RUS to FFB pursuant to section 3.3.3 of this Agreement; and (b) who is not the same official of RUS who executed the Advance Request Approval Notice on behalf of RUS.

7.3.4 Bond Maximum Principal Amount Limit. At the time of making any Advance under the Bond, the amount of such Advance, when added to the aggregate amount of all Advances previously made under the Bond, shall not exceed the maximum principal amount of the Bond.

7.3.5 Conditions Specified in Other Agreement. Each of the conditions specified in the Bond Guarantee Agreement as being conditions to making Advances under the Bond shall have been satisfied or waived in writing.

Section 7.4 Amount and Timing of Advances.

FFB shall make each Advance in the Requested Advance Amount specified in the respective Advance Request and on the Requested Advance Date specified in the respective Advance Request, subject to satisfaction of the conditions specified in section 7.3 of this Agreement and subject to the following additional limitations:

(a) in the event that the Requested Advance Date specified in the respective Advance Request is not a Business Day, FFB shall make the respective Advance on the first day thereafter that is a Business Day;

(b) in the event that the respective Advance Request and the related Advance Request Approval Notice are not received by FFB on or before the third Business Day before the Requested Advance Date specified in such Advance Request, FFB shall make the respective Advance as soon as practicable thereafter, but in any event not later than the third Business Day after the date on which the Requested Advance Date and the related Advance Request Approval Notice are received by FFB, unless the Borrower delivers to FFB and RUS a written cancellation of such Advance Request or a replacement Advance Request specifying a Requested Advance Date later than the expiration of the applicable advance notice period; and

(c) in the event that an Uncontrollable Cause prevents FFB from making the respective Advance on the Requested Advance Date specified in the respective Advance Request, FFB shall make such Advance as soon as such Uncontrollable Cause ceases to prevent FFB from making such Advance, unless the Borrower delivers to FFB and RUS a written cancellation of such Advance Request or a replacement Advance Request specifying a Requested Advance Date later than when such Uncontrollable Cause ceases to prevent FFB from making such Advance.

Section 7.5 Type of Funds and Means of Advance.

Each Advance shall be made in immediately available funds by electronic funds transfer to such bank account(s) as shall have been specified in the respective Advance Request.

Section 7.6 Interest Rate Applicable to Advances.

7.6.1 Initial Rate Determinations. The rate of interest applicable to each Advance made under the Bond shall be established as provided in paragraph 6 of the Bond, subject to section 7.6.2 of this Agreement.

7.6.2 Rate Re-determinations. In the event the Borrower elects to extend the maturity of all or any portion of the outstanding principal amount of any Advance, as provided in paragraph 15 of the Bond, or to refinance all or any portion of the outstanding principal amount of any Advance, as provided in paragraph 17 of the Bond, then the rate of interest applicable to the outstanding principal amount of such Advance shall be re-determined by FFB in accordance with the terms of paragraph 15 or 17 of the Bond, as the case may be.

Section 7.7 Interest Rate Confirmation Notices.

7.7.1 Initial Rates. After making each Advance, FFB shall deliver, by facsimile transmission, to the Borrower and RUS written confirmation of the making of the respective Advance, which confirmation shall:

- (a) state the date on which such Advance was made;
- (b) state the interest rate applicable to such Advance; and
- (c) assign an Advance Identifier to such Advance for use by the Borrower and RUS in all communications to FFB making reference to such Advance.

7.7.2 Re-determined Rates. In the event that the rate of interest applicable to the outstanding principal amount of any Advance is re-determined as provided in section 7.6.2. of this Agreement, FFB shall deliver, by facsimile transmission, to the Borrower and RUS written confirmation of the re-determination of such interest rate, which confirmation shall state the date on which the applicable interest rate was re-determined for such Advance and the re-determined interest rate.

Section 7.8 Borrower's Agreement.

The Borrower hereby agrees that each Advance made by FFB in accordance with an RUS-approved Advance Request delivered to FFB shall reduce, by the amount of the respective Advance made, FFB's remaining commitment in section 7.1 of this Agreement to make Advances under the Bond.

ARTICLE 8

REPRESENTATIONS AND WARRANTIES BY THE BORROWER

The Borrower makes to FFB each of the representations and warranties made by the Borrower to RUS in paragraphs (a), (b), (c), (d), (e), (f), (g), and (j) of section 8.2 of the Bond Guarantee Agreement, and each of those representations and warranties of the Borrower are incorporated herein by reference as if set out in full herein.

ARTICLE 9

BILLING BY FFB

Section 9.1 Billing Statements to the Borrower and RUS.

After making each Advance, FFB shall prepare a billing statement detailing the amounts owed on the respective Advance and when such amounts are due. FFB shall deliver, by facsimile transmission, each such billing statement to the Borrower and RUS.

Section 9.2 Failure to Deliver or Receive Billing Statements No Release.

Failure on the part of FFB to deliver any billing statement or failure on the part of the Borrower or RUS to receive any billing statement shall not, however, relieve the Borrower of any of its payment obligations under the Bond or this Agreement or relieve RUS from any of its payment obligations under the RUS Guarantee or this Agreement.

Section 9.3 FFB Billing Determinations Conclusive.

9.3.1 Acknowledgment and Consent. The Borrower and RUS each acknowledge that FFB has described to it the rounding methodology employed by FFB in calculating the amount of accrued interest owed at any time on the Bond, and the Borrower and RUS each consent to this methodology.

9.3.2 Agreement. The Borrower and RUS each agree that any and all determinations made by FFB shall be conclusive and binding upon the Borrower and RUS with respect to the amount of accrued interest owed on the Bond determined using this rounding methodology.

ARTICLE 10

PAYMENTS TO FFB AND RUS

Section 10.1 Manner and Timing of Payment.

Each amount that becomes due and owing on the Bond purchased under this Agreement shall be paid when and as due, as provided in the Bond.

Section 10.2 Application of Payments.

10.2.1 Priority of Payments. Each payment made on the Bond shall be applied, first, to the payment of Late Charges (if any) payable under paragraphs 11 and 18 of the Bond, then to the payment of premiums (if any) payable under paragraphs 16 and 17 of the Bond, then to the payment of unpaid accrued interest, then on account of outstanding principal, and then to the payment of the fee payable under paragraph 9 of the Bond.

10.2.2 Agreement between FFB and RUS. RUS agrees to transfer to FFB payments received by RUS under the Bond in such amounts as may be necessary to conform with the priority of payment requirements contained in section 10.2.1 of this Agreement.

ARTICLE 11

BORROWER'S PRIVILEGES TO PREPAY OR REFINANCE ADVANCES

Section 11.1 Automatic Application or Required Election.

The prepayment/refinancing privilege described in section 11.2 of this Agreement shall apply automatically to each Advance that has a Maturity Date that will occur before the fifth anniversary of the Requested Advance Date specified in the respective Advance Request. With respect to each Advance for which the Borrower has selected a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date specified in the respective Advance Request, the Borrower must elect, at the time of requesting the respective Advance, the particular prepayment/refinancing privilege that is to apply to such Advance from between the options described in sections 11.2 and 11.3 of this Agreement.

Section 11.2 "Market Value Prepayment/Refinancing Privilege".

If the prepayment/refinancing privilege described in this section 11.2 applies to an Advance (such privilege being the "Market Value Prepayment/Refinancing Privilege"), the Borrower shall have the privilege to prepay such Advance (as provided in paragraph 16 of the Bond) or to refinance such Advance (as provided in paragraph 17 of the Bond) at a prepayment or refinancing price that will include, in either case, a premium (or discount credit) equal to the difference between:

(a) the price for such Advance that would, if such Advance (including all unpaid interest accrued thereon through the date of prepayment or refinancing, as the case may be) were purchased by a third party and held to the "Maturity Date" applicable to the Advance, produce a yield to the third-party purchaser for the period from the date of purchase to such Maturity Date substantially equal to the interest rate that would be set on a loan from the Secretary of the Treasury to FFB to purchase an obligation having a payment schedule identical to the payment schedule of such Advance for the period from the date of prepayment or refinancing, as the case may be, to such Maturity Date; and

(b) the sum of:

(1) the outstanding principal amount of such Advance on the date of prepayment or refinancing, as the case may be; and

(2) all unpaid interest accrued on such Advance through the date of prepayment or refinancing, as the case may be,

(the difference between the price described in paragraph (a) of this section 11.2 and the sum of the amounts described in paragraph (b) of this section 11.2 being the "Market Value Premium (or Discount)"; if the price described in paragraph (a) is greater than the sum of the amounts described in paragraph (b), that difference is the premium; if the price described in paragraph (a) is less than the sum of the amounts described in paragraph (b), that difference is the discount credit). The price described in paragraph (a) of this section 11.2 shall be calculated by the United States Department of the Treasury as of the close of business on the second Business Day before the date of prepayment or refinancing, as the

case may be, using standard calculation methods of the United States Department of the Treasury. FFB shall provide the Borrower and RUS with written notice of the price described in paragraph (a) of this section 11.2 promptly upon completing the calculation.

Section 11.3 "Fixed Premium Prepayment/Refinancing Privilege".

11.3.1 Required Election and Selection. If the prepayment/refinancing privilege described in this section 11.3 applies to such Advance (such privilege being the "Fixed Premium Prepayment/Refinancing Privilege"), the Borrower shall have the privilege to prepay such Advance (as provided in paragraph 16 of the Bond) or to refinance such Advance (as provided in paragraph 17 of the Bond) at a prepayment or refinancing price that will include, in either case, a fixed premium determined by FFB at the time of such prepayment or refinancing, based on both the no-call period election described in section 11.3.2 of this Agreement and the premium selection described in section 11.3.3 of this Agreement made by the Borrower at the time of requesting such Advance.

11.3.2 "No-Call Period Election". First, the Borrower must elect whether or not the Fixed Premium Prepayment/ Refinancing Privilege that is to apply to the respective Advance shall include a 5-year period during which such Advance shall not be eligible for any prepayment or refinancing (such time period being a "No-Call Period"). The options are:

(a) "yes" -- the Borrower elects to have the Fixed Premium Prepayment/Refinancing Privilege include a 5-year No-Call Period, i.e., the Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 16 of the Bond) or to refinance such Advance (as provided in paragraph 17 of the Bond) on or after (but not before):

(1) the fifth anniversary of the Requested Advance Date for such Advance (if such fifth anniversary date is a Payment Date); or

(2) the first Payment Date to occur after the fifth anniversary of the Requested Advance Date for such Advance (if such fifth anniversary date is not a Payment Date),

(in either case, such date being the "First Call Date" for such Advance);
or

(b) "no" -- the Borrower elects to have the Fixed Premium Prepayment/Refinancing Privilege not include a 5-year No-Call Period, i.e., the Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 16 of the Bond) or to refinance such Advance (as provided in paragraph 17 of the Bond) on any Business Day.

11.3.3 "Premium Selection". Second, the Borrower must select the particular fixed premium that will be required in connection with any prepayment or refinancing of the respective Advance. The options are:

(a) "10 percent premium declining over 10 years" -- the price for any prepayment or refinancing of the respective Advance shall include a premium equal to 10 percent of the amount of principal being prepaid or refinanced, as the case may be, multiplied by a fraction:

(1) the numerator of which is the number of Payment Dates that occur between:

(A) in the case of a prepayment, the date of prepayment (if such date is a Payment Date) or the Payment Date immediately preceding the date of prepayment (if the date of prepayment is not a Payment Date), and, in the case of a refinancing, the date of refinancing, which date, in either case, shall be included in computing the number of Payment Dates; and

(B) the tenth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the tenth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period), which date, in either case, shall be excluded in computing the number of Payment Dates; and

(2) the denominator of which is 40,

and no premium on or after the tenth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the tenth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period);

(b) "5 percent premium declining over 5 years" -- the price for any prepayment or refinancing of the respective Advance shall include a premium equal to 5 percent of the amount of principal being prepaid or refinanced, as the case may be, multiplied by a fraction:

(1) the numerator of which is the number of Payment Dates that occur between:

(A) in the case of a prepayment, the date of prepayment (if such date is a Payment Date) or the Payment Date immediately preceding the date of prepayment (if the date of prepayment is not a Payment Date), and, in the case of a refinancing, the date of refinancing, which date, in either case, shall be included in computing the number of Payment Dates; and

(B) the fifth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the fifth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period), which date, in either case, shall be excluded in computing the number of Payment Dates; and

(2) the denominator of which is 20,

and no premium on or after the fifth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the fifth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period);
or

(c) "par" -- the price for any prepayment or refinancing of the respective Advance shall include no premium.

11.3.4 Standard for Calculating FFB Financing Options Fee for Fixed-Premium Prepayment/Refinancing Privilege. The fee assessed by FFB and payable by the Borrower to have the Fixed-Premium Prepayment/Refinancing Privilege described in this section 11.3 to apply to any Advance (such fee being an "FFB Financing Options Fee") shall be established on the basis of the determination made by FFB described in paragraph 6(d) of the Bond.

11.3.5 Calculation and Notification of FFB Financing Options Fee for Fixed-Premium Prepayment/Refinancing Privilege. FFB shall make the determination described in section 11.3.4 of this Agreement for each Advance to which the Borrower has elected to have the Fixed-Premium Prepayment/Refinancing Privilege apply, at the time of the establishment of the particular basic interest rate that is to apply to the respective Advance. After making such determination for each Advance, FFB shall notify the Borrower and RUS of the particular FFB Financing Options Fee (expressed in terms of a basis point increment) that is assessed by FFB and payable by such Borrower for such Fixed-Premium Prepayment/Refinancing Privilege in the particular interest rate confirmation notice relating to such Advance to be delivered by FFB in accordance with section 7.7 of this Agreement.

Section 11.4 New Notices and Billing Statements After Refinancings.

In the event of a refinancing of any Advance, FFB shall provide the Borrower and RUS with a new interest rate confirmation notice and a new billing statement reflecting the new interest rate applicable to such Advance.

ARTICLE 12

BOND SERVICING AND RELATED DUTIES AND RIGHTS

Section 12.1 Custody of Bond.

Subject to section 15.4 of this Agreement, RUS shall have custody, as agent for FFB, of the original Bond that has been purchased by FFB under this Agreement until all amounts that are owed under the Bond have been paid in full or until such time as actual possession of the original Bond has been requested by FFB. If FFB requests RUS for actual possession of the original Bond, RUS shall promptly deliver the original Bond to FFB.

Section 12.2 RUS Duties as Bond Servicer and Guarantor.

12.2.1 Bond Servicing To Be Performed by RUS. Bond servicing shall be performed by RUS, as agent for FFB, for so long as FFB shall be the Holder of the Bond. Payment by FFB for RUS's servicing of the Bond shall be made in accordance with section 12.3 hereof.

12.2.2 Bond Servicing Duties. As a part of servicing the Bond, RUS shall:

(a) serve as principal point of contact for the Borrower with respect to any questions that the Borrower may have about its borrowings from FFB;

(b) hold, as agent for FFB, the original Bond in accordance with the terms of section 12.1 hereof;

(c) prepare and deliver to the Borrower billing statements, which billing statements shall reflect the terms of the billing statements prepared by FFB and delivered to RUS showing amounts owed with respect to each Advance made under the Bond;

(d) collect, as agent for FFB, all amounts paid by the Borrower under the Bond; and

(e) turn over to FFB all amounts collected under clause (d) of this section 12.2.2 when and as due under the Bond.

Section 12.3 Bond Servicing Fee.

RUS shall be compensated for performing the bond servicing described in this article 12 by deducting from the fee assessed by FFB under paragraph 9 of the Bond and collected by RUS an amount equal to the cost to RUS, as determined by RUS, of performing the bond servicing, provided, however, that the cost to RUS of performing bond servicing for any time period shall not exceed the fee assessed by FFB under paragraph 9 of the Bond for the same time period.

Section 12.4 Liability and Rights of RUS as Guarantor.

12.4.1 Liability as Guarantor. If the Bond is in payment default, RUS shall be liable to FFB in accordance with the terms of the RUS Guarantee, without regard to the sufficiency of the security or the remedies RUS may enforce against the Borrower.

12.4.2 Rights as Guarantor. In consideration of the RUS Guarantee, RUS shall have the sole authority (vis-a-vis FFB), if the Bond is in payment default, in respect of acceleration of the Bond, the exercise of other available remedies, and the disposition of sums or property recovered.

Section 12.5 Bond Payments Made by RUS.

12.5.1 General. RUS and FFB understand and agree that RUS, in its combined capacity as both bond servicer and guarantor of the Bond, shall pay to FFB all amounts due and owing under the Bond, when and as those amounts are due and payable under the terms of the Bond.

(a) Bond Servicing Payments. As bond servicer, RUS shall make payments by turning over to FFB, when and as due under the Bond, all amounts that have been collected by RUS under section 12.2.2(d) of this Agreement.

(b) Bond Guarantee Payments. As guarantor, RUS shall pay to FFB, when and as due under the Bond, the difference, if any, between the amounts that are owed to FFB under the terms of the Bond and the amounts that have been collected under section 12.2.2(d) of this Agreement.

12.5.2 RUS Payments To Be Made by Book Transfer. RUS shall make each payment under section 12.5.1 of this Agreement by internal transfer of

funds on the books of the United States Department of the Treasury from the account of RUS to the account of FFB specified by FFB from time to time.

12.5.3 Late Charges. Subject to section 12.5.4 of this Agreement, in the event that RUS shall fail to make any payment under section 12.5.1 of this Agreement when and as that payment by RUS to FFB is due (any such amount being then an "Overdue Amount"), the amount payable shall be that Overdue Amount with interest thereon (such interest being the "Late Charge"). The Late Charge shall accrue from the scheduled date of payment for the Overdue Amount (taking into account any Business Day adjustments under the Bond) to the actual date on which payment is made. The Late Charge applicable to RUS shall be calculated in the same manner as Late Charges applicable to the Borrower are calculated under the Bond.

12.5.4 Uncontrollable Cause. In the event that RUS is prevented by an Uncontrollable Cause from making any payment under section 12.5.1 of this Agreement at the time or in the manner as RUS is required to make that payment, then RUS shall make that payment as soon as the respective Uncontrollable Cause ceases to prevent RUS from making that payment. The amount that is then due and owing that is not paid due to an Uncontrollable Cause for RUS shall bear interest at the 91-day loan rate then established by FFB based on a determination made by the Secretary of the Treasury pursuant to section 6(b) of the FFB Act, such rate being subject to re-determination at 91-day intervals if the amount due and owing is not paid.

12.5.5 No Modification of Times for Payment. Nothing in section 12.5.3 or section 12.5.4 of this Agreement shall be construed as permitting or implying that RUS may, without the prior written consent of FFB, modify, extend, alter, or affect in any manner whatsoever (except as explicitly provided herein) the right of FFB to receive any and all payments on account of the Bond when and as due under the Bond.

12.5.6 Bond Assignment upon Payment in Full. Upon payment by RUS to FFB of all amounts required to be paid by RUS to FFB under section 12.5.1 of this Agreement with respect to the Bond, FFB shall assign and transfer to RUS all rights held by FFB in that Bond.

ARTICLE 13

AGREEMENTS AND OTHER RIGHTS OF RUS

Section 13.1 Delivery of Replacement Certificates Specifying Authorized RUS Officials.

13.1.1 Annual Replacement Certificates. Promptly after the commencement of each fiscal year, RUS shall deliver to FFB a Certificate Specifying Authorized RUS Officials, updated as appropriate, in replacement of the original such certificate delivered pursuant to section 4.2(d) hereof.

13.1.2 Replacement Certificates within any Fiscal Year. RUS may at any time within any fiscal year deliver to FFB a revised Certificate Specifying Authorized RUS Officials, updated as appropriate, in replacement of the annual certificate delivered pursuant to section 13.1.1 hereof.

Section 13.2 Certain Agreements of RUS and FFB.

13.2.1 Agent for Compliance Purposes. In the event that FFB shall become subject to any duties under any applicable law or regulation solely because of its providing or having provided financing under the Bond, RUS shall serve as agent for FFB to the fullest extent permitted under that law or regulation in connection with satisfying the requirements of that law or regulation.

13.2.2 RUS's Agreement Regarding Its Appointment as Agent for FFB. Recognizing the legitimate needs of FFB to ensure that RUS, as compliance agent for FFB, has performed all duties to which FFB becomes subject under any applicable law or regulation solely because of providing or having provided financing under the Bond, and with RUS and FFB expressing their intent to cooperate in connection with the exchange of information related thereto, RUS agrees:

(a) to deliver to representatives of FFB or its designate, when requested to do so by FFB or its designate, actual possession of the original of any certificate, report, document, or paper collected or prepared by RUS, as compliance agent for FFB; or

(b) at the option of FFB, to permit representatives of FFB or its designate, during reasonable business hours, to have access to, and to inspect and make copies of, any and all certificates, reports, documents, or papers collected or prepared by RUS, as compliance agent for FFB.

13.2.3 Litigation Cooperation. When requested to do so by FFB, RUS shall cooperate with FFB in the prosecution or defense of any litigation that FFB may institute against any Person other than RUS or to which FFB is named as a party, as the case may be, arising out of FFB providing or having provided financing under the Bond.

Section 13.3 Reimbursement

13.3.1 RUS's Agreement to Reimburse. To the extent permitted by applicable law and subject to the availability of funds, RUS agrees to reimburse FFB (but not any successor, assignee or transferee of FFB) for any and all liabilities, losses, costs, or expenses of any nature that may be imposed upon, incurred by, or asserted against FFB by any Person other than RUS in any way relating to or arising out of FFB providing or having provided financing under the Bond, but specifically excluding any liability, loss, cost or expense relating to or arising out of any sale, assignment, or other transfer by FFB, pursuant to section 15.4 hereof, of all or any part of the Bond.

13.3.2 RUS's Agreement to Seek Appropriations. In the event that no funds are available to RUS at the time that RUS needs funds to reimburse FFB as contemplated by section 13.3.1 hereof, RUS agrees that it will diligently seek to obtain additional appropriations for that purpose.

13.3.3 FFB's Agreement to Deliver Notice. Solely for the purpose of assisting RUS in mitigating the extent of any reimbursement contemplated by section 13.3.1 hereof, FFB agrees that it will deliver notice to RUS of any and all liabilities, losses, costs, or expenses imposed upon, incurred by, or asserted against FFB promptly after FFB has actual knowledge of the imposition, incurrence, or assertion of such liability, loss, cost, or expense.

Section 13.4 Effect of RUS's Nonperformance

In the event that RUS shall fail to fulfill any of its agreements in this article 13, FFB shall nevertheless continue to make Advances under the Bond before the date of the respective failure.

Section 13.5 Right of RUS to Purchase Advances and Bonds

13.5.1 RUS's Right. Notwithstanding the provisions of the Bond, RUS may purchase from FFB all or any portion of any Advance that has been made under the Bond, or may purchase from FFB the Bond in its entirety, in either case in the same manner, at the same price, and subject to the same limitations

as shall be applicable, under the terms of the Bond, to a prepayment by the Borrower of all or any portion of any Advance that has been made under the Bond, or a prepayment by the Borrower of the Bond in its entirety, as the case may be.

13.5.2 Borrower's Acknowledgement of RUS's Right. Notwithstanding the provisions of the Bond, the Borrower acknowledges that RUS may purchase from FFB all or any portion of any Advance that has been made under the Bond, or may purchase from FFB the Bond in its entirety, in the same manner, at the same price, and subject to the same limitations as shall be applicable, under the terms of the Bond, to a prepayment by the Borrower of all or any portion of any Advance made under the Bond, or a prepayment by the Borrower of the Bond in its entirety, as the case may be.

ARTICLE 14

EFFECTIVE DATE, TERM, SURVIVAL

Section 14.1 Effective Date.

This Agreement shall be effective as of the date first above written.

Section 14.2 Term of Commitment to Make Advances.

The obligation of FFB under this Agreement to make Advances under the Bond issued by the Borrower shall expire on the "Last Day for an Advance" specified in the Bond.

Section 14.3 Survival.

14.3.1 Representations, Warranties, and Certifications. All representations, warranties, and certifications made by the Borrower in this Agreement, or in any agreement, instrument, or certificate delivered pursuant hereto, shall survive the execution and delivery of this Agreement, the purchasing of the Bond hereunder, and the making of Advances thereunder.

14.3.2 Remainder of Agreement. Notwithstanding the occurrence and passage of the Last Day for an Advance, the remainder of this Agreement shall remain in full force and effect until all amounts owed under this Agreement and the Bond purchased by FFB under this Agreement have been paid in full.

ARTICLE 15

MISCELLANEOUS

Section 15.1 Notices.

15.1.1 Addresses of the Parties. All notices and other communications hereunder or under the Bond to be made to any party shall be in writing and shall be addressed as follows:

To FFB:

Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Attention: Director of Lending

Telephone No. (202) 622-2470

Facsimile No. (202) 622-0707

To the Borrower:

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

Attention: Chief Financial Officer

Telephone: (703) 467-7402

Facsimile: (703) 467-5650

with a copy to:

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

Attention: General Counsel

Telephone: (703) 467-1872
Facsimile: (703) 467-5651

To RUS:

Rural Utilities Service
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Attention: Administrator

Telephone: (202) 720-9540
Facsimile: (202) 720-1725

The address, telephone number, or facsimile number for any party may be changed at any time and from time to time upon written notice given by such changing party to each other party hereto.

15.1.2 Permitted Means of Delivery. A properly addressed Advance Request, Advance Request Approval Notice, other notice, or other communication to FFB shall be deemed to have been delivered if it is sent by facsimile (fax) transmission. A properly addressed notice or other communication to the Borrower shall be deemed to have been delivered if it is sent by facsimile (fax) transmission. A properly addressed Advance Request, notice, or other communication to RUS shall be deemed to have been delivered if it is sent by facsimile (fax) transmission, provided that RUS shall receive the original of such faxed Advance Request, notice, or other communication within 5 Business Days.

15.1.3 Effective Date of Delivery. A properly addressed notice or other communication shall be deemed to have been "delivered" for purposes of this Agreement:

(a) if made by personal delivery, on the date of such personal delivery;

(b) if mailed by first class mail, registered or certified mail, express mail, or by any commercial overnight courier service, on the date that such mailing is received;

(c) if sent by facsimile (fax) transmission:

(1) if the transmission is received and receipt confirmed before 4:00 p.m. (Washington, DC, time) on any Business Day, on the date of such transmission; and

(2) if the transmission is received and receipt confirmed after 4:00 p.m. (Washington, DC, time) on any Business Day or any day that is not a Business Day, on the next Business Day.

15.1.4 Notices to FFB to Contain FFB Identification References. All notices to FFB making any reference to either the Bond or any Advance made thereunder shall identify the Bond or such Advance by the Bond Identifier or the respective Advance Identifier, as the case may be, assigned by FFB to the Bond or such Advance.

Section 15.2 Amendments.

15.2.1 This Agreement. No provision of this Agreement may be amended, modified, supplemented, waived, discharged, or terminated orally but only by an instrument in writing duly executed by each of the parties hereto.

15.2.2 Bond Guarantee Agreement. RUS and the Borrower agree that they will not enter into any amendment, modification, or waiver of section 9.9 of the Bond Guarantee Agreement, or the consequences of a breach thereof, without the prior written consent of FFB.

Section 15.3 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of each of FFB, the Borrower, and RUS, and each of their respective successors and assigns.

Section 15.4 Sale or Assignment of Bond.

15.4.1 Sale or Assignment Permitted. Subject to the agreement in the immediately following sentence, FFB may sell, assign, or otherwise transfer all or any part of the Bond or any participation share thereof. FFB agrees not to sell, assign, or otherwise transfer all or any part of the Bond or all or any part of the right to receive the principal of and interest on the Bond or any participation share thereof to a purchaser, assignee, or transferee that is not an agency or instrumentality of the United States or a trust fund or other government account under the authority or control of the United States or any officer or officers thereof until such time as FFB and RUS have agreed upon mutually satisfactory

arrangements for the servicing of the right to receive principal and interest payments on the Bond or Bonds and for making claims under the RUS Guarantee when FFB is not the Holder.

15.4.2 Notice of Sale, Etc. FFB will deliver to the Borrower and RUS written notice of any sale, assignment, or other transfer of the Bond promptly after any such sale, assignment, or other transfer.

15.4.3 Manner of Payment after Sale. Any sale, assignment, or other transfer of all or any part of the Bond may provide that, following such sale, assignment, or other transfer, payments on the Bond, with the exception of the fee described in paragraph 9 of the Bond, shall be made in the manner specified by the respective purchaser, assignee, or transferee, as the case may be. Payments of the fee described in paragraph 9 of the Bond shall be made in the manner specified by FFB in the written notice of the sale, assignment, or other transfer delivered by FFB to the Borrower and RUS as provided in section 15.4.2 of this Agreement.

15.4.4 Replacement Bonds.

(a) Borrower's Agreement. The Borrower agrees:

(1) to issue a replacement Bond or Bonds with the same aggregate principal amount, interest rate, maturity, and other terms as each respective Bond or Bonds sold, assigned, or transferred pursuant to section 15.4.1 of this Agreement; provided, however, that, when requested by the respective purchaser, assignee, or transferee, such replacement Bond or Bonds shall provide that payments thereunder shall be made in the manner specified by such purchaser, assignee, or transferee; and provided, further, however, that upon delivery of such replacement Bond, the Borrower shall be released and discharged from any further liability on account of the sold, assigned, or transferred Bond; and provided, further, however, that the Bond being replaced shall be surrendered to the Borrower for cancellation; and

(2) to effect the change in ownership on its records and on the face of each such replacement Bond issued, upon receipt of each Bond or Bonds so sold, assigned, or transferred.

(b) RUS's Agreement. If FFB elects to sell, assign, or transfer all or any part of the Bond or any participation share thereof, and if the respective purchaser, assignee, or transferee requests the Borrower to issue a replacement Bond or Bonds as provided in section 15.4.4(a) of this Agreement, RUS agrees that it will, upon the written request of FFB, execute and deliver an RUS Guarantee of the replacement Bond in replacement of the RUS Guarantee of the sold, assigned, or transferred Bond.

(c) FFB's Agreement. FFB agrees that, upon delivery by RUS of a replacement RUS Guarantee as provided in section 15.4.4(b) of this Agreement, RUS shall be released and discharged from any further liability on account of the RUS Guarantee of the sold, assigned, or transferred Bond.

Section 15.5 Forbearance Not a Waiver.

Any forbearance on the part of FFB from enforcing any term or condition of this Agreement shall not be construed to be a waiver of such term or condition or acquiescence by FFB in any failure on the part of Borrower to comply with or satisfy such term or condition.

Section 15.6 Rights Confined to Parties.

Nothing expressed or implied herein is intended or shall be construed to confer upon, or to give to, any Person other than FFB, the Borrower, and RUS, and their respective successors and permitted assigns, any right, remedy, or claim under or by reason of this Agreement or of any term, covenant, or condition hereof, and all of the terms, covenants, conditions, promises, and agreements contained herein shall be for the sole and exclusive benefit of FFB, the Borrower, and RUS, and their respective successors and permitted assigns.

Section 15.7 Governing Law.

This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the United States of America and not the law of the several States.

Section 15.8 Severability.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not of itself invalidate or render unenforceable such provision in any other jurisdiction.

Section 15.9 Headings.

The descriptive headings of the various articles, sections, and subsections of this Agreement were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of the provisions hereof.

Section 15.10 Counterparts.

This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, FFB, the Borrower, and RUS have each caused this Agreement to be executed as of the day and year first above mentioned.

FEDERAL FINANCING BANK
("FFB")

By: /s/ GARY GRIPPO

Name: Gary Grippo

Title: Vice President and Treasurer

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**
(the "Borrower")

By: /s/ SHELDON C. PETERSEN

Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

**ADMINISTRATOR of the
RURAL UTILITIES SERVICE**
("RUS")

By: /s/ BRANDON MCBRIDE

Name: Brandon McBride

Title: Administrator

EXHIBIT A
TO
BOND PURCHASE AGREEMENT

FORM
OF
ADVANCE REQUEST

ADVANCE REQUEST (RUS APPROVAL REQUIRED)

REFER TO RURAL UTILITIES SERVICE (RUS) REGULATIONS AND INSTRUCTIONS FOR A DESCRIPTION OF (1) THE OTHER FORMS AND MATERIALS THAT ARE REQUIRED IN CONNECTION WITH EACH REQUEST FOR AN ADVANCE, AND (2) THE TIME LIMITS FOR SUBMITTING THOSE FORMS AND MATERIALS AND THIS ADVANCE REQUEST TO RUS.

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM (TOGETHER WITH ALL OTHER FORMS AND MATERIAL REQUIRED BY RUS) TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560

Reference: Section 313A Loan Guarantee

Telephone: (202) 720-0424
Facsimile: (202) 690-0717

ADVANCE REQUEST

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier _____¹

The undersigned, as an authorized officer of the Borrower, hereby requests FFB to make an advance of funds ("this Advance") under, pursuant to, and in accordance with the applicable terms of the Bond.

The undersigned further requests that this Advance be made as follows:

1. Requested Advance Amount \$ _____²
2. Requested Advance Date: _____³

¹Insert the Bond Identifier that FFB assigned to the Bond (as provided in section 5.1(a)(2) of the Bond Purchase Agreement referred to in the Bond).

² Insert the particular amount of funds that the Borrower requests to be advanced, which amount must satisfy the condition specified in section 7.3.4 of the Bond Purchase Agreement referred to in the Bond.

³Insert the particular calendar date that the Borrower requests to be date on which this Advance is to be made, which date must meet the criteria for Requested Advance Dates specified in section 7.3.1(a)(3) of the Bond

3. Wire Instructions:

A. CORRESPONDENT BANK (if any) FOR PAYEE'S BANK:

Name of financial institution _____

Address of financial institution _____

ABA number of financial institution _____

B. PAYEE'S BANK AND ACCOUNT:

Name of financial institution _____

Address of financial institution _____

ABA number of financial institution _____

Account name _____

Account number _____

Taxpayer ID number _____

4. Maturity Date: _____⁴

5. Principal Repayment Method:

[SELECT 1 OF THE FOLLOWING 3 METHODS FOR THE REPAYMENT OF PRINCIPAL.]

"P" for the "equal principal installments" method

"G" for "graduated principal installments" method

⁴ Insert the particular calendar date that the Borrower selects to be the date on which this Advance is to mature, which date must meet all of the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

"L" for the "level debt service" method

6. Prepayment/Refinancing Privilege:

If (and only if) the Borrower selects, as the "Maturity Date" for this Advance, a date that will occur on or after the fifth anniversary of the "Requested Advance Date," then the Borrower must elect 1 of the following 2 alternative prepayment/refinancing privileges.

Alternative Prepayment/Refinancing Privileges:

☐ ⁵

"M" for the "Market Value Prepayment/
Refinancing Privilege

"F" for the "Fixed Premium Prepayment/
Refinancing Privilege

If (and only if) the Borrower elects the "Fixed Premium Prepayment/Refinancing Privilege," then the Borrower must elect 1 of the following 2 alternative no-call period options.

Alternative No-Call Period Options:

☐ ⁶

"Y" for "yes," if the privilege is
to include a 5-year No-Call Period

"N" for "no," if the privilege is not
to include a 5-year No-Call Period

⁵Insert in the box "M" if the Borrower elects to have the Market Value Prepayment/Refinancing Privilege apply to this Advance. Insert in the box "F" if the Borrower elects to have a Fixed Premium Prepayment/Refinancing Privilege apply to this Advance.

⁶Insert in the box "Y" if the Borrower elects to have the Fixed Premium Prepayment/Refinancing Privilege include a 5-year No-Call Period during which this Advance will not be eligible for prepayment or refinancing. Insert in the box "N" if the Borrower elects to have the Fixed Premium Prepayment/Refinancing Privilege not include any 5-year No-Call Period, i.e. this Advance will be eligible for prepayment or refinancing on any Business day.

If (and only if) the Borrower elects the "Fixed Premium Prepayment/Refinancing Privilege, then the borrower must select 1 of the following 3 alternative premium options.

Alternative Premium Options:

"X" for 10% premium declining over
10 years

☐ ⁷

"V" for 5% premium declining over
5 years

"P" for par (no premium)

⁷Insert in the box "X" if the Borrower selects a 10% premium declining over 10 years as the premium option for the Fixed Premium Prepayment/Refinancing Privilege that is to apply to this Advance. Insert in the box "V" if the Borrower selects a 5% premium declining over 5 years as the premium option for the Fixed Premium Prepayment/Refinancing Privilege that is to apply to this Advance. Insert in the box "P" if the Borrower selects par (no premium) as the premium option for the Fixed Premium Prepayment/Refinancing Privilege that is to apply to this Advance.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Advance Request on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

**NOTICE OF RUS APPROVAL OF
ADVANCE REQUEST**

Notice is hereby given to FFB that the preceding Advance Request made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

**FOR ACCOUNTING
USE ONLY:**

RUS Budget
Account
Number

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT B
TO
BOND PURCHASE AGREEMENT

FORM
OF
BOND

<div style="border: 1px solid black; padding: 5px;"> FOR FFB USE ONLY: Bond Identifier: <u>CFC-0009</u> Purchase Date: <u>March 29, 2016</u> </div>	Bond Date	<u>March 29, 2016</u>
	Place of Issue	<u>Washington, DC</u>
	Last Day for an Advance (¶3)	<u>January 15, 2019</u>
	Maximum Principal Amount (¶4)	<u>\$250,000,000.00</u>
	Final Maturity Date (¶5)	<u>January 15, 2039</u>

FUTURE ADVANCE BOND SERIES K

1. Promise to Pay.

FOR VALUE RECEIVED, NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a cooperative association existing under the laws of the District of Columbia (the "Borrower," which term includes any successors or assigns) promises to pay the **FEDERAL FINANCING BANK ("FFB")**, a body corporate and instrumentality of the United States of America (FFB, for so long as it shall be the holder of this Bond, and any successor or assignee of FFB, for so long as such successor or assignee shall be the holder of this Bond, being the "Holder"), at the times, in the manner, and with interest at the rates to be established as hereinafter provided, such amounts as may be advanced from time to time by FFB to the Borrower under this Bond (each such amount being an "Advance", and more than one such amount being "Advances").

2. Reference to Certain Agreements.

(a) Bond Purchase Agreement. This Bond is the "Bond" referred to in, and entitled to the benefits of, the Series K Bond Purchase Agreement dated as of even date herewith, made by and among FFB, the Borrower, and the Administrator of the Rural Utilities Service, a Rural Development agency of the United States Department of Agriculture ("RUS") (such agreement, as it may be amended, supplemented, and

restated from time to time in accordance with its terms, being the "Bond Purchase Agreement").

(b) Bond Guarantee Agreement. This Bond is the "Bond" referred to in, and entitled to the benefits of, the Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of March 29, 2016, made between RUS and the Borrower (such agreement, as it may be amended, supplemented, and restated from time to time in accordance with its terms, being the "Bond Guarantee Agreement").

(c) Pledge Agreement. This Bond is the "Bond" referred to in the Second Amended, Restated and Consolidated Pledge Agreement dated as of March 29, 2016, made among the Borrower, RUS, and U.S. Bank National Association, a national association (such agreement, as it may be amended, supplemented, and restated from time to time in accordance with its terms, being the "Pledge Agreement").

3. Advances; Advance Requests; RUS Approval Requirement; Last Day for an Advance.

(a) Subject to the terms and conditions of the Bond Purchase Agreement, FFB shall make Advances to the Borrower from time to time under this Bond, in each case upon delivery to FFB of a written request by the Borrower for an Advance under this Bond, in the form of request attached to the Bond Purchase Agreement as Exhibit A thereto (each such request being an "Advance Request") and completed as prescribed in section 7.3.1 of the Bond Purchase Agreement.

(b) To be effective, an Advance Request must first be delivered to RUS for approval and be approved by RUS in writing, and such Advance Request, together with written notification of RUS's approval thereof (each such notification being an "Advance Request Approval Notice"), must be received by FFB consistent with the advance notice requirements prescribed in sections 7.3.1(c) and 7.3.2(b) of the Bond Purchase Agreement.

(c) FFB shall make each requested Advance on the particular calendar date that the Borrower requested in the respective Advance Request to be the date on which the respective Advance is to be made (such date being the "Requested Advance Date" for such Advance), subject to the provisions of the Bond Purchase Agreement describing certain circumstances under which a requested Advance shall be made on a later date; provided, however, that no Advance shall be made under this Bond after the particular date specified on page 1 of this Bond as being the "Last Day for an Advance."

4. Principal Amount of Advances; Maximum Principal Amount.

The principal amount of each Advance shall be the particular dollar amount that the Borrower specified in the respective Advance Request as the "Requested Advance Amount" for the respective Advance; provided, however, that the aggregate principal amount of all Advances made under this Bond shall not exceed the particular amount specified on page 1 of this Bond as being the "Maximum Principal Amount."

5. Maturity Dates for Advances.

Subject to paragraph 15 of this Bond, each Advance shall mature on the particular calendar date that the Borrower selected in the respective Advance Request to be the date on which the respective Advance is to mature (such date being the "Maturity Date" for such Advance), provided that such Maturity Date meets all of the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement.

6. Computation of Interest on Advances.

(a) Subject to paragraphs 11 and 16 of this Bond, interest on the outstanding principal of each Advance shall accrue from the date on which the respective Advance is made to the date on which such principal is due.

(b) Interest on each Advance shall be computed on the basis of (1) actual days elapsed from (but not including) the date on which the respective Advance is made (for the first payment of interest due under this Bond for such Advance) or the date on which the payment of interest was last due (for all other payments of interest due under this Bond for such Advance), to (and including) the date on which the payment of interest is next due; and (2) a year of 365 days (except in calendar years including February 29, when the basis shall be a 366-day year).

(c) The basic interest rate for each Advance shall be established by FFB, as of the date on which the respective Advance is made, on the basis of the determination made by the Secretary of the Treasury pursuant to section 6(b) of the Federal Financing Bank Act of 1973, as amended (codified at 12 U.S.C. § 2281 et seq.) (the "FFB Act"); provided, however, that the shortest maturity used as the basis for any rate determination shall be the remaining maturity of the most recently auctioned United States Treasury bills having the shortest maturity of all United States Treasury bills then being regularly auctioned.

(d) In the event that (1) the Borrower has selected for any Advance a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date for such Advance, and (2) the Borrower has elected for such Advance a prepayment/

refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such Advance shall also include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower selected, which price shall be established by FFB on the basis of a determination made by FFB as to the difference between (A) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, and (iii) include a prepayment and refinancing privilege identical to the particular prepayment/refinancing privilege that the Borrower elected for such Advance, and (B) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, but (iii) not include such prepayment and refinancing privilege.

7. Payment of Interest; Payment Dates.

Interest accrued on the outstanding principal amount of each Advance shall be due and payable quarterly on January 15, April 15, July 15, and October 15 of each year (each such day being a "Payment Date"), beginning on the first Payment Date to occur after the date on which the respective Advance is made, up through and including the Maturity Date of such Advance; provided, however, that with respect to each Advance that is made in the 30-day period immediately preceding any Payment Date, payments of accrued interest on the outstanding principal amount of the respective Advance shall be due beginning on the second Payment Date to occur after the date on which such Advance is made.

8. Repayment of Principal; Principal Repayment Options.

(a) The principal amount of each Advance shall be payable in quarterly installments, which installments shall be due beginning on the first Payment Date to occur after the date on which the respective Advance is made, and shall be due on each Payment Date to occur thereafter until the principal amount of the respective Advance is repaid in full on or before the particular date specified on page 1 of this Bond as being the "Final Maturity Date" (such date being the "Final Maturity Date"); provided, however, that with respect to each Advance that is made in the 30-day period immediately preceding any Payment Date, principal installments shall be due beginning on the second Payment Date to occur after the date on which the respective Advance is made.

(b) In the respective Advance Request for each Advance, the Borrower must also select a method for the repayment of principal of such Advance from among the following options:

(1) "equal principal installments" -- the amount of each quarterly principal installment shall be substantially equal to the amount of every other quarterly principal installment and shall be sufficient, when added to all other such quarterly installments of equal principal, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date);

(2) "graduated principal installments" -- the amount of each of the first one-third (or nearest number of payments that rounds to one-third) of the total number of quarterly principal installments shall be substantially equal to one-half of the amount of each of the remaining quarterly principal installments, and shall be sufficient, when added to all other such quarterly installments of graduated principal, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date); or

(3) "level debt service" -- the amount of each quarterly payment consisting of a principal installment and accrued interest shall be substantially equal to the amount of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such level quarterly payments consisting of a principal installment and accrued interest, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date).

(c) For each Advance, the amount of principal that shall be due and payable on each of the dates specified in subparagraph (a) of this paragraph 8 shall be the amount of the principal installment due under a principal repayment schedule for the respective Advance that is computed in accordance with the principles of the particular method for the repayment of principal that is selected by the Borrower for such Advance from among the options described in subparagraph (b) of this paragraph 8. Except at the times described in the immediately following sentence, the method for the repayment of principal that is selected by the Borrower for any Advance, and the resulting principal repayment schedule that is so computed for such Advance, may not be changed. Notwithstanding the foregoing, with respect to each Advance for which the Borrower has selected a Maturity Date that will occur before the Final Maturity Date, the Borrower may change the particular method for the repayment of principal that was selected by the Borrower for the respective Advance from either the "equal principal installments" method or the "graduated principal installments" method to the "level debt service" method at the time (if ever) that the Borrower elects to extend the maturity of such Advance (as provided in paragraph 15 of this Bond), effective as of the effective date of such maturity extension, or at the time (if ever) that the Borrower

elects to refinance the outstanding principal amount of such Advance (as provided in paragraph 18 of this Bond), effective as of the effective date of such refinancing, and the principal repayment schedule for such Advance shall thereupon be newly computed in accordance with the "level debt service" method for the repayment of principal. After the Borrower has selected the Final Maturity Date as the Maturity Date for any Advance, the Borrower may so change the particular method for the repayment of principal of any Advance, and the principal repayment schedule for such Advance shall be so newly computed, only at the time (if ever) that the Borrower elects to refinance the outstanding principal amount of such Advance (as provided in paragraph 18 of this Bond), effective as of the effective date of such refinancing.

(d) With respect to each Advance that has a Maturity Date that will occur before the Final Maturity Date, the entire unpaid principal amount of the respective Advance shall be payable on such Maturity Date, subject to extensions of the maturity of such Advance (as provided in paragraph 15 of this Bond).

(e) Notwithstanding which of the methods for the repayment of principal described in subparagraph (b) of this paragraph 8 is selected by the Borrower for any Advance, the aggregate of all quarterly payments of principal and interest on such Advance shall be such as will repay the entire principal amount of such Advance, and pay all interest accrued thereon, on or before the Final Maturity Date.

9. Fee.

(a) A fee to cover expenses and contingencies, assessed by FFB pursuant to section 6(c) of the FFB Act, shall accrue on the outstanding principal amount of each Advance for the period from the date on which the respective Advance is made to the date on which the principal amount of such Advance is due, not taking into account any maturity extensions permitted by paragraph 15 of this Bond (such period being the "Advance Period").

(b) The fee on each Advance shall be:

(1) 12.5 basis points (0.125%) per annum of the unpaid principal balance of such Advance for an Advance Period of 10 years or less; and

(2) 25 basis points (0.25%) per annum of the unpaid principal balance of such Advance for an Advance Period greater than 10 years.

(c) The fee on each Advance shall be computed in the same manner as accrued interest is computed under paragraph 6(b) of this Bond, and shall be due and payable at the same times as accrued interest is due and payable under paragraph 7 of this Bond (adjusted as provided in paragraph 10 of this Bond if a Payment Date is not a Business Day). The fee on each Advance shall be credited to RUS as required by section 505(c) of the Federal Credit Reform Act of 1990, as amended (codified at 2 U.S.C. § 661d(c)).

10. Business Days.

(a) Whenever any Payment Date, the Maturity Date for any Advance, or the Final Maturity Date shall fall on a day on which either FFB or the Federal Reserve Bank of New York is not open for business, the payment that would otherwise be due on such Payment Date, Maturity Date, or Final Payment Date, as the case may be, shall be due on the first day thereafter on which FFB and the Federal Reserve Bank of New York are both open for business (any such day being a "Business Day").

(b) In the event that any Payment Date falls on a day other than a Business Day, then the extension of time for making the payment that would otherwise be due on such Payment Date shall be (1) taken into account in establishing the interest rate for the respective Advance, (2) included in computing interest due in connection with such payment, and (3) excluded in computing interest due in connection with the next payment.

(c) In the event that the Maturity Date for any Advance or the Final Maturity Date falls on a day other than a Business Day, then the extension of time for making the payment that would otherwise be due on such Maturity Date or the Final Maturity, as the case may be, shall be (1) taken into account in establishing the interest rate for such Advance, and (2) included in computing interest due in connection with such payment.

11. Late Payments.

(a) In the event that any payment of any amount owing under this Bond is not made when and as due (any such amount being then an "Overdue Amount"), then the amount payable shall be such Overdue Amount plus interest thereon (such interest being the "Late Charge") computed in accordance with this subparagraph (a).

(1) The Late Charge shall accrue from the scheduled date of payment for the Overdue Amount (taking into account paragraph 10 of this Bond) to the date on which payment is made.

(2) The Late Charge shall be computed on the basis of (A) actual days elapsed from (but not including) the scheduled date of payment for such Overdue Amount (taking into account paragraph 10 of this Bond) to (and including) the date on which payment is made, and (B) a year of 365 days

(except in calendar years including February 29, when the basis shall be a 366-day year).

(3) The Late Charge shall accrue at a rate (the "Late Charge Rate") equal to one and one-half times the rate to be determined by the Secretary of the Treasury taking into consideration the prevailing market yield on the remaining maturity of the most recent auctioned 13-week United States Treasury bills.

(4) The initial Late Charge Rate shall be in effect until the earlier to occur of either (A) the date on which payment of the Overdue Amount and the amount of accrued Late Charge is made, or (B) the first Payment Date to occur after the scheduled date of payment for such Overdue Amount. In the event that the Overdue Amount and the amount of the accrued Late Charge are not paid on or before such Payment Date, then the amount payable shall be the sum of the Overdue Amount and the amount of the accrued Late Charge, plus a Late Charge on such sum accruing at a new Late Charge Rate to be then determined in accordance with the principles of clause (3) of this subparagraph (a). For so long as any Overdue Amount remains unpaid, the Late Charge Rate shall be re-determined in accordance with the principles of clause (3) of this subparagraph (a) on each Payment Date to occur thereafter, and shall be applied to the Overdue Amount and all amounts of the accrued Late Charge to the date on which payment of the Overdue Amount and all amounts of the accrued Late Charge is made.

(b) Nothing in subparagraph (a) of this paragraph 11 shall be construed as permitting or implying that the Borrower may, without the written consent of FFB, modify, extend, alter or affect in any manner whatsoever (except as explicitly provided herein) the right of FFB to receive any and all payments on account of this Bond on the dates specified in this Bond.

12. Final Due Date.

Notwithstanding anything in this Bond to the contrary, all amounts outstanding under this Bond remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.

13. Manner of Making Payments.

(a) For so long as FFB is the Holder of this Bond and RUS is the bond servicing agent for FFB (as provided in the Bond Purchase Agreement), each payment under this Bond shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of RUS, as bond servicing agent for FFB) maintained at the Federal Reserve Bank of New York

specified by RUS in a written notice to the Borrower, or to such other account as may be specified from time to time by RUS in a written notice to the Borrower.

(b) In the event that FFB is the Holder of this Bond and RUS is not the bond servicing agent for FFB, each payment under this Bond, with the exception of the fee described in paragraph 9 of this Bond, shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of FFB) maintained at the Federal Reserve Bank of New York specified by FFB in a written notice to the Borrower, or to such other account as may be specified from time to time by FFB in a written notice to the Borrower. In the event that FFB is the Holder of this Bond and RUS is not the bond servicing agent for FFB, each payment of the fee described in paragraph 9 of this Bond shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of RUS) maintained at the Federal Reserve Bank of New York specified from time to time by RUS in a written notice delivered by RUS to the Borrower.

(c) In the event that FFB is not the Holder of this Bond, then each payment under this Bond, with the exception of the fee described in paragraph 9 of this Bond, shall be made in immediately available funds by electronic funds transfer to such account as shall be specified by the Holder in a written notice to the Borrower. In the event that FFB is not the Holder of this Bond, each payment of the fee described in paragraph 9 of this Bond shall be made in the manner specified by FFB in the written notice delivered by FFB to the Borrower and RUS as provided in section 15.4.2 of the Bond Purchase Agreement.

14. Application of Payments.

Each payment made on this Bond shall be applied, first, to the payment of Late Charges (if any) payable under paragraphs 11 and 18 of this Bond, then to the payment of premiums (if any) payable under paragraphs 16 and 17 of this Bond, then to the payment of unpaid accrued interest, then on account of outstanding principal, and then to the payment of the fee payable under paragraph 9 of this Bond.

15. Maturity Extensions.

(a) With respect to each Advance (1) for which the Borrower has selected a Maturity Date that will occur before the twentieth anniversary of the Requested Advance Date specified in the respective Advance Request, or (2) for which a Maturity Date that will occur before the twentieth anniversary of the Requested Advance Date specified in the respective Advance Request has been determined as provided in subparagraph (b) of this paragraph 15 (each such Maturity Date being an "Interim

Maturity Date"), the Borrower may, effective as of such Interim Maturity Date, elect to extend the maturity of all or any portion of the outstanding principal amount of the respective Advance to a new Maturity Date to be selected by the Borrower in the manner and subject to the limitations specified in this subparagraph (a) (each such election being a "Maturity Extension Election"; each such elective extension of the maturity of any Advance that has an Interim Maturity Date being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such elective Maturity Extension being, from and after such Maturity Extension, the "Maturity Extension Effective Date").

(1) Except under the circumstances described in clause (3) of this subparagraph (a), the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Maturity Extension Election, in the form of notification attached to this Bond as Annex 1-A (each such notification being a "Maturity Extension Election Notice"), making reference to the "Advance Identifier" (as that term is defined in the Bond Purchase Agreement) that FFB assigned to such Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(A) the amount of the outstanding principal of the such Advance with respect to which the Borrower elects to extend the maturity; and

(B) the new Maturity Date that the Borrower selects to be in effect for such principal amount after the respective Maturity Extension Effective Date, which date:

(i) may be either (I) a new Interim Maturity Date, or (II) the twentieth anniversary of the Requested Advance Date specified in the original Advance Request (if such twentieth anniversary date is a Payment Date) or the Payment Date immediately preceding such twentieth anniversary date (if such twentieth anniversary date is not a Payment Date); and

(ii) in the event that the Borrower selects a new Interim Maturity Date as the new Maturity Date for any Advance, must meet the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement (provided, however, that, for purposes of selecting a new Maturity Date in connection with a Maturity Extension Election, each of the references to the "Requested Advance Date" for the respective Advance in section 7.3.1(a)(5)(D) of the Bond Purchase Agreement shall be deemed to be a reference to the "respective Maturity Extension Effective Date").

(2) To be effective, a Maturity Extension Election Notice must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension.

(3) In the event that either of the circumstances described in subclause (A) or (B) of the next sentence occurs, then a Maturity Extension Election Notice (in the form of notice attached to this Bond as Annex 1-B), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Maturity Extension Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension. RUS approval of a Maturity Extension Election Notice will be required under either of the following circumstances:

(A) (i) any payment of any amount owing under this Bond is not made by the Borrower when and as due; (ii) payment is made by RUS in accordance with the guarantee set forth at the end of this Bond; and (iii) RUS delivers notice to both the Borrower and FFB advising each of them that each Maturity Extension Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS; or

(B) FFB at any time delivers written notice to both the Borrower and RUS advising each of them that each Maturity Extension Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS.

(b) With respect to any Advance that has an Interim Maturity Date, in the event that FFB does not receive a Maturity Extension Election Notice (and, if required under subparagraph (a)(3) of this paragraph 15, written notification of RUS's approval thereof) on or before the third Business Day before such Interim Maturity Date, then the maturity of such Advance shall be extended automatically in the manner and subject to the limitations specified in this subparagraph (b) (each such automatic extension of the maturity of any Advance that has an Interim Maturity Date also being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such automatic Maturity Extension also being, from and after such Maturity Extension, the "Maturity Extension Effective Date"). The new Maturity Date for such Advance shall be the immediately following Payment Date. The amount of principal that will have its maturity extended automatically shall be the entire outstanding principal amount of such Advance on such Maturity Extension Effective Date, less the amount of any payment of principal made on such Maturity Extension Effective Date.

(c) In the event that the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the basic interest rate for such Advance, from and after the respective Maturity Extension Effective Date, shall be the particular rate that is established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of paragraph 6(c) of this Bond.

(d) In the event that the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the fee for such Advance, from and after the respective Maturity Extension Effective Date, shall be the particular fee that is assessed by FFB, as of such Maturity Extension Effective Date, with the new Advance Period being the period from the Maturity Extension Effective Date through the new Maturity Date, in accordance with the principles of paragraphs 9(b) and (c) of this Bond.

(e) In the event that (1) the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, and (2) the Maturity Date for such extended Advance is a date that will occur before the fifth anniversary of the respective Maturity Extension Effective Date, then the prepayment/refinancing privilege described in section 11.2 of the Bond Purchase Agreement shall apply automatically to such Advance.

(f) In the event that (1) the Borrower makes a Maturity Extension Election with respect to any Advance that has an Interim Maturity Date, and (2) the Borrower selects as the Maturity Date for such extended Advance a new Maturity Date that will occur on or after the fifth anniversary of the respective Maturity Extension Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such extended Advance from between the options described in sections 11.2 and 11.3 of the Bond Purchase Agreement (provided, however, that each of the references to "the Requested Advance Date for such Advance" in section 11.3 of the Bond Purchase Agreement shall be deemed to be a reference to "the respective Maturity Extension Effective Date"). The Maturity Extension Election Notice delivered by the Borrower in connection with each such Maturity Extension Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective extended Advance. In the event that the Borrower elects for any such extended Advance a prepayment/refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such extended Advance, from and after the respective Maturity Extension Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower elects, which price shall be established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of paragraph 6(d) of this Bond.

(g) The maturity of each Advance may be extended more than once as provided in this paragraph 15, but upon the twentieth anniversary of the Requested Advance Date specified in the original Advance Request (if such twentieth anniversary date is a Payment Date) or upon the Payment Date immediately preceding such twentieth anniversary date (if such twentieth anniversary date is not a Payment Date), no further Maturity Extensions may occur.

16. Prepayments.

(a) The Borrower may elect to prepay all or any portion of the outstanding principal amount of any Advance made under this Bond, or to prepay this Bond in its entirety, in the manner, at the price, and subject to the limitations specified in this paragraph 16 (each such election being a "Prepayment Election").

(b) For each Prepayment Election in which the Borrower elects to prepay a particular amount of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Bond as Annex 2-A (each such notification being a "Prepayment Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year period during which such Advance shall not be eligible for any prepayment or refinancing (such time period being a "No-Call Period"), may not be a date that will occur before the applicable "First Call Date" determined as provided in section 11.3.2 of the Bond Purchase Agreement (such date being the "First Call Date"); and

(2) the amount of principal of the respective Advance that the Borrower intends to prepay, which amount may be either:

(A) the total outstanding principal amount of such Advance; or

(B) an amount less than the total outstanding principal amount of such Advance (subject to subparagraph (g) of this paragraph 16) (any such amount being a "Portion").

(c) For each Prepayment Election in which the Borrower elects to have a particular amount of funds applied by FFB toward the prepayment of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Bond as Annex 2-B (each such notification also being a "Prepayment Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date; and

(2) the particular amount of funds that the Borrower elects to be applied by FFB toward a prepayment of the outstanding principal amount of such Advance.

(d) To be effective, a Prepayment Election Notice must be approved by RUS in writing, and such Prepayment Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Prepayment Date for the respective Advance or Portion.

(e) The Borrower shall pay to FFB a price for the prepayment of any Advance, any Portion of any Advance, or this Bond in its entirety (such price being the "Prepayment Price" for such Advance or Portion or this Bond, as the case may be) determined as follows:

(1) in the event that the Borrower elects to prepay the entire outstanding principal amount of any Advance,

then the Borrower shall pay to FFB a Prepayment Price for such Advance equal to the sum of:

(A) the entire outstanding principal amount of such Advance on the Intended Prepayment Date;

(B) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Prepayment Date; and

(C) the amount of the premium or discount credit (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance as provided in article 11 of the Bond Purchase Agreement;

(2) in the event that the Borrower elects to prepay a Portion of any Advance, then the Borrower shall pay to FFB a Prepayment Price for such Portion that would equal such Portion's pro rata share of the Prepayment Price that would be required for a prepayment of the entire outstanding principal amount of such Advance (determined in accordance with the principles of clause (1) of this subparagraph (e)); and

(3) in the event that the Borrower elects to prepay this Bond in its entirety, then the Borrower shall pay to FFB an amount equal to the sum of the Prepayment Prices for all outstanding Advances (determined in accordance with the principles of clause (1) of this subparagraph (e)).

(f) Payment of the Prepayment Price for any Advance, any Portion of any Advance, or this Bond in its entirety shall be due to FFB before 3:00 p.m. (Washington, DC, time) on the Intended Prepayment Date for such Advance or Portion or this Bond, as the case may be.

(g) Each prepayment of a Portion shall, as to the principal amount of such Portion, be subject to a minimum amount equal to \$100,000.00 of principal.

(h) The Borrower may make more than one Prepayment Election with respect to an Advance, each such Prepayment Election being made with respect to a different Portion of such Advance, until such time as the entire principal amount of such Advance is repaid in full.

17. Refinancings.

(a) The Borrower may elect to refinance the outstanding principal amount of any Advance (but not any Portion) in the manner, at the price, and subject to the limitations specified in this paragraph 17 (each such election being a "Refinancing Election").

(b) Except under the circumstances described in subparagraph (d) of this paragraph 17, the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Refinancing Election, in the form of notification attached to this Bond as Annex 3-A (each such notification being a "Refinancing Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to refinance the respective Advance (such date being the "Intended Refinancing Date" for the respective Advance), which date:

(A) must be a Payment Date; and

(B) for any Advance for which the Borrower has selected a prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date;

(2) the amount of the outstanding principal of the respective Advance that the Borrower elects to refinance (which may not be a Portion); and

(3) the Maturity Date that the Borrower selects to be in effect for such principal amount after such refinancing, which date may be:

(A) the Maturity Date that is in effect for such Advance immediately before such refinancing; or

(B) a new Maturity Date that the Borrower selects in connection with such Refinancing Election, provided that such new Maturity Date meets the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement (provided, however, that for purposes of selecting a new Maturity Date in connection with a Refinancing Election, each of the references to the "Requested Advance Date" for the respective Advance in section 7.3.1(a)(5)(D) of the Bond Purchase Agreement shall be deemed to be a reference to the "respective Refinancing Effective Date").

(c) To be effective, a Refinancing Election Notice must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Refinancing Date.

(d) In the event that either of the circumstances described in clause (1) or (2) of the next sentence shall have occurred, then a Refinancing Election Notice (in the form of notice attached to this Bond as Annex 3-B), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Refinancing Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein to be the Intended Refinancing Date. RUS approval of a Refinancing Election Notice will be required under either of the following circumstances:

(1) (A) payment of any amount owing under this Bond is not made by the Borrower when and as due; (B) payment is made by RUS in accordance with the guarantee set forth at the end of this Bond; and (C) RUS delivers notice to both the Borrower and FFB advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS; or

(2) FFB at any time delivers written notice to both the Borrower and RUS advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS.

(e) The Borrower shall pay to FFB a price for the refinancing of any Advance (such price being the "Refinancing Price" for such Advance) equal to the sum of:

(1) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Refinancing Date; and

(2) the amount of the premium (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance as provided in article 11 of the Bond Purchase Agreement.

In the event that (A) the prepayment/refinancing privilege that applies to the particular Advance being refinanced is the privilege described in section 11.2 of the Bond Purchase Agreement, and (B) the Market Value Premium (or Discount) that is to be included in the Refinancing Price for such Advance is a discount on such Advance, then such discount shall be applied by FFB in the manner requested by the Borrower in a written notice delivered by the Borrower to FFB and approved by RUS in writing.

(f) Payment of the Refinancing Price for any Advance shall be due to FFB before 3:00 p.m. (Washington, DC, time) on the Intended Refinancing Date for such Advance.

(g) In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB on or before the fifth Business Day before the Intended Refinancing Date specified therein, then the refinancing of the respective Advance shall become effective on such Intended Refinancing Date (in such event, the Intended Refinancing Date being the "Refinancing Effective Date"). In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB after the fifth Business Day before the Intended Refinancing Date specified therein, then the refinancing of the respective Advance shall become effective on the fifth Business Day to occur after the day on which such Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB (in such event, the fifth Business Day to occur after the day on which such Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB being the "Refinancing Effective Date"), provided that the Borrower shall have paid to FFB, in addition to the Refinancing Price required under subparagraph (e) of this paragraph 17, the interest accrued from the Intended Refinancing Date through such Refinancing Effective Date.

(h) In the event that the Borrower makes a Refinancing Election with respect to any Advance, the basic interest rate for such Advance, from and after the respective Refinancing Effective Date, shall be the particular rate that is established by FFB, as of such Refinancing Effective Date, in accordance with the principles of paragraph 6(c) of this Bond.

(i) In the event that the Borrower makes a Refinancing Election with respect to any Advance, then the fee for such Advance, from and after the respective Refinancing Effective Date, shall be the particular fee that is assessed by FFB, as of such Refinancing Effective Date, with the new Advance Period being the period from the Refinancing Effective Date through the new Maturity Date, in accordance with the principles of paragraphs 9(b) and (c) of this Bond.

(j) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur before the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur before the fifth anniversary of the respective Refinancing Effective Date, then the prepayment/refinancing privilege described in section 11.2 of the Bond Purchase Agreement shall apply automatically to such Advance.

(k) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur on or after the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur on or after the fifth anniversary of the respective Refinancing Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such refinanced Advance from between the options described in sections 11.2 and 11.3 of the Bond Purchase Agreement (provided, however, that each of the references to the "Requested Advance Date for such Advance" in section 11.3 of the Bond Purchase Agreement shall be deemed to be a reference to the "respective Refinancing Effective Date"). The Refinancing Election Notice delivered by the Borrower in connection with each such Refinancing Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective refinanced Advance. In the event that the Borrower elects for any such refinanced Advance a prepayment/refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such refinanced Advance, from and after the respective Refinancing Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower elects, which increment shall be established by FFB, as of such Refinancing Effective Date, in accordance with the principles of paragraph 6(d) of this Bond.

(l) In the event that the Borrower makes a Refinancing Election with respect to any Advance, then the outstanding principal amount of such Advance, after the respective Refinancing Effective Date, shall be due and payable in accordance with this subparagraph (l).

(1) With respect to each Advance to which either the "equal principal installments" method or the "graduated principal installments" method for the repayment of principal applies, the amount of the quarterly principal installments that will be due after the respective Refinancing Effective Date shall be equal to the amount of the quarterly installments of equal principal or graduated principal, as the case may be, that were due in accordance with the principal repayment schedule that applied to such Advance immediately before the respective Refinancing Effective Date.

(2) With respect to each Advance to which the "level debt service" method for the repayment of principal applies, the amount of the level quarterly payments consisting of a principal installment and accrued interest that will be due after the respective Refinancing Effective Date shall be newly computed so that the amount of each such quarterly payment consisting of a principal installment and accrued interest (taking into account the new interest rate that applies to such Advance from and after such Refinancing Effective Date) shall

be substantially equal to the amount of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such newly-computed level quarterly payments consisting of a principal installment and accrued interest, to repay the outstanding principal amount of such refinanced Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such refinanced Advance that will occur before the Final Maturity Date).

(3) The quarterly installments of equal principal or graduated principal, or the newly-computed level quarterly payments consisting of a principal installment and accrued interest, as the case may be, shall be due beginning on the first Payment Date to occur after the respective Refinancing Effective Date, and shall be due on each Payment Date to occur thereafter up through and including the earlier to occur of (A) the new Maturity Date that the Borrower selected for such refinanced Advance, on which date the entire unpaid principal amount of such refinanced Advance shall also be payable, subject to Maturity Extensions (as provided in paragraph 15 of this Note) if the new Maturity Date is an Interim Maturity Date, or (B) the date on which the entire principal amount of such refinanced Advance, and all unpaid interest (and Late Charges, if any) accrued thereon, are paid.

(m) The Borrower may make more than one Refinancing Election with respect to any Advance.

18. Rescission of Prepayment Elections and Refinancing Elections; Late Charges for Late Payments.

(a) The Borrower may rescind any Prepayment Election made in accordance with paragraph 16 of this Bond or any Refinancing Election made in accordance with paragraph 17 of this Bond, but only in accordance with this paragraph 18.

(b) The Borrower shall deliver to both FFB and RUS written notification of each rescission of a Prepayment Election or a Refinancing Election (each such notification being an "Election Rescission Notice") specifying the particular Advance for which the Borrower wishes to rescind such Prepayment Election or Refinancing Election, as the case may be, which specification must make reference to both:

(1) the particular Advance Identifier that FFB assigned to such Advance (as provided in the Bond Purchase Agreement); and

(2) the RUS account number for such Advance.

The Election Rescission Notice may be delivered by facsimile transmission to FFB at (202) 622-0707 and to RUS at (202) 720-1401, or at such other facsimile number or numbers as either FFB or RUS may from time to time communicate to the Borrower.

(c) To be effective, an Election Rescission Notice must be received by both FFB and RUS not later than 3:30 p.m. (Washington, DC, time) on the second Business Day before the Intended Prepayment Date or the Intended Refinancing Date, as the case may be.

(d) In the event that the Borrower (1) makes a Prepayment Election in accordance with paragraph 16 of this Bond or a Refinancing Election in accordance with paragraph 17 of this Bond; (2) does not rescind such Prepayment Election or Refinancing Election, as the case may be, in accordance with this paragraph 18; and (3) does not, before 3:00 p.m. (Washington, DC, time) on the Intended Prepayment Date or Intended Refinancing Date, as the case may be, pay to FFB the Prepayment Price described in paragraph 16(e) of this Bond or Refinancing Price described in paragraph 17(e) of this Bond, as the case may be, then a Late Charge shall accrue on any such unpaid amount from the Intended Prepayment Date or Intended Refinancing Date, as the case may be, to the date on which payment is made, computed in accordance with the principles of paragraph 11 of this Bond.

19. Amendments to Bond.

To the extent not inconsistent with applicable law, this Bond, for so long as FFB or its agent is the holder thereof, shall be subject to modification by such amendments, extensions, and renewals as may be agreed upon from time to time by FFB and the Borrower, with the approval of RUS.

20. Certain Waivers.

The Borrower hereby waives any requirement for presentment, protest, or other demand or notice with respect to this Bond.

21. Bond Effective Until Paid.

This Bond shall continue in full force and effect until all principal outstanding hereunder, all interest accrued hereunder, all premiums (if any) payable under paragraphs 16 and 17 of this Bond, all Late Charges (if any) payable under paragraphs

11 and 18 of this Bond, and all fees (if any) payable under paragraph 9 of this Bond have been paid in full.

22. RUS Guarantee of Bond.

Upon execution of the guarantee set forth at the end of this Bond (the "RUS Guarantee"), the payment by the Borrower of all amounts due and payable under this Bond, when and as due, shall be guaranteed by the United States of America, acting through RUS, pursuant to the Rural Electrification Act of 1936, as amended (codified at 7 U.S.C. § 901 et seq.). In consideration of the RUS Guarantee, the Borrower promises to RUS to make all payments due under this Bond when and as due.

23. Pledge Agreement.

This Bond is one of several Bonds referred to in the Pledge Agreement, wherein the Borrower made provision for the pledge and grant of a security interest in, under certain circumstances described therein, certain property of the Borrower, described therein, to secure the payment of and performance of certain obligations owed to RUS, as set forth in the Pledge Agreement.

24. Guarantee Payments; Reimbursement.

If RUS makes any payment, pursuant to the RUS Guarantee, of any amount due and payable under this Bond, when and as due, each and every such payment so made shall be deemed to be a payment hereunder; provided, however, that no payment by RUS pursuant to the RUS Guarantee shall be considered a payment for purposes of determining the existence of a failure by the Borrower to perform its obligation to RUS to make all payments under this Bond when and as due. RUS shall have any rights by way of subrogation, agreement or otherwise which arise as a result of such payment pursuant to the RUS Guarantee.

25. Default and Enforcement.

In case of a default by the Borrower under this Bond or the occurrence of an event of default under the Bond Guarantee Agreement, then, in consideration of the obligation of RUS under the RUS Guarantee, in that event, to make payments to FFB as provided in this Bond, RUS, in its own name, shall have all rights, powers, privileges, and remedies of the holder of this Bond, in accordance with the terms of this Bond, the Bond Guarantee Agreement, and the Pledge Agreement, including, without limitation, the right to enforce or collect all or any part of the obligation of the Borrower under this Bond or arising as a result of the RUS Guarantee, to file proofs of claim or any other document in any bankruptcy, insolvency, or other judicial proceeding, and to vote such proofs of claim.

26. Acceleration.

The entire unpaid principal amount of this Bond, and all interest thereon, may be declared, and upon such declaration shall become, due and payable to RUS, under the circumstances described, and in the manner and with the effect provided, in the Bond Guarantee Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Bond to be signed in its corporate name and its corporate seal to be hereunder affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**
(the "Borrower")

BY:

Signature: _____

Print Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

ATTEST:

(SEAL)

Signature: _____

Print Name: Roberta B. Aronson

Title: Assistant Secretary-Treasurer

ANNEX 1-A

TO

FUTURE ADVANCE BOND

FORM

OF

MATURITY EXTENSION ELECTION NOTICE

MATURITY EXTENSION ELECTION NOTICE

PART 1 OF THIS FORM HAS BEEN COMPLETED BY RUS. THE BORROWER SHOULD COMPLETE PART 2 OF THIS FORM ONLY FOR THOSE PARTICULAR ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WITH RESPECT TO WHICH THE BORROWER ELECTS TO HAVE THE MATURITY EXTENDED TO A NEW MATURITY DATE OTHER THAN THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO FFB AT THE FOLLOWING ADDRESS:

Director of Lending
Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Telephone: (202) 622-2470
Facsimile: (202) 622-0707

DELIVER A COPY OF THIS FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560

Reference: Section 313A Loan Guarantee

Telephone: (202) 720-0424
Facsimile: (202) 690-0717

THE BORROWER SHOULD NOT COMPLETE THIS FORM OR DELIVER IT TO FFB IF THE BORROWER DESIRES TO HAVE THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

IF THE BORROWER DOES NOT RETURN THIS FORM TO FFB, THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WILL BE EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

MATURITY EXTENSION ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier: _____

RUS Bond Number: _____

Part 1 (To be completed by RUS):

Each of the advances of funds ("Advances") identified in this Part 1 will mature on _____ (the "Maturity Date").

FFB ADVANCE IDENTIFIER	RUS ACCOUNT NUMBER	ORIGINAL ADVANCE DATE	ORIGINAL ADVANCE AMOUNT	OUTSTANDIN G PRINCIPAL AMOUNT
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

Notice is hereby given to FFB (and RUS) of the Borrower's election that the maturity of each of the Advances identified in this Part 2 be extended as follows:

FFB ADVANCE IDENTIFIER¹	OPTIONAL PRINCIPAL AMOUNT²	AMOUNT OF PRINCIPAL TO BE EXTENDED³	NEW MATURI TY DATE⁴	TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE⁵	5-YEAR NO-CALL PERIOD⁶	PREMIUM OPTION⁷
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

¹Complete 1 line in Part 2 for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity extended to a new Maturity Date other than the next Payment Date. Insert the FFB Advance Identifier that FFB assigned to the respective Advance for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity so extended.

²The Borrower has the option of making a payment of principal on the Maturity Date without any premium being charged. For each Advance, insert the amount of any such optional principal payment that will be paid on the Maturity Date.

³For each Advance, insert the amount of principal for which the maturity is to be extended. That amount must equal the difference between the outstanding principal amount for the respective Advance, as specified in Part 1, and the optional principal payment (if any) for such Advance inserted by the Borrower in Part 2.

⁴For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date to be in effect for the respective Advance after the Maturity Extension, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

⁵Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

⁶Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

⁷Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a

5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Maturity Extension Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 1-B

TO

FUTURE ADVANCE BOND

FORM

OF

MATURITY EXTENSION ELECTION NOTICE

(RUS APPROVAL REQUIRED)

MATURITY EXTENSION ELECTION NOTICE (RUS APPROVAL REQUIRED)

PART 1 OF THIS FORM HAS BEEN COMPLETED BY RUS. THE BORROWER SHOULD COMPLETE PART 2 OF THIS FORM ONLY FOR THOSE PARTICULAR ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WITH RESPECT TO WHICH THE BORROWER ELECTS TO HAVE THE MATURITY EXTENDED TO A NEW MATURITY DATE OTHER THAN THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560

Reference: Section 313A Loan Guarantee

Telephone: (202) 720-0424
Facsimile: (202) 690-0717

THE BORROWER SHOULD NOT COMPLETE THIS FORM OR DELIVER IT TO RUS IF THE BORROWER DESIRES TO HAVE THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

IF THE BORROWER DOES NOT RETURN THIS FORM TO RUS, THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WILL BE EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

MATURITY EXTENSION ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier: _____

RUS Bond Number: _____

Part 1 (To be completed by RUS):

Each of the advances of funds ("Advances") identified in this Part 1 will mature on _____ (the "Maturity Date").

FFB ADVANCE IDENTIFIER	RUS ACCOUNT NUMBER	ORIGINAL ADVANCE DATE	ORIGINAL ADVANCE AMOUNT	OUTSTANDIN G PRINCIPAL AMOUNT
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

Notice is hereby given to FFB (and RUS) of the Borrower's election that the maturity of each of the Advances identified in this Part 2 be extended as follows:

FFB ADVANCE IDENTIFIER ¹	OPTIONAL PRINCIPAL AMOUNT ²	AMOUNT OF PRINCIPAL TO BE EXTENDED ³	NEW MATURITY DATE ⁴	TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE ⁵	5-YEAR NO-CALL PERIOD ⁶	PREMIUM OPTION ⁷
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

¹Complete 1 line in Part 2 for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity extended to a new Maturity Date other than the next Payment Date. Insert the FFB Advance Identifier that FFB assigned to the respective Advance for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity so extended.

²The Borrower has the option of making a payment of principal on the Maturity Date without any premium being charged. For each Advance, insert the amount of any such optional principal payment that will be paid on the Maturity Date.

³For each Advance, insert the amount of principal for which the maturity is to be extended. That amount must equal the difference between the outstanding principal amount for the respective Advance, as specified in Part 1, and the optional principal payment (if any) for such Advance inserted by the Borrower in Part 2.

⁴For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date to be in effect for the respective Advance after the Maturity Extension, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

⁵Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

⁶Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

⁷Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Maturity Extension Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE
CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

**NOTICE OF RUS APPROVAL OF
MATURITY EXTENSION ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Maturity Extension Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 2-A

TO

FUTURE ADVANCE BOND

FORM

OF

PREPAYMENT ELECTION NOTICE

SPECIFIED PRINCIPAL AMOUNT(S)

(RUS APPROVAL REQUIRED)

**PREPAYMENT ELECTION NOTICE
SPECIFIED PRINCIPAL AMOUNT(S)
(RUS APPROVAL REQUIRED)**

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

**PREPAYMENT ELECTION NOTICE
SPECIFIED PRINCIPAL AMOUNT(S)**

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier:

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to prepay all or a portion of the outstanding principal amount of the advances of funds ("Advances") identified in this Part 1:

FFB ADVANCE IDENTIFIER²	RUS ACCOUNT NUMBER³	ORIGINAL ADVANCE DATE⁴	ORIGINAL ADVANCE AMOUNT⁵	OUTSTANDING PRINCIPAL AMOUNT⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to prepay all or a portion of the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Prepayment Date"):

_____ ⁷

²Complete 1 line in Part 1 for each Advance that the Borrower intends to prepay in whole or in part. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶Insert the outstanding principal amount of each Advance specified in Part 1 as of the day before the date on which the Borrower intends to make a prepayment on the respective Advances.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to prepay the Advances specified in Part 1, which date must meet the criteria for Intended Prepayment Date prescribed in paragraph 16(b)(1) of the Bond.

Part 3:

For each of the Advances identified in Part 1, the respective amount of principal that the Borrower intends to prepay on the Intended Prepayment Date is as follows:

FFB ADVANCE IDENTIFIER⁸	AMOUNT OF PRINCIPAL TO BE PREPAID⁹
	\$
	\$
	\$

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Prepayment Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

⁸Complete 1 line in Part 3 for each Advance identified in Part 1.

⁹For each Advance, insert the amount of principal that will be prepaid on the Intended Prepayment Date.

**NOTICE OF RUS APPROVAL OF
PREPAYMENT ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Prepayment Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 2-B

TO

FUTURE ADVANCE BOND

FORM

OF

PREPAYMENT ELECTION NOTICE

FIXED SUM TO BE APPLIED

(RUS APPROVAL REQUIRED)

**PREPAYMENT ELECTION NOTICE
FIXED SUM TO BE APPLIED
(RUS APPROVAL REQUIRED)**

*DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE
FOR THE BORROWER:*

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

*WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT
OFFICE INDICATED BELOW:*

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

**PREPAYMENT ELECTION NOTICE
FIXED SUM TO BE APPLIED**

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the
"Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the
Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier: _____¹

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to prepay all or a portion of the outstanding principal amount of the advances of funds ("Advances") identified in this Part 1:

FFB ADVANCE IDENTIFIER²	RUS ACCOUNT NUMBER³	ORIGINAL ADVANCE DATE⁴	ORIGINAL ADVANCE AMOUNT⁵	OUTSTANDING PRINCIPAL AMOUNT⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to prepay all or a portion of the outstanding principal amount of the Advances identified in Part 1 on the following date (such date being the "Intended Prepayment Date"):

_____ 7

²Complete 1 line in Part 1 for each Advance that the Borrower intends to prepay in whole or in part. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶Insert the outstanding principal amount of each Advance specified in Part 1 as of the day before the date on which the Borrower intends to make a prepayment on the respective Advances.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to prepay the Advances specified in Part 1, which date must meet the criteria for Intended Prepayment Date prescribed in paragraph 16(b)(1) of the Bond.

Part 3:

The Borrower elects to have the following amount of funds applied by FFB toward a prepayment of the outstanding principal amount of the Advances identified in Part 1, in the order in which they appear in Part 1:

_____ 8

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Prepayment Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

⁸Insert the particular amount of funds that the Borrower elects to be applied by FFB toward a prepayment of the outstanding principal amount of the Advances identified in Part 1, in the order in which they appear in Part 1.

**NOTICE OF RUS APPROVAL OF
PREPAYMENT ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Prepayment Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR
of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 3-A

TO

FUTURE ADVANCE BOND

FORM

OF

REFINANCING ELECTION NOTICE

REFINANCING ELECTION NOTICE

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO FFB AT THE FOLLOWING ADDRESS:

*Director of Lending
Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220*

*Telephone: (202) 622-2470
Facsimile: (202) 622-0707*

DELIVER A COPY OF THIS FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

REFINANCING ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Corporation

FFB Bond Identifier: _____¹

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to refinance the outstanding principal amount of each of the advances of funds ("Advances") identified in this Part 1:

FFB ADVANCE IDENTIFIER²	RUS ACCOUNT NUMBER³	ORIGINAL ADVANCE DATE⁴	ORIGINAL ADVANCE AMOUNT⁵	OUTSTANDING PRINCIPAL AMOUNT⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to refinance the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Refinancing Date"):

_____⁷

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

²Complete 1 line in Part 1 for each Advance that the Borrower intends to refinance. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶For each Advance, insert the outstanding principal amount of the respective Advance as of the day before the intended refinancing.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to refinance the Advances specified in Part 1, which date must meet the criteria for Intended Refinancing Date prescribed in paragraph 17(b)(1) of the Bond.

Part 3:

Notice is hereby given to FFB (and RUS) of the Borrower's election that each of the Advances identified in Part 1 is to be refinanced as follows:

FFB ADVANCE IDENTIFIER ⁸	AMOUNT OF PRINCIPAL TO BE REFINANCED ⁹	NEW MATURITY DATE ¹⁰	TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE ¹¹	5-YEAR NO-CALL PERIOD ¹²	PREMIUM OPTION ¹³
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁸Complete 1 line in Part 3 for each Advance identified in Part 1 as being an Advance the Borrower elects to refinance. Insert the FFB Advance Identifier that FFB assigned to the respective Advance.

⁹For each Advance, insert the amount of principal that is to be refinanced. This will be the same amount as the outstanding principal amount of the respective Advance inserted in Part 1.

¹⁰For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date to be in effect for the respective Advance after the refinancing, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

¹¹Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

¹²Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

¹³Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Refinancing Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 3-B

TO

FUTURE ADVANCE BOND

FORM

OF

REFINANCING ELECTION NOTICE

(RUS APPROVAL REQUIRED)

REFINANCING ELECTION NOTICE (RUS APPROVAL REQUIRED)

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

Telephone: (202) 720-0424

Facsimile: (202) 690-0717

REFINANCING ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Corporation

FFB Bond Identifier:

1

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to refinance the outstanding principal amount of each of the advances of funds ("Advances") identified in this Part 1:

FFB ADVANCE IDENTIFIER²	RUS ACCOUNT NUMBER³	ORIGINAL ADVANCE DATE⁴	ORIGINAL ADVANCE AMOUNT⁵	OUTSTANDING PRINCIPAL AMOUNT⁶
			\$	\$
			\$	\$
			\$	\$

Part 2:

The Borrower intends to refinance the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Refinancing Date"):

_____ ⁷

²Complete 1 line in Part 1 for each Advance that the Borrower intends to refinance. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶For each Advance, insert the outstanding principal amount of the respective Advance as of the day before the intended refinancing.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to refinance the Advances specified in Part 1, which date must meet the criteria for Intended Refinancing Date prescribed in paragraph 17(b)(1) of the Bond.

Part 3:

Notice is hereby given to FFB (and RUS) of the Borrower's election that each of the Advances identified in Part 1 is to be refinanced as follows:

FFB ADVANCE IDENTIFIER⁸	AMOUNT OF PRINCIPAL TO BE REFINANCED⁹	NEW MATURITY DATE¹⁰	TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE¹¹	5-YEAR NO-CALL PERIOD¹²	PREMIUM OPTION¹³
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	\$		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁸Complete 1 line in Part 3 for each Advance identified in Part 1 as being an Advance the Borrower elects to refinance. Insert the FFB Advance Identifier that FFB assigned to the respective Advance.

⁹For each Advance, insert the amount of principal that is to be refinanced. This will be the same amount as the outstanding principal amount of the respective Advance inserted in Part 1.

¹⁰For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date" to be in effect for the respective Advance after the refinancing, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

¹¹Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

¹²Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

¹³Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Refinancing Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE
CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

**NOTICE OF RUS APPROVAL OF
REFINANCING ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Refinancing Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT C

TO

BOND PURCHASE AGREEMENT

FORM

OF

CERTIFICATE SPECIFYING AUTHORIZED BORROWER OFFICIALS

**CERTIFICATE SPECIFYING
AUTHORIZED BORROWER OFFICIALS**

Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Reference is made to the Series K Bond Purchase Agreement dated as of March 29, 2016 (the "Bond Purchase Agreement"), by and among the Federal Financing Bank ("FFB"), National Rural Utilities Cooperative Finance Corporation (the "Borrower"), and the Administrator of the Rural Utilities Service ("RUS"). Capitalized terms used herein and not defined herein shall have the respective meanings ascribed to them in the Bond Purchase Agreement.

This Certificate Specifying Authorized Borrower Officials is delivered to FFB pursuant to section 4.1(c) of the Bond Purchase Agreement.

The undersigned, on behalf of the Borrower, hereby certifies that:

- a. each of the individuals named below is the duly qualified and incumbent official of the Borrower holding the position title set out opposite the respective individual's name;
- b. each of the individuals named below is authorized to execute and deliver Advance Requests from time to time on behalf of the Borrower; and
- c. the signature of each such individual set out opposite the respective individual's name and title is the genuine signature of such individual:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Sheldon C. Petersen	Governor and Chief Executive Officer	_____

John T. Evans	Executive Vice President and Chief Operating Officer	_____
J. Andrew Don	Senior Vice President and Chief Financial Officer	_____
Roberta B. Aronson	Senior Vice President, Assistant Secretary-Treasurer and General Counsel	_____

The undersigned certifies that the undersigned has been given the authority to execute this Certificate Specifying Authorized Borrower Officials on behalf of the Borrower and to deliver it to FFB, and that this authority is valid and in full force and effect on the date hereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate Specifying Authorized Borrower Officials and caused it to be delivered to FFB.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: Roberta B. Aronson

Title: Assistant Secretary-Treasurer

Date: March 29, 2016

EXHIBIT D

TO

BOND PURCHASE AGREEMENT

FORM

OF

CERTIFICATE SPECIFYING AUTHORIZED RUS OFFICIALS

**CERTIFICATE SPECIFYING
AUTHORIZED RUS OFFICIALS**

Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Reference is made to the Series K Bond Purchase Agreement dated as of March 29, 2016 (the "Bond Purchase Agreement"), by and among the Federal Financing Bank ("FFB"), National Rural Utilities Cooperative Finance Corporation (the "Borrower"), and the Administrator of the Rural Utilities Service ("RUS"). Capitalized terms used herein and not defined herein shall have the respective meanings ascribed to them in the Bond Purchase Agreement.

This Certificate Specifying Authorized RUS Officials is delivered to FFB pursuant to section 4.2 or 13.1 of the Bond Purchase Agreement.

1. The undersigned, on behalf of RUS, hereby certifies that:

a. each of the individuals named below is the duly qualified and incumbent official of RUS holding the position title set out opposite the respective individual's name;

b. each of the individuals named below is authorized to execute and deliver Advance Request Approval Notices from time to time on behalf of RUS; and

c. the signature of each such individual set out opposite the respective individual's name and title is the genuine signature of such individual:

Brandon McBride	Administrator Rural Utilities Service	(202) 720-9540
Christopher A. McLean	Assistant Administrator Electric Program	(202) 720-9545
James F. Elliott	Deputy Assistant Administrator Electric Program	(202) 720-9545

2. The undersigned, on behalf of RUS, hereby certifies that:

a. each of the individuals named below is the duly qualified and incumbent official of RUS holding the position title set out opposite the respective individual's name;

b. each of the individuals named below is authorized to confirm telephonically the authenticity of Advance Request Approval Notices from time to time on behalf of RUS; and

c. the telephone number of each such individual is set out opposite the respective individual's name and title:

<u>Name</u>	<u>Title</u>	<u>Telephone Number</u>
Brandon McBride	Administrator Rural Utilities Service	(202) 720-9540
Christopher A. McLean	Assistant Administrator Electric Program	(202) 720-9545
James F. Elliott	Deputy Assistant Administrator Electric Program	(202) 720-9545

IN WITNESS WHEREOF, the undersigned has executed this Certificate
Specifying Authorized RUS Officials and caused it to be delivered to FFB.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,

By: _____

Name: Brandon McBride

Title: Administrator

Date: March 29, 2016

EXHIBIT E

TO

BOND PURCHASE AGREEMENT

FORM

OF

OPINION OF BORROWER'S COUNSEL

re:

BORROWER'S INSTRUMENTS

March 29, 2016

Administrator
Rural Utilities Service
United States Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250-1414

Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Gentlemen:

I am delivering this opinion as General Counsel ("Counsel") of National Rural Utilities Cooperative Finance Corporation, a District of Columbia cooperative association ("Borrower"), and am familiar with matters pertaining to the loan to Borrower in the principal amount of \$250,000,000.00, provided for in the Series K Bond Purchase Agreement ("Bond Purchase Agreement"), dated as of March 29, 2016 made by and among Borrower, the Federal Financing Bank ("FFB"), and the United States of America, acting through the Rural Utilities Service, a Rural Development agency of the United States Department of Agriculture ("RUS"), which loan has been guaranteed by RUS.

I have examined such corporate records and proceedings of Borrower, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

I have also examined the following documents as executed and delivered: (a) the Bond Purchase Agreement, (b) the Future Advance Bond, dated as of March 29, 2016, in the maximum principal amount of \$250,000,000.00 ("Guaranteed Bond"), said Guaranteed Bond payable to FFB, (c) the Second Amended, Restated and Consolidated Bond Guarantee Agreement, dated as of March 29, 2016, made by and between RUS and Borrower, ("Guarantee Agreement"), (d) the Second Amended, Restated and Consolidated Pledge Agreement, dated as of March 29, 2016, made by and among Borrower, RUS and U.S. Bank National Association ("Pledge Agreement"), and (e) the Series K Reimbursement Note, dated as of March 29, 2016, issued by Borrower to RUS ("Reimbursement Note"). The documents described in items (a) through (e) above are collectively referred to herein as the "Bond Documents."

Based on the foregoing, but subject to the assumptions, exceptions, qualifications and limitations hereinafter expressed, I am of the opinion that:

- (1) The Borrower has been duly incorporated and is validly existing as a member-owned cooperative association in good standing under the

laws of the District of Columbia with corporate power and authority to execute and perform its obligations under the Bond Documents.

(2) The Bond Documents have been duly authorized, executed and delivered by the Borrower, and such documents constitute the legal, valid and binding agreements of the Borrower, enforceable against the Borrower in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general applicability relating to or affecting creditors' rights generally, and (b) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law.

(3) Neither the execution nor the delivery by the Borrower of any of the Bond Documents nor the consummation by the Borrower of any of the transactions contemplated therein, including, without limitation, the pledge of the Pledged Securities (as such term is defined in the Pledge Agreement) to RUS if required, nor the fulfillment by the Borrower of the terms of any of the Bond Documents will conflict with or violate, result in a breach of or constitute a default under any term or provision of the Articles of Incorporation or By-laws of the Borrower or any law or any regulation or any order known to Counsel currently applicable to the Borrower of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Borrower or the terms of any indenture, deed of trust, note, note agreement or instrument to which the Borrower is a party or by which the Borrower or any of its properties is bound.

(4) No approval, authorization, consent, order, registration, filing, qualification, license or permit of or with any state or Federal court or governmental agency or body including, without limitation, RUS, having jurisdiction over the Borrower is required for any consummation by the Borrower of the transactions contemplated by the Bond Documents except such as have been obtained from RUS; provided, however, no opinion is expressed as to the applicability of any Federal or state securities law to any sale, transfer or other disposition of the Guaranteed Bond after the date hereof.

(5) There is no pending or, to the best of Counsel's knowledge, threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator with respect to the Borrower, or any of the Bond Documents, or which, if adversely determined, would have a material adverse effect on the Borrower's financial condition or its ability to perform its obligations under any of the Bond Documents, except as previously disclosed.

The foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. I am a member of the Bar of the District of Columbia and render no opinion on the laws of any jurisdiction other than the laws of the District of Columbia, the federal

laws of the United States of America and the General Corporation Law of the District of Columbia.

B. My opinions are limited to the present laws and to the facts, as they presently exist. I assume no obligation to revise or supplement this opinion should the present laws of the jurisdictions referred to in paragraph A above be changed by legislative action, judicial decision or otherwise.

C. This letter is rendered to you in connection with the Bond Documents and the transactions related thereto, and may not be relied upon by any other person or by you in any other context or for any other purpose.

D. I have assumed with your permission (i) the genuineness of all signatures by each party other than the Borrower, (ii) the authenticity of documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as copies, and (iii) the due execution and delivery, pursuant to due authorization, of the Bond Documents by each party other than the Borrower.

Yours sincerely,

Roberta B. Aronson
General Counsel

EXHIBIT F

TO

BOND PURCHASE AGREEMENT

FORM

OF

OPINION OF RUS'S COUNSEL

re:

RUS GUARANTEE

March 29, 2016

MEMORANDUM FOR BRANDON McBRIDE
ADMINISTRATOR
RURAL UTILITIES SERVICE

FROM: Jeffrey Prieto
General Counsel

SUBJECT: Section 313A Legal Opinion

This is in response to your letter of March 29, 2016, written in your capacity as Administrator of the Rural Utilities Service (“RUS”), a Rural Development agency of the United States Department of Agriculture (“USDA”). That letter requested an opinion from this office concerning your authority as Administrator to execute and deliver a certain guarantee (the “Guarantee”) pursuant to the Rural Electrification Act of 1936, as amended, and whether the Guarantee when executed by you will be an incontestable obligation of the United States of America, acting through RUS, supported by the full faith and credit of the United States.

More particularly, the Guarantee is endorsed on a Future Advance Bond (the “Bond”) dated March 29, 2016, being issued by the National Rural Utilities Cooperative Finance Corporation (the “Borrower”), a cooperative association organized under the laws of the District of Columbia, to the Federal Financing Bank (the “FFB”), a body corporate and instrumentality of the United States of America. We have been advised that the Borrower is using the proceeds of the Bond for purposes specified in section 313A of the Rural Electrification Act of 1936 (defined herein).

We have examined the following:

1. The Rural Electrification Act of 1936, 7 U.S.C. §§ 901-950bb-1 (the “Rural Electrification Act of 1936”), as amended;
2. The Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, Division A, 128 Stat. 2130, 2153-2154 (the “Appropriations Act”);
3. Delegations of authority from the Secretary of Agriculture to the Under Secretary for Rural Development, 7 C.F.R. § 2.17 (2016), and redelegations from the Under Secretary for Rural Development to the Administrator, Rural Utilities Service, 7 C.F.R. § 2.47 (2016);

4. The executed Bond of the Borrower in the maximum principal amount of two hundred fifty million dollars (\$250,000,000), having a final maturity date of January 15, 2039, and payable to FFB and any successor or assign of FFB;

5. The Guarantee endorsed by the Administrator of RUS which is attached to the Bond; and

6. The Commitment Letter, dated September 28, 2015, from Brandon McBride, Administrator of RUS, notifying the Borrower that RUS has approved the Guarantee.

Based upon the foregoing, having regard to legal considerations which we deem relevant, we are of the opinion that:

1. You are authorized under the Rural Electrification Act of 1936 and the Appropriations Act to execute and deliver the Guarantee;

2. The Guarantee has been executed by you pursuant to section 313A of the Rural Electrification Act of 1936; and

3. The Guarantee is an enforceable obligation of RUS supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder of the Guarantee had actual knowledge at the time it became a holder.

Based on the foregoing and upon such further investigation as we have deemed necessary, we are of the opinion that:

1. The execution and delivery of the Guarantee by the Administrator is authorized by applicable law.

2. The Guarantee has been executed and delivered by an official of RUS who is duly authorized to execute and deliver such document on behalf of the Acting Administrator.

3. The Guarantee is a valid obligation of the United States of America for which the full faith and credit of the United States of America are pledged.

EXHIBIT G
TO
BOND PURCHASE AGREEMENT

FORM
OF
RUS CERTIFICATE

RUS CERTIFICATE

Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Reference is made to:

- (a) the Series K Bond Purchase Agreement dated as of March 29, 2016 (the "Bond Purchase Agreement"), by and among the Federal Financing Bank ("FFB"), National Rural Utilities Cooperative Finance Corporation (the "Borrower"), and the Administrator of the Rural Utilities Service ("RUS"), a Rural Development agency of the United States Department of Agriculture;
- (b) the Series K Bond dated as of March 29, 2016 (the "Bond"), issued by the Borrower payable to FFB in the maximum principal amount of \$250,000,000.00; and
- (c) the RUS Guarantee dated as of March 29, 2016 (the "RUS Guarantee").

Pursuant to sections 3.3.1(c) and 4.2(b) of the Bond Purchase Agreement, the undersigned hereby certifies the following:

- 1. I am the Administrator of RUS.
- 2. I am furnishing this RUS Certificate to FFB with the intent that it be relied upon by FFB as a basis for taking or withholding action pursuant to the Bond Purchase Agreement.
- 3. As the Administrator of RUS, I have executed the RUS Guarantee and caused it to be attached to the Bond.
- 4. The executed RUS Guarantee conforms exactly to the form of "RUS Guarantee" prescribed in the Bond Purchase Agreement.

5. RUS retains custody of the executed original Bond as agent for FFB under the terms of the Bond Purchase Agreement, subject to delivery of actual possession of the original Bond to FFB upon request by FFB.
6. RUS, as agent for FFB, has received from the Borrower the certification regarding lobbying that is required to be filed by recipients of federal loans, in the form of certificate set forth in Appendix A to 31 C.F.R. Part 21, and, if required under 31 C.F.R. Part 21, the disclosure form to report lobbying, in the form of disclosure form set forth in Appendix B to 31 C.F.R. Part 21. RUS retains custody of the executed original certificate (and, if applicable, disclosure form) as agent for FFB under the terms of the Bond Purchase Agreement, subject to delivery of actual possession of the original certificate (and, if applicable, disclosure form) to FFB or its designate upon request by FFB or its designate.
7. The Borrower does not have a judgment lien against any of the Borrower's property for a debt owed to the United States of America.

IN WITNESS WHEREOF, the undersigned has executed this RUS Certificate and caused it to be delivered to FFB.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,

By: _____

Name: Brandon McBride

Title: Administrator

Date: March 29, 2016

EXHIBIT H
TO
BOND PURCHASE AGREEMENT

FORM
OF
RUS GUARANTEE

RUS GUARANTEE

The United States of America, acting through the Administrator of the Rural Utilities Service (“RUS”), a Rural Development agency of the United States Department of Agriculture, hereby guarantees to the Federal Financing Bank, its successors and assigns (“FFB”), all payments of principal, interest, premium (if any), and late charges (if any), when and as due in accordance with the terms of the Series K Bond dated March 29, 2016, issued by National Rural Utilities Cooperative Finance Corporation (the “Borrower”) payable to FFB in the maximum principal amount of \$250,000,000, to which this RUS Guarantee is attached (such bond being the “Bond”), with interest on the principal until paid, irrespective of (i) acceleration of such payments under the terms of the Bond, or (ii) receipt by RUS of any sums or property from its enforcement of its remedies for the Borrower’s default.

This RUS Guarantee is issued pursuant to section 313A of the Rural Electrification Act of 1936, as amended (7 U.S.C. § 940c-1), section 6 of the Federal Financing Bank Act of 1973 (12 U.S.C. § 2285), and the Series K Bond Purchase Agreement dated as of March 29, 2016, among FFB, the Borrower, and RUS.

UNITED STATES OF AMERICA

By: _____
Name: Brandon McBride
Title: Administrator of the
Rural Utilities Service

Date: March 29, 2016

FOR FFB USE ONLY:

Bond Identifier:
CFC-0009

Purchase Date:
March 29, 2016

Bond Date March 29, 2016

Place of Issue Washington, DC

Last Day for
an Advance
(¶3) January 15, 2019

Maximum
Principal
Amount (¶4) \$250,000,000.00

Final Maturity
Date (¶5) January 15, 2039

**FUTURE ADVANCE BOND
SERIES K**

1. Promise to Pay.

FOR VALUE RECEIVED, NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a cooperative association existing under the laws of the District of Columbia (the "Borrower," which term includes any successors or assigns) promises to pay the **FEDERAL FINANCING BANK ("FFB")**, a body corporate and instrumentality of the United States of America (FFB, for so long as it shall be the holder of this Bond, and any successor or assignee of FFB, for so long as such successor or assignee shall be the holder of this Bond, being the "Holder"), at the times, in the manner, and with interest at the rates to be established as hereinafter provided, such amounts as may be advanced from time to time by FFB to the Borrower under this Bond (each such amount being an "Advance", and more than one such amount being "Advances").

2. Reference to Certain Agreements.

(a) Bond Purchase Agreement. This Bond is the "Bond" referred to in, and entitled to the benefits of, the Series K Bond Purchase Agreement dated as of even date herewith, made by and among FFB, the Borrower, and the Administrator of the Rural Utilities Service, a Rural Development agency of the United

States Department of Agriculture ("RUS") (such agreement, as it may be amended, supplemented, and restated from time to time in accordance with its terms, being the "Bond Purchase Agreement").

(b) Bond Guarantee Agreement. This Bond is the "Bond" referred to in, and entitled to the benefits of, the Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of March 29, 2016, made between RUS and the Borrower (such agreement, as it may be amended, supplemented, and restated from time to time in accordance with its terms, being the "Bond Guarantee Agreement").

(c) Pledge Agreement. This Bond is the "Bond" referred to in the Second Amended, Restated and Consolidated Pledge Agreement dated as of March 29, 2016, made among the Borrower, RUS, and U.S. Bank National Association, a national association (such agreement, as it may be amended, supplemented, and restated from time to time in accordance with its terms, being the "Pledge Agreement").

3. Advances; Advance Requests; RUS Approval Requirement; Last Day for an Advance.

(a) Subject to the terms and conditions of the Bond Purchase Agreement, FFB shall make Advances to the Borrower from time to time under this Bond, in each case upon delivery to FFB of a written request by the Borrower for an Advance under this Bond, in the form of request attached to the Bond Purchase Agreement as Exhibit A thereto (each such request being an "Advance Request") and completed as prescribed in section 7.3.1 of the Bond Purchase Agreement.

(b) To be effective, an Advance Request must first be delivered to RUS for approval and be approved by RUS in writing, and such Advance Request, together with written notification of RUS's approval thereof (each such notification being an "Advance Request Approval Notice"), must be received by FFB consistent with the advance notice requirements prescribed in sections 7.3.1(c) and 7.3.2(b) of the Bond Purchase Agreement.

(c) FFB shall make each requested Advance on the particular calendar date that the Borrower requested in the respective Advance Request to be the date on which the respective Advance is to be made (such date being the "Requested Advance Date" for such Advance), subject to the provisions of the Bond Purchase Agreement describing certain circumstances under which a requested Advance shall be made on a later date; provided, however, that no Advance shall be made under this Bond after the particular date specified on page 1 of this Bond as being the "Last Day for an Advance."

4. Principal Amount of Advances; Maximum Principal Amount.

The principal amount of each Advance shall be the particular dollar amount that the Borrower specified in the respective Advance Request as the "Requested Advance Amount" for the respective Advance; provided, however, that the aggregate principal amount of all Advances made under this Bond shall not exceed the particular amount specified on page 1 of this Bond as being the "Maximum Principal Amount."

5. Maturity Dates for Advances.

Subject to paragraph 15 of this Bond, each Advance shall mature on the particular calendar date that the Borrower selected in the respective Advance Request to be the date on which the respective Advance is to mature (such date being the "Maturity Date" for such Advance), provided that such Maturity Date meets all of the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement.

6. Computation of Interest on Advances.

(a) Subject to paragraphs 11 and 16 of this Bond, interest on the outstanding principal of each Advance shall accrue from the date on which the respective Advance is made to the date on which such principal is due.

(b) Interest on each Advance shall be computed on the basis of (1) actual days elapsed from (but not including) the date on which the respective Advance is made (for the first payment of interest due under this Bond for such Advance) or the date on which the payment of interest was last due (for all other payments of interest due under this Bond for such Advance), to (and including) the date on which the payment of interest is next due; and (2) a year of 365 days (except in calendar years including February 29, when the basis shall be a 366-day year).

(c) The basic interest rate for each Advance shall be established by FFB, as of the date on which the respective Advance is made, on the basis of the determination made by the Secretary of the Treasury pursuant to section 6(b) of the Federal Financing Bank Act of 1973, as amended (codified at 12 U.S.C. § 2281 et seq.) (the "FFB Act"); provided, however, that the shortest maturity used as the basis for any rate determination shall be the remaining maturity of the most recently auctioned United States Treasury bills having the shortest maturity of all United States Treasury bills then being regularly auctioned.

(d) In the event that (1) the Borrower has selected for any Advance a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date for such Advance, and (2) the Borrower has elected for such Advance a prepayment/ refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such Advance shall also include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower selected, which price shall be established by FFB on the basis of a determination made by FFB as to the difference between

(A) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, and (iii) include a prepayment and refinancing privilege identical to the particular prepayment/refinancing privilege that the Borrower elected for such Advance, and (B) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, but (iii) not include such prepayment and refinancing privilege.

7. Payment of Interest; Payment Dates.

Interest accrued on the outstanding principal amount of each Advance shall be due and payable quarterly on January 15, April 15, July 15, and October 15 of each year (each such day being a "Payment Date"), beginning on the first Payment Date to occur after the date on which the respective Advance is made, up through and including the Maturity Date of such Advance; provided, however, that with respect to each Advance that is made in the 30-day period immediately preceding any Payment Date, payments of accrued interest on the outstanding principal amount of the respective Advance shall be due beginning on the second Payment Date to occur after the date on which such Advance is made.

8. Repayment of Principal; Principal Repayment Options.

(a) The principal amount of each Advance shall be payable in quarterly installments, which installments shall be due beginning on the first Payment Date to occur after the date on which the respective Advance is made, and shall be due on each Payment Date to occur thereafter until the principal amount of the respective Advance is repaid in full on or before the particular date specified on page 1 of this Bond as being the "Final Maturity Date" (such date being the "Final Maturity Date"); provided, however, that with respect to each Advance that is made in the 30-day period immediately preceding any Payment Date, principal installments shall be due beginning on the second Payment Date to occur after the date on which the respective Advance is made.

(b) In the respective Advance Request for each Advance, the Borrower must also select a method for the repayment of principal of such Advance from among the following options:

(1) "equal principal installments" -- the amount of each quarterly principal installment shall be substantially equal to the amount of every other quarterly principal installment and shall be sufficient, when added to all other such quarterly installments of equal principal, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date);

(2) "graduated principal installments" -- the amount of each of the first one-third (or nearest number of payments that rounds to one-third) of the total number of quarterly principal installments shall be substantially equal to one-half of the amount of each of the remaining quarterly principal installments, and shall be sufficient, when added to all other

such quarterly installments of graduated principal, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date); or

(3) "level debt service" -- the amount of each quarterly payment consisting of a principal installment and accrued interest shall be substantially equal to the amount of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such level quarterly payments consisting of a principal installment and accrued interest, to repay the principal amount of such Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Advance that will occur before the Final Maturity Date).

(c) For each Advance, the amount of principal that shall be due and payable on each of the dates specified in subparagraph (a) of this paragraph 8 shall be the amount of the principal installment due under a principal repayment schedule for the respective Advance that is computed in accordance with the principles of the particular method for the repayment of principal that is selected by the Borrower for such Advance from among the options described in subparagraph (b) of this paragraph 8. Except at the times described in the immediately following sentence, the method for the repayment of principal that is selected by the Borrower for any Advance, and the resulting principal repayment schedule that is so computed for such Advance, may not be changed. Notwithstanding the foregoing, with respect to each Advance for which the Borrower has selected a Maturity Date that will occur before the Final Maturity Date, the Borrower may change the particular method for the repayment of principal that was selected by the Borrower for the respective Advance from either the "equal principal installments" method or the "graduated principal installments" method to the "level debt service" method at the time (if ever) that the Borrower elects to extend the maturity of such Advance (as provided in paragraph 15 of this Bond), effective as of the effective date of such maturity extension, or at the time (if ever) that the Borrower elects to refinance the outstanding principal amount of such Advance (as provided in paragraph 18 of this Bond), effective as of the effective date of such refinancing, and the principal repayment schedule for such Advance shall thereupon be newly computed in accordance with the "level debt service" method for the repayment of principal. After the Borrower has selected the Final Maturity Date as the Maturity Date for any Advance, the Borrower may so change the particular method for the repayment of principal of any Advance, and the principal repayment schedule for such Advance shall be so newly computed, only at the time (if ever) that the Borrower elects to refinance the outstanding principal amount of such Advance (as provided in paragraph 18 of this Bond), effective as of the effective date of such refinancing.

(d) With respect to each Advance that has a Maturity Date that will occur before the Final Maturity Date, the entire unpaid principal amount of the respective Advance shall be payable on such Maturity Date, subject to extensions of the maturity of such Advance (as provided in paragraph 15 of this Bond).

(e) Notwithstanding which of the methods for the repayment of principal described in subparagraph (b) of this paragraph 8 is selected by the Borrower for any Advance, the aggregate of all quarterly payments of principal and interest on such Advance shall be such as will repay the entire principal amount of such Advance, and pay all interest accrued thereon, on or before the Final Maturity Date.

9. Fee.

(a) A fee to cover expenses and contingencies, assessed by FFB pursuant to section 6(c) of the FFB Act, shall accrue on the outstanding principal amount of each Advance for the period from the date on which the respective Advance is made to the date on which the principal amount of such Advance is due, not taking into account any maturity extensions permitted by paragraph 15 of this Bond (such period being the "Advance Period").

(b) The fee on each Advance shall be:

(1) 12.5 basis points (0.125%) per annum of the unpaid principal balance of such Advance for an Advance Period of 10 years or less; and

(2) 25 basis points (0.25%) per annum of the unpaid principal balance of such Advance for an Advance Period greater than 10 years.

(c) The fee on each Advance shall be computed in the same manner as accrued interest is computed under paragraph 6(b) of this Bond, and shall be due and payable at the same times as accrued interest is due and payable under paragraph 7 of this Bond (adjusted as provided in paragraph 10 of this Bond if a Payment Date is not a Business Day). The fee on each Advance shall be credited to RUS as required by section 505(c) of the Federal Credit Reform Act of 1990, as amended (codified at 2 U.S.C. § 661d(c)).

10. Business Days.

(a) Whenever any Payment Date, the Maturity Date for any Advance, or the Final Maturity Date shall fall on a day on which either FFB or the Federal Reserve Bank of New York is not open for business, the payment that would otherwise be due on such Payment Date, Maturity Date, or Final Payment Date, as the case may be, shall be due on the first day thereafter on which FFB and the Federal Reserve Bank of New York are both open for business (any such day being a "Business Day").

(b) In the event that any Payment Date falls on a day other than a Business Day, then the extension of time for making the payment that would otherwise be due on such Payment Date shall be (1) taken into account in establishing the interest rate for the respective Advance, (2) included in computing interest due in connection with such payment, and (3) excluded in computing interest due in connection with the next payment.

(c) In the event that the Maturity Date for any Advance or the Final Maturity Date falls on a day other than a Business Day, then the extension of time for making the payment that

would otherwise be due on such Maturity Date or the Final Maturity, as the case may be, shall be (1) taken into account in establishing the interest rate for such Advance, and (2) included in computing interest due in connection with such payment.

11. Late Payments.

(a) In the event that any payment of any amount owing under this Bond is not made when and as due (any such amount being then an "Overdue Amount"), then the amount payable shall be such Overdue Amount plus interest thereon (such interest being the "Late Charge") computed in accordance with this subparagraph (a).

(1) The Late Charge shall accrue from the scheduled date of payment for the Overdue Amount (taking into account paragraph 10 of this Bond) to the date on which payment is made.

(2) The Late Charge shall be computed on the basis of (A) actual days elapsed from (but not including) the scheduled date of payment for such Overdue Amount (taking into account paragraph 10 of this Bond) to (and including) the date on which payment is made, and (B) a year of 365 days (except in calendar years including February 29, when the basis shall be a 366-day year).

(3) The Late Charge shall accrue at a rate (the "Late Charge Rate") equal to one and one-half times the rate to be determined by the Secretary of the Treasury taking into consideration the prevailing market yield on the remaining maturity of the most recent auctioned 13-week United States Treasury bills.

(4) The initial Late Charge Rate shall be in effect until the earlier to occur of either (A) the date on which payment of the Overdue Amount and the amount of accrued Late Charge is made, or (B) the first Payment Date to occur after the scheduled date of payment for such Overdue Amount. In the event that the Overdue Amount and the amount of the accrued Late Charge are not paid on or before such Payment Date, then the amount payable shall be the sum of the Overdue Amount and the amount of the accrued Late Charge, plus a Late Charge on such sum accruing at a new Late Charge Rate to be then determined in accordance with the principles of clause (3) of this subparagraph (a). For so long as any Overdue Amount remains unpaid, the Late Charge Rate shall be re-determined in accordance with the principles of clause (3) of this subparagraph (a) on each Payment Date to occur thereafter, and shall be applied to the Overdue Amount and all amounts of the accrued Late Charge to the date on which payment of the Overdue Amount and all amounts of the accrued Late Charge is made.

(b) Nothing in subparagraph (a) of this paragraph 11 shall be construed as permitting or implying that the Borrower may, without the written consent of FFB, modify, extend, alter or affect in any manner whatsoever (except as explicitly provided herein) the right of FFB to receive any and all payments on account of this Bond on the dates specified in this Bond.

12. Final Due Date.

Notwithstanding anything in this Bond to the contrary, all amounts outstanding under this Bond remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.

13. Manner of Making Payments.

(a) For so long as FFB is the Holder of this Bond and RUS is the bond servicing agent for FFB (as provided in the Bond Purchase Agreement), each payment under this Bond shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of RUS, as bond servicing agent for FFB) maintained at the Federal Reserve Bank of New York specified by RUS in a written notice to the Borrower, or to such other account as may be specified from time to time by RUS in a written notice to the Borrower.

(b) In the event that FFB is the Holder of this Bond and RUS is not the bond servicing agent for FFB, each payment under this Bond, with the exception of the fee described in paragraph 9 of this Bond, shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of FFB) maintained at the Federal Reserve Bank of New York specified by FFB in a written notice to the Borrower, or to such other account as may be specified from time to time by FFB in a written notice to the Borrower. In the event that FFB is the Holder of this Bond and RUS is not the bond servicing agent for FFB, each payment of the fee described in paragraph 9 of this Bond shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury (for credit to the subaccount of RUS) maintained at the Federal Reserve Bank of New York specified from time to time by RUS in a written notice delivered by RUS to the Borrower.

(c) In the event that FFB is not the Holder of this Bond, then each payment under this Bond, with the exception of the fee described in paragraph 9 of this Bond, shall be made in immediately available funds by electronic funds transfer to such account as shall be specified by the Holder in a written notice to the Borrower. In the event that FFB is not the Holder of this Bond, each payment of the fee described in paragraph 9 of this Bond shall be made in the manner specified by FFB in the written notice delivered by FFB to the Borrower and RUS as provided in section 15.4.2 of the Bond Purchase Agreement.

14. Application of Payments.

Each payment made on this Bond shall be applied, first, to the payment of Late Charges (if any) payable under paragraphs 11 and 18 of this Bond, then to the payment of premiums (if any) payable under paragraphs 16 and 17 of this Bond, then to the payment of unpaid accrued interest, then on account of outstanding principal, and then to the payment of the fee payable under paragraph 9 of this Bond.

15. Maturity Extensions.

(a) With respect to each Advance (1) for which the Borrower has selected a Maturity Date that will occur before the twentieth anniversary of the Requested Advance Date specified in the respective Advance Request, or (2) for which a Maturity Date that will occur before the twentieth anniversary of the Requested Advance Date specified in the respective Advance Request has been determined as provided in subparagraph (b) of this paragraph 15 (each such Maturity Date being an "Interim Maturity Date"), the Borrower may, effective as of such Interim Maturity Date, elect to extend the maturity of all or any portion of the outstanding principal amount of the respective Advance to a new Maturity Date to be selected by the Borrower in the manner and subject to the limitations specified in this subparagraph (a) (each such election being a "Maturity Extension Election"; each such elective extension of the maturity of any Advance that has an Interim Maturity Date being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such elective Maturity Extension being, from and after such Maturity Extension, the "Maturity Extension Effective Date").

(1) Except under the circumstances described in clause (3) of this subparagraph (a), the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Maturity Extension Election, in the form of notification attached to this Bond as Annex 1-A (each such notification being a "Maturity Extension Election Notice"), making reference to the "Advance Identifier" (as that term is defined in the Bond Purchase Agreement) that FFB assigned to such Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(A) the amount of the outstanding principal of the such Advance with respect to which the Borrower elects to extend the maturity; and

(B) the new Maturity Date that the Borrower selects to be in effect for such principal amount after the respective Maturity Extension Effective Date, which date:

(i) may be either (I) a new Interim Maturity Date, or (II) the twentieth anniversary of the Requested Advance Date specified in the original Advance Request (if such twentieth anniversary date is a Payment Date) or the Payment Date immediately preceding such twentieth anniversary date (if such twentieth anniversary date is not a Payment Date); and

(ii) in the event that the Borrower selects a new Interim Maturity Date as the new Maturity Date for any Advance, must meet the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement (provided, however, that, for purposes of selecting a new Maturity Date in connection with a Maturity Extension Election, each of the references to the "Requested Advance Date" for the respective Advance in section 7.3.1(a)(5)(D) of the Bond Purchase Agreement shall

be deemed to be a reference to the "respective Maturity Extension Effective Date").

(2) To be effective, a Maturity Extension Election Notice must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension.

(3) In the event that either of the circumstances described in subclause (A) or (B) of the next sentence occurs, then a Maturity Extension Election Notice (in the form of notice attached to this Bond as Annex 1-B), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Maturity Extension Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension. RUS approval of a Maturity Extension Election Notice will be required under either of the following circumstances:

(A) (i) any payment of any amount owing under this Bond is not made by the Borrower when and as due; (ii) payment is made by RUS in accordance with the guarantee set forth at the end of this Bond; and (iii) RUS delivers notice to both the Borrower and FFB advising each of them that each Maturity Extension Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS; or

(B) FFB at any time delivers written notice to both the Borrower and RUS advising each of them that each Maturity Extension Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS.

(b) With respect to any Advance that has an Interim Maturity Date, in the event that FFB does not receive a Maturity Extension Election Notice (and, if required under subparagraph (a) (3) of this paragraph 15, written notification of RUS's approval thereof) on or before the third Business Day before such Interim Maturity Date, then the maturity of such Advance shall be extended automatically in the manner and subject to the limitations specified in this subparagraph (b) (each such automatic extension of the maturity of any Advance that has an Interim Maturity Date also being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such automatic Maturity Extension also being, from and after such Maturity Extension, the "Maturity Extension Effective Date"). The new Maturity Date for such Advance shall be the immediately following Payment Date. The amount of principal that will have its maturity extended automatically shall be the entire outstanding principal amount of such Advance on such Maturity Extension Effective Date, less the amount of any payment of principal made on such Maturity Extension Effective Date.

(c) In the event that the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the basic interest rate for such Advance, from and after the respective Maturity Extension Effective Date, shall be the

particular rate that is established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of paragraph 6(c) of this Bond.

(d) In the event that the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the fee for such Advance, from and after the respective Maturity Extension Effective Date, shall be the particular fee that is assessed by FFB, as of such Maturity Extension Effective Date, with the new Advance Period being the period from the Maturity Extension Effective Date through the new Maturity Date, in accordance with the principles of paragraphs 9(b) and (c) of this Bond.

(e) In the event that (1) the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, and (2) the Maturity Date for such extended Advance is a date that will occur before the fifth anniversary of the respective Maturity Extension Effective Date, then the prepayment/refinancing privilege described in section 11.2 of the Bond Purchase Agreement shall apply automatically to such Advance.

(f) In the event that (1) the Borrower makes a Maturity Extension Election with respect to any Advance that has an Interim Maturity Date, and (2) the Borrower selects as the Maturity Date for such extended Advance a new Maturity Date that will occur on or after the fifth anniversary of the respective Maturity Extension Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such extended Advance from between the options described in sections 11.2 and 11.3 of the Bond Purchase Agreement (provided, however, that each of the references to "the Requested Advance Date for such Advance" in section 11.3 of the Bond Purchase Agreement shall be deemed to be a reference to "the respective Maturity Extension Effective Date"). The Maturity Extension Election Notice delivered by the Borrower in connection with each such Maturity Extension Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective extended Advance. In the event that the Borrower elects for any such extended Advance a prepayment/refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such extended Advance, from and after the respective Maturity Extension Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower elects, which price shall be established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of paragraph 6(d) of this Bond.

(g) The maturity of each Advance may be extended more than once as provided in this paragraph 15, but upon the twentieth anniversary of the Requested Advance Date specified in the original Advance Request (if such twentieth anniversary date is a Payment Date) or upon the Payment Date immediately preceding such twentieth anniversary date (if such twentieth anniversary date is not a Payment Date), no further Maturity Extensions may occur.

16. Prepayments.

(a) The Borrower may elect to prepay all or any portion of the outstanding principal amount of any Advance made under this Bond, or to prepay this Bond in its entirety, in the

manner, at the price, and subject to the limitations specified in this paragraph 16 (each such election being a "Prepayment Election").

(b) For each Prepayment Election in which the Borrower elects to prepay a particular amount of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Bond as Annex 2-A (each such notification being a "Prepayment Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year period during which such Advance shall not be eligible for any prepayment or refinancing (such time period being a "No-Call Period"), may not be a date that will occur before the applicable "First Call Date" determined as provided in section 11.3.2 of the Bond Purchase Agreement (such date being the "First Call Date"); and

(2) the amount of principal of the respective Advance that the Borrower intends to prepay, which amount may be either:

(A) the total outstanding principal amount of such Advance; or

(B) an amount less than the total outstanding principal amount of such Advance (subject to subparagraph (g) of this paragraph 16) (any such amount being a "Portion").

(c) For each Prepayment Election in which the Borrower elects to have a particular amount of funds applied by FFB toward the prepayment of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Bond as Annex 2-B (each such notification also being a "Prepayment Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date; and

(2) the particular amount of funds that the Borrower elects to be applied by FFB toward a prepayment of the outstanding principal amount of such Advance.

(d) To be effective, a Prepayment Election Notice must be approved by RUS in writing, and such Prepayment Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Prepayment Date for the respective Advance or Portion.

(e) The Borrower shall pay to FFB a price for the prepayment of any Advance, any Portion of any Advance, or this Bond in its entirety (such price being the "Prepayment Price" for such Advance or Portion or this Bond, as the case may be) determined as follows:

(1) in the event that the Borrower elects to prepay the entire outstanding principal amount of any Advance, then the Borrower shall pay to FFB a Prepayment Price for such Advance equal to the sum of:

(A) the entire outstanding principal amount of such Advance on the Intended Prepayment Date;

(B) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Prepayment Date; and

(C) the amount of the premium or discount credit (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance as provided in article 11 of the Bond Purchase Agreement;

(2) in the event that the Borrower elects to prepay a Portion of any Advance, then the Borrower shall pay to FFB a Prepayment Price for such Portion that would equal such Portion's pro rata share of the Prepayment Price that would be required for a prepayment of the entire outstanding principal amount of such Advance (determined in accordance with the principles of clause (1) of this subparagraph (e)); and

(3) in the event that the Borrower elects to prepay this Bond in its entirety, then the Borrower shall pay to FFB an amount equal to the sum of the Prepayment Prices for all outstanding Advances (determined in accordance with the principles of clause (1) of this subparagraph (e)).

(f) Payment of the Prepayment Price for any Advance, any Portion of any Advance, or this Bond in its entirety shall be due to FFB before 3:00 p.m. (Washington, DC, time) on the Intended Prepayment Date for such Advance or Portion or this Bond, as the case may be.

(g) Each prepayment of a Portion shall, as to the principal amount of such Portion, be subject to a minimum amount equal to \$100,000.00 of principal.

(h) The Borrower may make more than one Prepayment Election with respect to an Advance, each such Prepayment Election being made with respect to a different Portion of such Advance, until such time as the entire principal amount of such Advance is repaid in full.

17. Refinancings.

(a) The Borrower may elect to refinance the outstanding principal amount of any Advance (but not any Portion) in the manner, at the price, and subject to the limitations specified in this paragraph 17 (each such election being a "Refinancing Election").

(b) Except under the circumstances described in subparagraph (d) of this paragraph 17, the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Refinancing Election, in the form of notification attached to this Bond as Annex 3-A (each such notification being a "Refinancing Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Bond Purchase Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to refinance the respective Advance (such date being the "Intended Refinancing Date" for the respective Advance), which date:

(A) must be a Payment Date; and

(B) for any Advance for which the Borrower has selected a prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date;

(2) the amount of the outstanding principal of the respective Advance that the Borrower elects to refinance (which may not be a Portion); and

(3) the Maturity Date that the Borrower selects to be in effect for such principal amount after such refinancing, which date may be:

(A) the Maturity Date that is in effect for such Advance immediately before such refinancing; or

(B) a new Maturity Date that the Borrower selects in connection with such Refinancing Election, provided that such new Maturity Date meets the criteria for Maturity Dates prescribed in section 7.3.1(a)(5) of the Bond Purchase Agreement (provided, however, that for purposes of selecting a new Maturity Date in connection with a Refinancing Election, each of the references to the "Requested Advance Date" for the respective Advance in section 7.3.1(a)(5)(D) of the Bond Purchase Agreement shall be deemed to be a reference to the "respective Refinancing Effective Date").

(c) To be effective, a Refinancing Election Notice must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Refinancing Date.

(d) In the event that either of the circumstances described in clause (1) or (2) of the next sentence shall have occurred, then a Refinancing Election Notice (in the form of notice attached to this Bond as Annex 3-B), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Refinancing Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein to be the Intended Refinancing Date. RUS approval of a Refinancing Election Notice will be required under either of the following circumstances:

(1) (A) payment of any amount owing under this Bond is not made by the Borrower when and as due; (B) payment is made by RUS in accordance with the guarantee set forth at the end of this Bond; and (C) RUS delivers notice to both the Borrower and FFB advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS; or

(2) FFB at any time delivers written notice to both the Borrower and RUS advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS.

(e) The Borrower shall pay to FFB a price for the refinancing of any Advance (such price being the "Refinancing Price" for such Advance) equal to the sum of:

(1) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Refinancing Date; and

(2) the amount of the premium (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance as provided in article 11 of the Bond Purchase Agreement.

In the event that (A) the prepayment/refinancing privilege that applies to the particular Advance being refinanced is the privilege described in section 11.2 of the Bond Purchase Agreement, and (B) the Market Value Premium (or Discount) that is to be included in the Refinancing Price for such Advance is a discount on such Advance, then such discount shall be applied by FFB in the manner requested by the Borrower in a written notice delivered by the Borrower to FFB and approved by RUS in writing.

(f) Payment of the Refinancing Price for any Advance shall be due to FFB before 3:00 p.m. (Washington, DC, time) on the Intended Refinancing Date for such Advance.

(g) In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB on or before the fifth Business Day before the Intended Refinancing Date specified therein, then the

refinancing of the respective Advance shall become effective on such Intended Refinancing Date (in such event, the Intended Refinancing Date being the "Refinancing Effective Date"). In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB after the fifth Business Day before the Intended Refinancing Date specified therein, then the refinancing of the respective Advance shall become effective on the fifth Business Day to occur after the day on which such Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB (in such event, the fifth Business Day to occur after the day on which such Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 17, written notification of RUS's approval thereof) is received by FFB being the "Refinancing Effective Date"), provided that the Borrower shall have paid to FFB, in addition to the Refinancing Price required under subparagraph (e) of this paragraph 17, the interest accrued from the Intended Refinancing Date through such Refinancing Effective Date.

(h) In the event that the Borrower makes a Refinancing Election with respect to any Advance, the basic interest rate for such Advance, from and after the respective Refinancing Effective Date, shall be the particular rate that is established by FFB, as of such Refinancing Effective Date, in accordance with the principles of paragraph 6(c) of this Bond.

(i) In the event that the Borrower makes a Refinancing Election with respect to any Advance, then the fee for such Advance, from and after the respective Refinancing Effective Date, shall be the particular fee that is assessed by FFB, as of such Refinancing Effective Date, with the new Advance Period being the period from the Refinancing Effective Date through the new Maturity Date, in accordance with the principles of paragraphs 9(b) and (c) of this Bond.

(j) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur before the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur before the fifth anniversary of the respective Refinancing Effective Date, then the prepayment/refinancing privilege described in section 11.2 of the Bond Purchase Agreement shall apply automatically to such Advance.

(k) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur on or after the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur on or after the fifth anniversary of the respective Refinancing Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such refinanced Advance from between the options described in sections 11.2 and 11.3 of the Bond Purchase Agreement (provided, however, that each of the references to the "Requested Advance Date for such Advance" in section 11.3 of the Bond Purchase Agreement shall be deemed to be a reference to the "respective Refinancing Effective Date"). The Refinancing Election Notice delivered by the Borrower in connection with each such

Refinancing Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective refinanced Advance. In the event that the Borrower elects for any such refinanced Advance a prepayment/refinancing privilege described in section 11.3 of the Bond Purchase Agreement, then the interest rate for such refinanced Advance, from and after the respective Refinancing Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower elects, which increment shall be established by FFB, as of such Refinancing Effective Date, in accordance with the principles of paragraph 6(d) of this Bond.

(l) In the event that the Borrower makes a Refinancing Election with respect to any Advance, then the outstanding principal amount of such Advance, after the respective Refinancing Effective Date, shall be due and payable in accordance with this subparagraph (l).

(1) With respect to each Advance to which either the "equal principal installments" method or the "graduated principal installments" method for the repayment of principal applies, the amount of the quarterly principal installments that will be due after the respective Refinancing Effective Date shall be equal to the amount of the quarterly installments of equal principal or graduated principal, as the case may be, that were due in accordance with the principal repayment schedule that applied to such Advance immediately before the respective Refinancing Effective Date.

(2) With respect to each Advance to which the "level debt service" method for the repayment of principal applies, the amount of the level quarterly payments consisting of a principal installment and accrued interest that will be due after the respective Refinancing Effective Date shall be newly computed so that the amount of each such quarterly payment consisting of a principal installment and accrued interest (taking into account the new interest rate that applies to such Advance from and after such Refinancing Effective Date) shall be substantially equal to the amount of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such newly-computed level quarterly payments consisting of a principal installment and accrued interest, to repay the outstanding principal amount of such refinanced Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such refinanced Advance that will occur before the Final Maturity Date).

(3) The quarterly installments of equal principal or graduated principal, or the newly-computed level quarterly payments consisting of a principal installment and accrued interest, as the case may be, shall be due beginning on the first Payment Date to occur after the respective Refinancing Effective Date, and shall be due on each Payment Date to occur thereafter up through and including the earlier to occur of (A) the new Maturity Date that the Borrower selected for such refinanced Advance, on which date the entire unpaid principal amount of such refinanced Advance shall also be payable, subject to Maturity Extensions (as provided in paragraph 15 of this Note) if the new Maturity Date is an Interim Maturity Date, or (B) the date on which the entire principal amount of

such refinanced Advance, and all unpaid interest (and Late Charges, if any) accrued thereon, are paid.

(m) The Borrower may make more than one Refinancing Election with respect to any Advance.

18. Rescission of Prepayment Elections and Refinancing Elections; Late Charges for Late Payments.

(a) The Borrower may rescind any Prepayment Election made in accordance with paragraph 16 of this Bond or any Refinancing Election made in accordance with paragraph 17 of this Bond, but only in accordance with this paragraph 18.

(b) The Borrower shall deliver to both FFB and RUS written notification of each rescission of a Prepayment Election or a Refinancing Election (each such notification being an "Election Rescission Notice") specifying the particular Advance for which the Borrower wishes to rescind such Prepayment Election or Refinancing Election, as the case may be, which specification must make reference to both:

(1) the particular Advance Identifier that FFB assigned to such Advance (as provided in the Bond Purchase Agreement); and

(2) the RUS account number for such Advance.

The Election Rescission Notice may be delivered by facsimile transmission to FFB at (202) 622-0707 and to RUS at (202) 720-1401, or at such other facsimile number or numbers as either FFB or RUS may from time to time communicate to the Borrower.

(c) To be effective, an Election Rescission Notice must be received by both FFB and RUS not later than 3:30 p.m. (Washington, DC, time) on the second Business Day before the Intended Prepayment Date or the Intended Refinancing Date, as the case may be.

(d) In the event that the Borrower (1) makes a Prepayment Election in accordance with paragraph 16 of this Bond or a Refinancing Election in accordance with paragraph 17 of this Bond; (2) does not rescind such Prepayment Election or Refinancing Election, as the case may be, in accordance with this paragraph 18; and (3) does not, before 3:00 p.m. (Washington, DC, time) on the Intended Prepayment Date or Intended Refinancing Date, as the case may be, pay to FFB the Prepayment Price described in paragraph 16(e) of this Bond or Refinancing Price described in paragraph 17(e) of this Bond, as the case may be, then a Late Charge shall accrue on any such unpaid amount from the Intended Prepayment Date or Intended Refinancing Date, as the case may be, to the date on which payment is made, computed in accordance with the principles of paragraph 11 of this Bond.

19. Amendments to Bond.

To the extent not inconsistent with applicable law, this Bond, for so long as FFB or its agent is the holder thereof, shall be subject to modification by such amendments, extensions, and renewals as may be agreed upon from time to time by FFB and the Borrower, with the approval of RUS.

20. Certain Waivers.

The Borrower hereby waives any requirement for presentment, protest, or other demand or notice with respect to this Bond.

21. Bond Effective Until Paid.

This Bond shall continue in full force and effect until all principal outstanding hereunder, all interest accrued hereunder, all premiums (if any) payable under paragraphs 16 and 17 of this Bond, all Late Charges (if any) payable under paragraphs 11 and 18 of this Bond, and all fees (if any) payable under paragraph 9 of this Bond have been paid in full.

22. RUS Guarantee of Bond.

Upon execution of the guarantee set forth at the end of this Bond (the "RUS Guarantee"), the payment by the Borrower of all amounts due and payable under this Bond, when and as due, shall be guaranteed by the United States of America, acting through RUS, pursuant to the Rural Electrification Act of 1936, as amended (codified at 7 U.S.C. § 901 et seq.). In consideration of the RUS Guarantee, the Borrower promises to RUS to make all payments due under this Bond when and as due.

23. Pledge Agreement.

This Bond is one of several Bonds referred to in the Pledge Agreement, wherein the Borrower made provision for the pledge and grant of a security interest in, under certain circumstances described therein, certain property of the Borrower, described therein, to secure the payment of and performance of certain obligations owed to RUS, as set forth in the Pledge Agreement.

24. Guarantee Payments; Reimbursement.

If RUS makes any payment, pursuant to the RUS Guarantee, of any amount due and payable under this Bond, when and as due, each and every such payment so made shall be deemed to be a payment hereunder; provided, however, that no payment by RUS pursuant to the RUS Guarantee shall be considered a payment for purposes of determining the existence of a failure by the Borrower to perform its obligation to RUS to make all payments under this Bond when and as due. RUS shall have any rights by way of subrogation, agreement or otherwise which arise as a result of such payment pursuant to the RUS Guarantee.

25. Default and Enforcement.

In case of a default by the Borrower under this Bond or the occurrence of an event of default under the Bond Guarantee Agreement, then, in consideration of the obligation of RUS under the RUS Guarantee, in that event, to make payments to FFB as provided in this Bond, RUS, in its own name, shall have all rights, powers, privileges, and remedies of the holder of this Bond, in accordance with the terms of this Bond, the Bond Guarantee Agreement, and the Pledge Agreement, including, without limitation, the right to enforce or collect all or any part of the obligation of the Borrower under this Bond or arising as a result of the RUS Guarantee, to file proofs of claim or any other document in any bankruptcy, insolvency, or other judicial proceeding, and to vote such proofs of claim.

26. Acceleration.

The entire unpaid principal amount of this Bond, and all interest thereon, may be declared, and upon such declaration shall become, due and payable to RUS, under the circumstances described, and in the manner and with the effect provided, in the Bond Guarantee Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Bond to be signed in its corporate name and its corporate seal to be hereunder affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**
(the "Borrower")

BY:

Signature: /s/ SHELDON C. PETERSEN

Print Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

ATTEST:

Signature: /s/ ROBERTA B. ARONSON
(SEAL)

Print Name: Roberta B. Aronson

Title: Assistant Secretary-Treasurer

ANNEX 1-A

TO

FUTURE ADVANCE BOND

FORM

OF

MATURITY EXTENSION ELECTION NOTICE

MATURITY EXTENSION ELECTION NOTICE

PART 1 OF THIS FORM HAS BEEN COMPLETED BY RUS. THE BORROWER SHOULD COMPLETE PART 2 OF THIS FORM ONLY FOR THOSE PARTICULAR ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WITH RESPECT TO WHICH THE BORROWER ELECTS TO HAVE THE MATURITY EXTENDED TO A NEW MATURITY DATE OTHER THAN THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO FFB AT THE FOLLOWING ADDRESS:

Director of Lending
Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Telephone: (202) 622-2470
Facsimile: (202) 622-0707

DELIVER A COPY OF THIS FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560

Reference: Section 313A Loan Guarantee

Telephone: (202) 720-0424
Facsimile: (202) 690-0717

THE BORROWER SHOULD NOT COMPLETE THIS FORM OR DELIVER IT TO FFB IF THE BORROWER DESIRES TO HAVE THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

IF THE BORROWER DOES NOT RETURN THIS FORM TO FFB, THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WILL BE EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

MATURITY EXTENSION ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier: _____

RUS Bond Number: _____

Part 1 (To be completed by RUS):

Each of the advances of funds ("Advances") identified in this Part 1 will mature on _____ (the "Maturity Date").

<u>FFB ADVANCE IDENTIFIER</u>	<u>RUS ACCOUNT NUMBER</u>	<u>ORIGINAL ADVANCE DATE</u>	<u>ORIGINAL ADVANCE AMOUNT</u>	<u>OUTSTANDING PRINCIPAL AMOUNT</u>
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

Notice is hereby given to FFB (and RUS) of the Borrower's election that the maturity of each of the Advances identified in this Part 2 be extended as follows:

<u>FFB ADVANCE IDENTIFIER</u> ¹	<u>OPTIONAL PRINCIPAL PAYMENT</u> ²	<u>AMOUNT OF PRINCIPAL TO BE EXTENDED</u> ³	<u>NEW MATURITY DATE</u> ⁴	<u>TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE</u> ⁵	<u>5-YEAR NO-CALL PERIOD</u> ⁶	<u>PREMIUM OPTION</u> ⁷
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

¹Complete 1 line in Part 2 for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity extended to a new Maturity Date other than the next Payment Date. Insert the FFB Advance Identifier that FFB assigned to the respective Advance for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity so extended.

²The Borrower has the option of making a payment of principal on the Maturity Date without any premium being charged. For each Advance, insert the amount of any such optional principal payment that will be paid on the Maturity Date.

³For each Advance, insert the amount of principal for which the maturity is to be extended. That amount must equal the difference between the outstanding principal amount for the respective Advance, as specified in Part 1, and the optional principal payment (if any) for such Advance inserted by the Borrower in Part 2.

⁴For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date to be in effect for the respective Advance after the Maturity Extension, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

⁵Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

⁶Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

⁷Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Maturity Extension Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE
CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 1-B

TO

FUTURE ADVANCE BOND

FORM

OF

MATURITY EXTENSION ELECTION NOTICE

(RUS APPROVAL REQUIRED)

MATURITY EXTENSION ELECTION NOTICE (RUS APPROVAL REQUIRED)

PART 1 OF THIS FORM HAS BEEN COMPLETED BY RUS. THE BORROWER SHOULD COMPLETE PART 2 OF THIS FORM ONLY FOR THOSE PARTICULAR ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WITH RESPECT TO WHICH THE BORROWER ELECTS TO HAVE THE MATURITY EXTENDED TO A NEW MATURITY DATE OTHER THAN THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

THE BORROWER SHOULD NOT COMPLETE THIS FORM OR DELIVER IT TO RUS IF THE BORROWER DESIRES TO HAVE THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

IF THE BORROWER DOES NOT RETURN THIS FORM TO RUS, THE MATURITY OF ALL OF THE ADVANCES IDENTIFIED IN PART 1 OF THIS FORM WILL BE EXTENDED AUTOMATICALLY TO THE IMMEDIATELY FOLLOWING QUARTERLY PAYMENT DATE.

MATURITY EXTENSION ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier: _____

RUS Bond Number: _____

Part 1 (To be completed by RUS):

Each of the advances of funds ("Advances") identified in this Part 1 will mature on _____ (the "Maturity Date").

<u>FFB ADVANCE IDENTIFIER</u>	<u>RUS ACCOUNT NUMBER</u>	<u>ORIGINAL ADVANCE DATE</u>	<u>ORIGINAL ADVANCE AMOUNT</u>	<u>OUTSTANDING PRINCIPAL AMOUNT</u>
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

Notice is hereby given to FFB (and RUS) of the Borrower's election that the maturity of each of the Advances identified in this Part 2 be extended as follows:

<u>FFB ADVANCE IDENTIFIER</u> ¹	<u>OPTIONAL PRINCIPAL PAYMENT</u> ²	<u>AMOUNT OF PRINCIPAL TO BE EXTENDED</u> ³	<u>NEW MATURITY DATE</u> ⁴	<u>TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE</u> ⁵	<u>5-YEAR NO-CALL PERIOD</u> ⁶	<u>PREMIUM OPTION</u> ⁷
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

¹Complete 1 line in Part 2 for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity extended to a new Maturity Date other than the next Payment Date. Insert the FFB Advance Identifier that FFB assigned to the respective Advance for each Advance identified in Part 1 with respect to which the Borrower elects to have the maturity so extended.

²The Borrower has the option of making a payment of principal on the Maturity Date without any premium being charged. For each Advance, insert the amount of any such optional principal payment that will be paid on the Maturity Date.

³For each Advance, insert the amount of principal for which the maturity is to be extended. That amount must equal the difference between the outstanding principal amount for the respective Advance, as specified in Part 1, and the optional principal payment (if any) for such Advance inserted by the Borrower in Part 2.

⁴For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date" to be in effect for the respective Advance after the Maturity Extension, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

⁵Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

⁶Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

⁷Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Maturity Extension Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

**NOTICE OF RUS APPROVAL OF
MATURITY EXTENSION ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Maturity Extension Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 2-A

TO

FUTURE ADVANCE BOND

FORM

OF

PREPAYMENT ELECTION NOTICE

SPECIFIED PRINCIPAL AMOUNT(S)

(RUS APPROVAL REQUIRED)

**PREPAYMENT ELECTION NOTICE
SPECIFIED PRINCIPAL AMOUNT(S)
(RUS APPROVAL REQUIRED)**

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

**PREPAYMENT ELECTION NOTICE
SPECIFIED PRINCIPAL AMOUNT(S)**

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier:

1

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond)

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to prepay all or a portion of the outstanding principal amount of the advances of funds ("Advances") identified in this Part 1:

<u>FFB ADVANCE IDENTIFIER</u> ²	<u>RUS ACCOUNT NUMBER</u> ³	<u>ORIGINAL ADVANCE DATE</u> ⁴	<u>ORIGINAL ADVANCE AMOUNT</u> ⁵	<u>OUTSTANDING PRINCIPAL AMOUNT</u> ⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to prepay all or a portion of the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Prepayment Date"):

_____ ⁷

²Complete 1 line in Part 1 for each Advance that the Borrower intends to prepay in whole or in part. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶Insert the outstanding principal amount of each Advance specified in Part 1 as of the day before the date on which the Borrower intends to make a prepayment on the respective Advances.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to prepay the Advances specified in Part 1, which date must meet the criteria for Intended Prepayment Date prescribed in paragraph 16(b)(1) of the Bond.

Part 3:

For each of the Advances identified in Part 1, the respective amount of principal that the Borrower intends to prepay on the Intended Prepayment Date is as follows:

<u>FFB ADVANCE IDENTIFIER</u> ⁸	<u>AMOUNT OF PRINCIPAL TO BE PREPAID</u> ⁹
_____	\$ _____
_____	\$ _____
_____	\$ _____

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Maturity Extension Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

⁸Complete 1 line in Part 3 for each Advance identified in Part 1.

⁹For each Advance, insert the amount of principal that will be prepaid on the Intended Prepayment Date.

**NOTICE OF RUS APPROVAL OF
PREPAYMENT ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Prepayment Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 2-B

TO

FUTURE ADVANCE BOND

FORM

OF

PREPAYMENT ELECTION NOTICE

FIXED SUM TO BE APPLIED

(RUS APPROVAL REQUIRED)

**PREPAYMENT ELECTION NOTICE
FIXED SUM TO BE APPLIED
(RUS APPROVAL REQUIRED)**

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

**PREPAYMENT ELECTION NOTICE
FIXED SUM TO BE APPLIED**

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Finance Corporation

FFB Bond Identifier:

¹

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to prepay all or a portion of the outstanding principal amount of the advances of funds ("Advances") identified in this Part 1:

<u>FFB ADVANCE IDENTIFIER</u> ²	<u>RUS ACCOUNT NUMBER</u> ³	<u>ORIGINAL ADVANCE DATE</u> ⁴	<u>ORIGINAL ADVANCE AMOUNT</u> ⁵	<u>OUTSTANDING PRINCIPAL AMOUNT</u> ⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to prepay all or a portion of the outstanding principal amount of the Advances identified in Part 1 on the following date (such date being the "Intended Prepayment Date"):

_____ ⁷

²Complete 1 line in Part 1 for each Advance that the Borrower intends to prepay in whole or in part. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶Insert the outstanding principal amount of each Advance specified in Part 1 as of the day before the date on which the Borrower intends to make a prepayment on the respective Advances.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to prepay the Advances specified in Part 1, which date must meet the criteria for Intended Prepayment Date prescribed in paragraph 16(b)(1) of the Bond.

Part 3:

The Borrower elects to have the following amount of funds applied by FFB toward a prepayment of the outstanding principal amount of the Advances identified in Part 1, in the order in which they appear in Part 1:

8

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Prepayment Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

⁸Insert the particular amount of funds that the Borrower elects to be applied by FFB toward a prepayment of the outstanding principal amount of the Advances identified in Part 1, in the order in which they appear in Part 1.

**NOTICE OF RUS APPROVAL OF
PREPAYMENT ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Prepayment Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 3-A

TO

FUTURE ADVANCE BOND

FORM

OF

REFINANCING ELECTION NOTICE

REFINANCING ELECTION NOTICE

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO FFB AT THE FOLLOWING ADDRESS:

*Director of Lending
Federal Financing Bank
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220*

*Telephone: (202) 622-2470
Facsimile: (202) 622-0707*

DELIVER A COPY OF THIS FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

REFINANCING ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Corporation

FFB Bond Identifier: _____¹

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to refinance the outstanding principal amount of each of the advances of funds ("Advances") identified in this Part 1:

<u>FFB ADVANCE IDENTIFIER</u> ²	<u>RUS ACCOUNT NUMBER</u> ³	<u>ORIGINAL ADVANCE DATE</u> ⁴	<u>ORIGINAL ADVANCE AMOUNT</u> ⁵	<u>OUTSTANDING PRINCIPAL AMOUNT</u> ⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to refinance the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Refinancing Date"):

_____⁷

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

²Complete 1 line in Part 1 for each Advance that the Borrower intends to refinance. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶For each Advance, insert the outstanding principal amount of the respective Advance as of the day before the intended refinancing.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to refinance the Advances specified in Part 1, which date must meet the criteria for Intended Refinancing Date prescribed in paragraph 17(b)(1) of the Bond.

Part 3:

Notice is hereby given to FFB (and RUS) of the Borrower's election that each of the Advances identified in Part 1 is to be refinanced as follows:

<u>FFB ADVANCE IDENTIFIER</u> ⁸	<u>AMOUNT OF PRINCIPAL TO BE REFINANCED</u> ⁹	<u>NEW MATURITY DATE</u> ¹⁰	<u>TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE</u> ¹¹	<u>5-YEAR NO-CALL PERIOD</u> ¹²	<u>PREMIUM OPTION</u> ¹³
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁸Complete 1 line in Part 3 for each Advance identified in Part 1 as being an Advance the Borrower elects to refinance. Insert the FFB Advance Identifier that FFB assigned to the respective Advance.

⁹For each Advance, insert the amount of principal that is to be refinanced. This will be the same amount as the outstanding principal amount of the respective Advance inserted in Part 1.

¹⁰For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date to be in effect for the respective Advance after the refinancing, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

¹¹Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

¹²Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

¹³Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Refinancing Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

ANNEX 3-B

TO

FUTURE ADVANCE BOND

FORM

OF

REFINANCING ELECTION NOTICE

(RUS APPROVAL REQUIRED)

REFINANCING ELECTION NOTICE (RUS APPROVAL REQUIRED)

DIRECT ALL QUESTIONS ON HOW TO COMPLETE THIS FORM TO THE ASSIGNED CONTACT OFFICE FOR THE BORROWER:

*Chief
Policy Analysis and Loan Management Staff
Telephone: (202) 720-0424*

WHEN COMPLETED, DELIVER THIS ORIGINAL FORM TO RUS AT THE ADDRESS OF THE CONTACT OFFICE INDICATED BELOW:

*Chief
Policy Analysis and Loan Management Staff
Rural Utilities Service
U.S. Department of Agriculture
Mail Stop 1560
1400 Independence Avenue, SW
Washington, DC 20250-1560*

Reference: Section 313A Loan Guarantee

*Telephone: (202) 720-0424
Facsimile: (202) 690-0717*

REFINANCING ELECTION NOTICE

Director of Lending
Federal Financing Bank

Reference is made to the following-described Future Advance Bond (the "Bond") payable to the Federal Financing Bank ("FFB"), which is guaranteed by the Rural Utilities Service ("RUS"):

Name of Borrower (the "Borrower"):

National Rural Utilities Cooperative Corporation

FFB Bond Identifier:

1

¹Insert the FFB Bond Identifier that FFB assigned to the Bond (as provided in the Bond Purchase Agreement referred to in the Bond).

Part 1:

Notice is hereby given to FFB (and RUS) of the Borrower's election to refinance the outstanding principal amount of each of the advances of funds ("Advances") identified in this Part 1:

<u>FFB ADVANCE IDENTIFIER</u> ²	<u>RUS ACCOUNT NUMBER</u> ³	<u>ORIGINAL ADVANCE DATE</u> ⁴	<u>ORIGINAL ADVANCE AMOUNT</u> ⁵	<u>OUTSTANDING PRINCIPAL AMOUNT</u> ⁶
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	\$ _____	\$ _____

Part 2:

The Borrower intends to refinance the outstanding principal amount of each of the Advances identified in Part 1 on the following date (such date being the "Intended Refinancing Date"):

_____ ⁷

²Complete 1 line in Part 1 for each Advance that the Borrower intends to refinance. For each Advance, insert the FFB Advance Identifier for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

³For each Advance, insert the RUS Account Number for the respective Advance as specified in the most recent billing notice delivered by RUS to the Borrower.

⁴For each Advance, insert the date on which FFB made the respective Advance to the Borrower.

⁵For each Advance, insert the original principal amount of the respective Advance that FFB made to the Borrower.

⁶For each Advance, insert the outstanding principal amount of the respective Advance as of the day before the intended refinancing.

⁷Insert the particular calendar date that the Borrower selects to be the date on which the Borrower intends to refinance the Advances specified in Part 1, which date must meet the criteria for Intended Refinancing Date prescribed in paragraph 17(b)(1) of the Bond.

Part 3:

Notice is hereby given to FFB (and RUS) of the Borrower's election that each of the Advances identified in Part 1 is to be refinanced as follows:

<u>FFB ADVANCE IDENTIFIER</u> ⁸	<u>AMOUNT OF PRINCIPAL TO BE REFINANCED</u> ⁹	<u>NEW MATURITY DATE</u> ¹⁰	<u>TYPE OF PREPAYMENT/ REFINANCING PRIVILEGE</u> ¹¹	<u>5-YEAR NO-CALL PERIOD</u> ¹²	<u>PREMIUM OPTION</u> ¹³
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	\$ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁸Complete 1 line in Part 3 for each Advance identified in Part 1 as being an Advance the Borrower elects to refinance. Insert the FFB Advance Identifier that FFB assigned to the respective Advance.

⁹For each Advance, insert the amount of principal that is to be refinanced. This will be the same amount as the outstanding principal amount of the respective Advance inserted in Part 1.

¹⁰For each Advance, insert the particular calendar date that the Borrower selects to be the new Maturity Date" to be in effect for the respective Advance after the refinancing, which new Maturity Date must meet all the criteria for Maturity Dates specified in section 7.3.1(a)(5) of the Bond Purchase Agreement referred to in the Bond.

¹¹Elect 1 of the following 2 types of prepayment/refinancing privilege for an Advance only if the new Maturity Date selected for such Advance will occur on or after the fifth anniversary of the effective date of this Maturity Extension. The 2 types of prepayment/refinancing privilege are: the market value premium (or discount) privilege ("M") and a fixed premium privilege ("F"). Insert in the box the letter-symbol for the particular type of prepayment/refinancing privilege elected.

¹²Elect 1 of the following 2 no-call period options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 2 no-call period options are: yes ("Y"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year period during which the Advance will not be eligible for prepayment or refinancing, and no ("N"), if the Borrower elects to have the fixed premium prepayment/refinancing privilege not include any such a 5-year no-call period. Insert in the box the letter-symbol for the particular no-call period option elected.

¹³Select 1 of the following 3 premium options for an Advance only if a fixed premium privilege is elected as the prepayment/refinancing privilege for such Advance. The 3 premium options are: a 10% premium declining over 10 years ("X"), a 5% premium declining over 5 years ("V"), and par (no premium) ("P"). Insert in the box the letter-symbol for the particular premium option selected.

The undersigned hereby certifies that the authority of the undersigned to execute and deliver this Refinancing Election Notice on behalf of the Borrower is valid and in full force and effect on the date hereof.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
(the "Borrower")

By: _____

Name: _____

Title: _____

Date: _____

**NOTICE OF RUS APPROVAL OF
REFINANCING ELECTION NOTICE**

Notice is hereby given to FFB that the preceding Refinancing Election Notice made by the Borrower identified therein has been approved by RUS for purposes of the Bond identified therein.

ADMINISTRATOR of the
RURAL UTILITIES SERVICE,
acting through his or her
duly authorized designee

By: _____

Name: _____

Title: _____

Date: _____

**THE UNITED STATES OF AMERICA,
acting through the Rural Utilities Service,**

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**

and

**U.S. BANK NATIONAL ASSOCIATION,
as Collateral Agent**

SECOND AMENDED, RESTATED AND CONSOLIDATED PLEDGE AGREEMENT

**Dated as of
March 29, 2016**

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Schedule I – Form of Certificate of Pledged Collateral

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SECOND AMENDED, RESTATED AND CONSOLIDATED PLEDGE AGREEMENT, dated as of March 29, 2016, among NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a District of Columbia cooperative association and its successors and assigns (hereinafter called the “Borrower”), having its principal executive office and mailing address at 20701 Cooperative Way, Dulles, VA 20166, the UNITED STATES OF AMERICA, acting through the Rural Utilities Service, a Rural Development agency of the United States Department of Agriculture and its successors and assigns (“RUS”), and U.S. BANK NATIONAL ASSOCIATION, a national association and its successors and assigns (hereinafter called the “Collateral Agent”), having its corporate office at 100 Wall Street, Suite 1600, New York, NY 10005-3701.

RECITALS OF THE BORROWER

WHEREAS, the Borrower has previously issued the following bonds to the Federal Financing Bank (“FFB”) to evidence loans therefrom in the aggregate principal amount of up to \$5,173,286,000.00: (a) that certain Series A Future Advance Bond dated as of June 14, 2005, (b) that certain Series B Future Advance Bond dated as of April 28, 2006, (c) that certain Series C Future Advance Bond dated as of September 19, 2008, (d) that certain Series D Future Advance Bond dated as of November 10, 2010, (e) that certain Series E Future Advance Bond dated as of December 1, 2011, (f) that certain Series F Future Advance Bond dated as of December 13, 2012, (g) that certain Series G Future Advance Bond dated as of November 21, 2013, and (h) that certain Series H Future Advance Bond dated as of November 18, 2014 (collectively, the “Original Bonds”);

WHEREAS, concurrently with the execution of this Pledge Agreement, the Borrower has issued a bond to FFB to evidence a loan therefrom in the aggregate principal amount of up to \$250,000,000.00 (hereinafter called the “Series K Bond”) and may from time to time issue additional bonds to FFB (the “New Bonds”); (the Original Bonds, the Series K Bond and the New Bonds are collectively referred to as the “Bonds”);

WHEREAS the Original Bonds were previously guaranteed by RUS pursuant to the Amended, Restated and Consolidated Bond Guarantee Agreement, dated as of December 13, 2012, as supplemented by Supplement No. 1 dated as of November 21, 2013 and Supplement No. 2 dated as of November 18, 2014, by and between the Borrower and RUS, as in effect immediately prior to the date hereof (the “2012 Bond Guarantee Agreement”);

WHEREAS, the Borrower and RUS have entered into that certain Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of the date hereof, by and April 28, 2006, (c) that certain Series C Bond Guarantee Agreement dated as of September 19, 2008, (d) that certain Series D Bond Guarantee Agreement dated as of November 10, 2010, and (e) that certain Series E Bond Guarantee Agreement dated as of December 1, 2011 (collectively, the “Original Bond Guarantee Agreements”);

WHEREAS, the Borrower and FFB have entered into that certain Amended, Restated and Consolidated Bond Guarantee Agreement dated as of December 13, 2012, by and between Borrower and RUS (the “Consolidated Bond Guarantee Agreement”), which amended and restated the 2012 Bond Guarantee Agreement and provides for the guarantee of the Original Bonds, the Series K Bond and any New Bonds;

WHEREAS, the Original Bonds were secured by the Amended, Restated and Consolidated Pledge Agreement, dated as of December 13, 2012, by and among the Borrower, RUS and the Collateral Agent, as in effect immediately prior to the date hereof (the “2012 Pledge Agreement”);

WHEREAS, the Borrower is required pursuant to the terms of the Consolidated Bond Guarantee Agreement to pledge certain property to the Collateral Agent for the benefit of RUS to ratably secure the Borrower’s obligations under the bonds from time to time issued to FFB; and

WHEREAS, in furtherance of the foregoing, the Borrower, RUS and the Collateral Agent have agreed to amend the 2012 Pledge Agreement, continue the liens created by the 2012 Pledge Agreement, and set forth the terms by which the Borrower will agree to pledge the Pledged Collateral to the Collateral Agent for the benefit of RUS;

NOW, THEREFORE, THIS PLEDGE AGREEMENT WITNESSETH that, to secure the performance of the certain Obligations contained in the Consolidated Bond Guarantee Agreement, the 2012 Pledge Agreement, the Reimbursement Notes and herein, the Borrower assigns and pledges to the Collateral Agent, its successors and assigns, for the benefit of RUS, and grants to the Collateral Agent, its successors and assigns, for the benefit of RUS, a security interest in the following (collectively referred to as the “Pledged Collateral”) in each case with effect immediately upon execution of this Pledge Agreement and delivery of a Certificate of Pledged Collateral to the Collateral Agent: (a)(i) the Pledged Securities and the certificates representing the Pledged Securities; (ii) subject to Section 3.08, all payments of principal or interest, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of, in exchange for, and all other Proceeds received in respect of, the Pledged Securities pledged hereunder; (iii) subject to Section 3.08, all rights and privileges of the Borrower with respect to the Pledged Securities pledged hereunder; (iv) all Proceeds of any of the foregoing above; and (b) any property, including cash and Permitted Investments, that may,

on the date hereof or from time to time hereafter, be subject to the Lien hereof by the Borrower by delivery, assignment or pledge thereof to the Collateral Agent hereunder and the Collateral Agent is authorized to receive the same as additional security hereunder (subject to any reservations, limitations or conditions agreed to in writing by the Borrower and RUS respecting the scope or priority of such security or the use and disposition of such property or the Proceeds thereof).

TO HAVE AND TO HOLD the Pledged Collateral, together with all right, title, interest, powers, privileges and preferences pertaining or incidental thereto, unto the Collateral Agent, its successors and assigns, for the benefit of RUS, forever; subject, however, to the terms, covenants and conditions hereinafter set forth.

ARTICLE I
Definitions and Other Provisions of General Application

SECTION 1.01. Definitions. For all purposes of this Pledge Agreement, except as otherwise expressly provided or unless the context otherwise requires:

- (i) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;
- (ii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;
- (iii) all reference in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument; and
- (iv) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Pledge Agreement as a whole and not to any particular Article, Section or other subdivision.

“2012 Pledge Agreement” has the meaning set forth in the recitals hereto.

“Allowable Amount” on any date, means:

- (a) with respect to cash, 100% thereof;
- (b) with respect to Eligible Securities, the aggregate principal amount of such Eligible Securities theretofore advanced thereon which remains unpaid on such date; and
- (c) with respect to Permitted Investments, the cost to the Borrower thereof (exclusive of accrued interest or brokerage commissions) except that with respect to any Permitted Investments which are traded on any national securities exchange or over-the-

counter market, Allowable Amount on any date shall mean the fair market value thereof (as determined by the Borrower).

“Bonds” has the meaning set forth in the recitals hereto.

“Borrower” means the Person named as the “Borrower” in the first paragraph of this instrument.

“Borrower Notice” and “Borrower Order” mean, respectively, a written notice or order signed in the name of the Borrower by either its Governor, Chief Financial Officer or Chief Operating Officer and by any Vice President of the Borrower, and delivered to the Collateral Agent and RUS.

“Business Day” shall have the meaning given to such term in the Consolidated Bond Guarantee Agreement.

“Certificate of Pledged Collateral” means (i) the Certificate of Pledged Collateral delivered to the Collateral Agent and RUS as of Closing Date and (ii) each certificate delivered from and after the date hereof to the Collateral Agent and RUS substantially in the form of Schedule I attached hereto.

“Class B Member” means any Class B Member of the Borrower as described in the Borrower’s Bylaws as of the date hereof.

“Closing Date” shall mean March 29, 2016.

“Collateral Agent” means the Person named as the “Collateral Agent” in the first paragraph of this instrument.

“Consolidated Bond Guarantee Agreement” has the meaning set forth in the recitals hereto.

“Eligible Member” means a member or associate of the Borrower, the Rural Telephone Finance Cooperative or the National Cooperative Services Corporation, as defined in the bylaws of each entity.

“Eligible Security” means a note or bond of any Person payable or registered to, or to the order of, the Borrower, the Rural Telephone Finance Cooperative or the National Cooperative Services Corporation, and in respect of which (i) no default has occurred in the payment of principal or interest in accordance with the terms of such note or bond that is continuing beyond the contractual grace period (if any) provided in such note or bond for such payment; (ii) no “event of default” as defined in such note or bond (or in any instrument creating a security interest in favor of the Borrower, the Rural Telephone Finance Cooperative or the National Cooperative Services Corporation in respect of such note or bond), shall exist that has

resulted in the exercise of any right or remedy described in such note or bond (or in any such instrument); (iii) such note or bond is not classified by the Borrower as non-performing or impaired under generally accepted accounting principles in the United States; (iv) such note or bond is free and clear of all liens other than the Lien created by this Pledge Agreement; (v) such note or bond is not a Restructured CFC Loan; and (vi) the Total Exposure Amount does not exceed the Maximum Debtor Principal Amount; provided, however, if the Total Exposure Amount does exceed the Maximum Debtor Principal Amount, such note or bond may be pledged hereunder but only to the extent it does not exceed the Maximum Debtor Principal Amount and the Allowable Amount of such Eligible Security shall only include the principal amount which does not exceed the Maximum Debtor Principal Amount.

“Event of Default” has the meaning set forth in Section 5.01.

“Lien” means any lien, pledge, charge, mortgage, encumbrance, debenture, hypothecation or other similar security interest attaching to any part of the Pledged Collateral.

“Lien of this Pledge Agreement” or “Lien hereof” means the Lien created by these presents.

“Maximum Debtor Principal Amount” means 5% of the total aggregate amount of Pledged Securities held by the Collateral Agent, or such higher amount permitted by RUS and communicated to Borrower in writing.

“New Bonds” has the meaning set forth in the recitals hereto.

“Obligations” means the due and punctual performance of the obligations of the Borrower to make payment under Sections 4.1, 9.4 and 10.3 of the Consolidated Bond Guarantee Agreement and, without duplication, under the Reimbursement Note.

“Original Bonds” has the meaning set forth in the recitals hereto.

Officers’ Certificate” means a certificate signed by either the Governor, the Chief Financial Officer or the Chief Operating Officer of the Borrower, and by any Vice President of the Borrower, and delivered to RUS and/or the Collateral Agent, as applicable.

“Permitted Investment” has the meaning given to that term in Section 4.01.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pledge Agreement” means this Pledge Agreement, as originally executed and as it may from time to time be supplemented, restated or amended entered into pursuant to the applicable provisions hereof.

“Pledged Collateral” has the meaning set forth in the Granting Clause. “Pledged Securities” has the meaning set forth in Section 3.01.

“Proceeds” has the meaning specified in Section 9-102 of the Uniform Commercial Code.

“Reimbursement Notes” has the meaning given to that term in the Consolidated Bond Guarantee Agreement.

“Restructured CFC Loan” means any note or bond of an obligor payable to the Borrower that is classified as a ‘troubled debt restructuring’ under generally accepted accounting principles.

“RUS” means the Person named as “RUS” in the first paragraph of this instrument.

“RUS Notice” and “RUS Order” mean, respectively, a written notice or order signed by the Secretary and delivered to the Collateral Agent and the Borrower.

“RUS Notice of Default” has the meaning given to that term in Section 5.02.

“Secretary” shall mean the Secretary of Agriculture acting through the Administrator of RUS.

“Total Exposure Amount” on any date, means with respect to Eligible Securities, the aggregate principal amount of all notes or bonds of an Eligible Member pledged hereunder.

“Uniform Commercial Code” means the Uniform Commercial Code as from time to time in effect in the District of Columbia.

“United States” means the United States of America, its territories, possessions and other areas subject to its jurisdiction.

“Vice President” means any vice president of the Borrower, whether or not designated by a number or a word or words added before or after the title “vice president”.

ARTICLE II

Application of this Pledge Agreement

SECTION 2.01. Application of the Lien of this Pledge Agreement. Notwithstanding any other provision of this Pledge Agreement, and in accordance with the Granting Clause hereof, the Lien hereof shall automatically and without further act, attach and apply to the Pledged Securities.

SECTION 2.02 Delivery of Certificates of Pledged Collateral.

(a) On the Closing Date and each time money is advanced under a Bond, the Borrower shall deliver, and from time to time the Borrower may deliver, a Certificate of Pledged Collateral to the Collateral Agent and RUS, showing that the aggregate principal amount of Pledged Collateral specified in Schedule A thereto that have been delivered to the Collateral Agent as of the last day of the most recent month ended more than 10 Business Days before the date thereof shall at least equal the aggregate principal amount of the Bonds outstanding, or to be outstanding after any such advance, at the date thereof. At the time of delivery of a Certificate of Pledged Collateral, the Borrower shall deliver to the Collateral Agent all Pledged Collateral specified in such certificate that are not already deposited with the Collateral Agent accompanied by the appropriate instruments of transfer executed in blank and in a form satisfactory to the Collateral Agent and by such other instruments and documents as the Collateral Agent may reasonably request. All Pledged Collateral deposited with the Collateral Agent that were previously Pledged Collateral, but that is no longer specified in the Certificate of Pledged Collateral most recently delivered, shall, at the Borrower's expense and pursuant to a Borrower Order, be returned by the Collateral Agent to the Borrower.

(b) Each time that the Borrower requests an advance under a Bond, the Borrower is required to submit to RUS Schedule A to the Certificate of Pledged Collateral no more than ninety (90) days prior to the date of the requested advance. RUS shall have, in its sole discretion, the right to reject any Pledged Collateral listed on Schedule A to the Certificate of Pledged Collateral by providing written notice of such rejection to the Borrower within fourteen (14) Business Days of RUS's receipt of such Schedule. Schedule A to the Certificate of Pledged Collateral will be deemed to have been approved by RUS in the event that RUS does not reject any Pledged Collateral listed thereon by written notice within fourteen (14) Business Days of its receipt of such Schedule.

(c) In the event that RUS rejects any portion of the Pledged Collateral listed on Schedule A to the Certificate of Pledged Collateral pursuant to Section 2.02 (b) above, the Borrower shall have thirty (30) days to replace, substitute or withdraw the Pledged Collateral and replace the Pledged Collateral with Pledged Collateral to be approved or deemed approved by RUS pursuant to Section 2.02(b) above. Notwithstanding the foregoing, Borrower will make all reasonable attempts to replace any Pledged Collateral rejected by RUS prior to an advance. RUS shall not be required to process an advance request until it is reasonably satisfied that Borrower has made or will make attempts to replace any such rejected Pledged Collateral.

SECTION 2.03. Maintenance of Pledged Collateral.

(a) The Collateral Agent shall hold and segregate the Pledged Collateral in a separate account.

(b) The Borrower shall cause the aggregate principal amount of Pledged Collateral at all times to be not less than 100% of the aggregate principal amount of the Bonds outstanding.

(c) The Borrower shall cause the aggregate principal amount of the Pledged Collateral of Class B Members at all times to be not more than 30% of the total aggregate principal amount of the Pledged Collateral.

(d) The Borrower shall not create, or permit to exist, any Lien that is secured by, or in any way attaches to, the Pledged Collateral, without the prior written consent of RUS.

SECTION 2.04. UCC Filings. The Borrower shall prepare and file in the proper Uniform Commercial Code filing office in the District of Columbia (i) on or prior to the Closing Date, a financing statement recording the Collateral Agent's interest in the Pledged Collateral; and (ii) from time to time thereafter, continuation statements or such other filings as are necessary to maintain the perfection of the Lien hereof on the Pledged Collateral.

ARTICLE III

Provisions as to Pledged Collateral

SECTION 3.01. Pledged Securities. The "Pledged Securities" shall mean (i) the Eligible Securities listed on Schedule A and Schedule B of the Certificate of Pledged Collateral delivered on the Closing Date and (ii) the Eligible Securities listed on Schedule A and Schedule B of any Certificate of Pledged Collateral delivered subsequent to the execution of this Pledge Agreement.

SECTION 3.02. Holding of Pledged Securities. Unless and until an Event of Default shall occur, the Collateral Agent, on behalf of RUS, shall hold the Pledged Securities in the name of the Borrower (or its nominee), endorsed or assigned in blank or in favor of the Collateral Agent. Upon the occurrence of an Event of Default, the Collateral Agent, on behalf of RUS, shall have the right (in its sole and absolute discretion), to the extent a register is maintained therefor, to register the Pledged Securities in the Collateral Agent's own name as pledgee, or in the name of the Collateral Agent's nominee (as pledgee or as sub-agent) or to continue to hold the Pledged Securities in the name of the Borrower, endorsed or assigned in blank or in favor of the Collateral Agent. Upon cessation of such Event of Default, the Collateral Agent shall take such action as is necessary to again cause the Pledged Securities to be registered in the name of the Borrower (or its nominee).

SECTION 3.03. Withdrawal and Substitution of Pledged Collateral.

(a) Any part of the Pledged Collateral may be withdrawn by the Borrower or substituted for cash or other Eligible Securities or Permitted Investments by the Borrower and

shall be delivered to the Borrower by the Collateral Agent upon Borrower Order at any time and from time to time, together with any other documents or instruments of transfer or assignment necessary to reassign to the Borrower said Pledged Collateral and the interest of the Borrower, provided the aggregate Allowable Amount of Pledged Collateral remaining after such withdrawal or substitution shall at least equal the aggregate principal amount of the Bonds outstanding after such withdrawal or substitution, as shown by the Certificate of Pledged Collateral furnished to the Collateral Agent pursuant to Subsection (b)(i) of this Section.

(b) Prior to any such withdrawal or substitution, the Collateral Agent shall be furnished with the following instruments:

(i) a Certificate of Pledged Collateral, dated not more than 30 days prior to such withdrawal or substitution, showing that immediately after such withdrawal or substitution the requirements of Subsection (a) of this Section will be satisfied; and

(ii) an Officers' Certificate certifying that no Event of Default has occurred which has not been remedied.

Upon any such withdrawal or substitution, the Borrower shall deliver any cash or Eligible Securities or Permitted Investments to be substituted and the Collateral Agent shall execute any instruments of transfer or assignment specified in a Borrower Order as necessary to vest in the Borrower any part of the Pledged Collateral withdrawn.

In case an Event of Default shall have occurred and be continuing, the Borrower shall not withdraw or substitute any part of the Pledged Collateral, provided that any Pledged Collateral may be withdrawn (a) as provided for in Section 3.04; or (b) upon the deposit with the Collateral Agent of an amount of cash at least equal to the Allowable Amount (at the time of such withdrawal) of the Pledged Securities so withdrawn and the delivery to the Collateral Agent of the instruments referred to in Subsection (b)(i) of this Section and a Borrower Order.

SECTION 3.04. Reassignment of Pledged Securities upon Payment. Upon receipt of:

(i) an Officers' Certificate stating that all payments of principal, premium (if any) and interest have been made upon any Pledged Securities held by the Collateral Agent other than payment of an amount (if any) specified in said certificate required fully to discharge all obligations on said Pledged Securities; and

(ii) cash in the amount (if any) so specified fully to discharge said Pledged Securities,

the Collateral Agent shall deliver to the Borrower upon Borrower Order said Pledged Securities, together with any other documents or instruments of transfer or assignment necessary to reassign to the Borrower said Pledged Securities and the interest of the Borrower specified in such Borrower Order.

SECTION 3.05. Addition of Pledged Collateral. At any time, the Borrower may pledge additional Eligible Securities, cash or Permitted Investments under this Pledge Agreement by delivering such Pledged Collateral to the Collateral Agent, accompanied by a Certificate of Pledged Collateral specifying such additional collateral and dated not more than 30 days prior thereto, provided that, in the case of additional Permitted Investments, no such Permitted Investments shall be subject to any reservations, limitations or conditions referred to in the Granting Clause hereof.

SECTION 3.06. Accompanying Documentation. Where Eligible Securities are delivered to the Collateral Agent under Section 3.03 or Section 3.05, such securities shall be accompanied by the appropriate instruments of transfer executed in blank and in a form satisfactory to the Collateral Agent and by such other instruments and documents as the Collateral Agent may reasonably request. All other property delivered to the Collateral Agent under Section 3.03 or Section 3.05 and comprising part of the Pledged Collateral shall be accompanied by proper instruments of assignment duly executed by the Borrower and such other instruments or documents as the Collateral Agent may reasonably request.

SECTION 3.07. Renewal; Extension; Substitution. Unless and until an Event of Default shall have occurred and be continuing, the Borrower may at any time renew or extend, subject to the Lien of this Pledge Agreement, any Pledged Security upon any terms or may accept in place of and in substitution for any such Pledged Security, another Eligible Security or Securities of the same issuer or of any successor thereto for at least the same unpaid principal amount, all as evidenced by a Borrower Order delivered to the Collateral Agent; provided, however, that in case of any substitution, Eligible Securities substituted as aforesaid shall be subject to the Lien of this Pledge Agreement as part of the Pledged Collateral and be held in the same manner as those for which they shall be substituted, and in the case of each substituted Eligible Security the Borrower shall provide an Officers' Certificate certifying to the Collateral Agent that such substituted security satisfies the requirements of this Section. So long as no Event of Default shall have occurred and be continuing, the Collateral Agent, upon Borrower Order stating that no Event of Default shall have occurred and be continuing, shall execute any consent to any such renewal, extension or substitution as shall be specified in such Borrower Order.

SECTION 3.08. Voting Rights; Interest and Principal

(a) Unless and until an Event of Default has occurred and is continuing, and RUS delivers to the Collateral Agent an RUS Notice of Default suspending the Borrower's rights under this clause:

(i) The Borrower shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Securities or any part thereof provided that such rights and powers shall not be exercised in any manner inconsistent with the terms of the Consolidated Bond Guarantee Agreement or this Pledge Agreement.

(ii) The Collateral Agent shall execute and deliver to the Borrower, or cause to be executed and delivered to the Borrower, all such proxies, powers of attorney and other instruments as the Borrower may reasonably request for the purpose of enabling the Borrower to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to subparagraph (i) above.

(iii) The Borrower shall be entitled to receive and retain any and all interest, principal and other distributions paid on or distributed in respect of the Pledged Securities; provided that any non-cash interest, principal or other distributions that would constitute Pledged Securities if pledged hereunder, and received in exchange for Pledged Securities or any part thereof pledged hereunder, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer of Pledged Securities may be a party or otherwise, shall be and become part of the Pledged Collateral, and, if received by the Borrower, shall not be commingled by the Borrower with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Collateral Agent and shall be forthwith delivered to the Collateral Agent in the same form as so received (with any necessary endorsement).

(b) If an Event of Default shall have occurred and be continuing, then, to the extent such rights are suspended by the applicable RUS Notice of Default, all rights of the Borrower to interest, principal or other distributions that the Borrower is authorized to receive pursuant to paragraph (a)(iii) of this Section 3.08 shall cease, and all such suspended rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to receive and retain such interest, principal or other distributions. All interest, principal or other distributions received by the Borrower contrary to the provisions of this Section 3.08 shall be held in trust for the benefit of the Collateral Agent, shall be segregated from other property or funds of the Borrower and shall be forthwith delivered to the Collateral Agent in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Collateral Agent pursuant to the provisions of this paragraph (b) shall be retained by the Collateral Agent in an account to be established by the Collateral Agent upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 5.03. After all Events of Default have ceased, the Collateral Agent shall promptly repay to the Borrower (without interest) all interest, principal or other distributions that the Borrower would otherwise be permitted to retain pursuant to the terms of paragraph (a)(iii) of this Section 3.08 and that remain in such account.

(c) If an Event of Default shall have occurred and be continuing, then, to the extent such rights are suspended by the applicable RUS Notice of Default, all rights of the Borrower to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to paragraph (a)(i) of this Section 3.08, and the obligations of the Collateral Agent under paragraph (a)(ii) of this Section 3.08, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers; provided that the

Collateral Agent shall have the right from time to time during the existence of such Event of Default to permit the Borrower to exercise such rights and powers.

SECTION 3.09. Protection of Title; Payment of Taxes; Liens, etc. The Borrower will:

(i) duly and promptly pay and discharge, or cause to be paid and discharged, before they become delinquent, all taxes, assessments, governmental and other charges lawfully levied, assessed or imposed upon or against any of the Pledged Collateral, including the income or profits therefrom and the interests of the Collateral Agent in such Pledged Collateral;

(ii) duly observe and conform to all valid requirements of any governmental authority imposed upon the Borrower relative to any of the Pledged Collateral, and all covenants, terms and conditions under or upon which any part thereof is held;

(iii) cause to be paid and discharged all lawful claims (including, without limitation, income taxes) which, if unpaid, might become a lien or charge upon Pledged Collateral; and

(iv) do all things and take all actions necessary to keep the Lien of this Pledge Agreement a first and prior lien upon the Pledged Collateral and protect its title to the Pledged Collateral against loss by reason of any foreclosure or other proceeding to enforce any lien prior to or pari passu with the Lien of this Pledge Agreement.

Nothing contained in this Section shall require the payment of any such tax, assessment, claim, lien or charge or the compliance with any such requirement so long as the validity, application or amount thereof shall be contested in good faith; provided, however, that the Borrower shall have set aside on its books such reserves (segregated to the extent required by generally accepted accounting principles) as shall be deemed adequate with respect thereto as determined by the Board of Directors of the Borrower (or a committee thereof).

SECTION 3.10. Maintenance of Pledged Collateral. The Borrower shall cause the aggregate principal amount of Pledged Collateral held by the Collateral Agent at all times to be not less than 100% of the aggregate principal amount of the Bonds outstanding.

SECTION 3.11. Representations, Warranties and Covenants. The Borrower represents, warrants and covenants to the Collateral Agent, for the benefit of RUS, the following with respect to the Pledged Collateral and the Lien thereon:

(a) except for the Lien hereof and any Lien consented to in writing by RUS, the Borrower or the Rural Telephone Finance Cooperative or the National Cooperative Services Corporation (i) is and will continue to be the direct owner, beneficially and of record, of the Pledged Securities from time to time pledged hereunder, (ii) holds and will continue to hold the same free and clear of all Liens, other than Liens created by this Pledge Agreement, (iii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any

security interest in or other Lien on, the Pledged Collateral, other than Liens created by this Pledge Agreement and (iv) will defend its title or interest thereto or therein against any and all Liens (other than the Lien created by this Pledge Agreement), however arising, of all Persons whomsoever;

(b) except for restrictions and limitations imposed by the Consolidated Bond Guarantee Agreement or securities laws generally, the Pledged Securities are and will continue to be freely transferable and assignable, and none of the Pledged Securities are or will be subject to any restriction of any nature that might prohibit, impair, delay or otherwise affect the pledge of such Pledged Securities hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Collateral Agent of rights and remedies hereunder;

(c) the Borrower has the power and authority to pledge the Pledged Collateral pledged by it hereunder in the manner hereby done or contemplated;

(d) no consent or approval of any governmental authority, any securities exchange or any other Person (with the exception RUS) was or is necessary to the validity of the pledge effected hereby (other than such as have been obtained and are in full force and effect); and

(e) by virtue of the execution and delivery by the Borrower of this Pledge Agreement, when any Pledged Securities are delivered to the Collateral Agent in accordance with this Pledge Agreement, the Collateral Agent will obtain a legal and valid Lien upon and security interest in such Pledged Securities as security for the payment and performance of the Obligations.

SECTION 3.12. Further Assurances. The Borrower will execute and deliver, or cause to be executed and delivered, all such additional instruments and do, or cause to be done, all such additional acts as (a) may be necessary or proper, consistent with the Granting Clause hereof, to carry out the purposes of this Pledge Agreement and to make subject to the Lien hereof any property intended so to be subject or (b) may be necessary or proper to transfer to any successor the estate, powers, instruments and funds held hereunder and to confirm the Lien of this Pledge Agreement. The Borrower will also cause to be filed, registered or recorded any instruments of conveyance, transfer, assignment or further assurance in all offices in which such filing, registering or recording is necessary to the validity thereof or to give notice thereof.

ARTICLE IV

Application of Moneys Included in Pledged Collateral

SECTION 4.01. Investment of Moneys by Collateral Agent. Any moneys held by the Collateral Agent as part of the Pledged Collateral shall, upon Borrower Order and as stated therein, be invested or reinvested by the Collateral Agent until required to be paid out by the Collateral Agent as provided in this Pledge Agreement, in any one or more of the following (herein called "Permitted Investments"):

(i) obligations of or guaranteed by the United States of America or any agency thereof for which the full faith and credit of the United States of America or such agency shall be pledged;

(ii) obligations of any state or municipality, or subdivision or agency of either thereof, which are rated AA (or equivalent) or better by at least two nationally recognized statistical rating organizations or having a comparable rating in the event of any future change in the rating system of such agencies;

(iii) certificates of deposit issued by, or time deposits of, any bank or trust company (including the Collateral Agent) organized under the laws of the United States of America or any State thereof having capital and surplus of not less than \$500,000,000 (determined from its most recent report of condition, if it publishes such reports at least annually pursuant to law or the requirements of Federal or State examining or supervisory authority); and

(iv) commercial paper of bank holding companies or of other issuers (excluding the Borrower) generally rated in the highest category by at least two nationally recognized statistical rating organizations and maturing not more than one year after the purchase thereof.

Unless and until an Event of Default shall have occurred and be continuing, any interest received by the Collateral Agent on any such investments which shall exceed the amount of accrued interest, if any, paid by the Collateral Agent on the purchase thereof, and any profit which may be realized from any sale, redemption or maturity of such investments, shall be paid to the Borrower. Such investments shall be held by the Collateral Agent as a part of the Pledged Collateral, but upon Borrower Order the Collateral Agent shall sell all or any designated part of the same, and the proceeds of such sale shall be held by the Collateral Agent subject to the same provisions hereof as the cash used by it to purchase the investments so sold. In case the net proceeds realized upon any sale, redemption or maturity shall amount to less than the purchase price paid by the Collateral Agent for the purchase of the investments so sold, the Collateral Agent shall notify the Borrower in writing thereof, and the Borrower shall pay to the Collateral Agent the amount of the difference between such purchase price and the amount so realized, and the amount so paid shall be held by the Collateral Agent in like manner and subject to the same conditions as the proceeds realized upon such sale. The Borrower will reimburse the Collateral Agent for any brokerage commissions or other expenses incurred by the Collateral Agent in connection with the purchase or sale of such investments. The Collateral Agent may aggregate such costs and expenses of and such receipts from such investments on a monthly basis (or such other periodic basis as the Borrower and the Collateral Agent may agree in writing from time to time) so as to net each against the other during such period and pay to the Borrower amounts due to it or notify the Borrower of amounts due from it on a net basis for such period.

SECTION 4.02. Collateral Agent To Retain Moneys during Event of Default. If an Event of Default shall have occurred and be continuing, moneys held by the Collateral Agent as a part of the Pledged Collateral shall not be paid over to the Borrower upon Borrower Order except pursuant to Section 5.03.

ARTICLE V

Remedies

SECTION 5.01. Events of Default. “Event of Default”, wherever used herein, means any “Event of Default” as defined in Sections 10.1(a) and 10.1(c) of the Consolidated Bond Guarantee Agreement, provided that, for the purposes of this Pledge Agreement:

(a) the Collateral Agent shall not be required to recognize that an Event of Default exists before such time as the Collateral Agent receives an RUS Notice or Borrower Notice stating that an Event of Default exists and specifying the particulars of such default in reasonable detail; and

(b) the Collateral Agent shall not be required to recognize that an Event of Default has ceased until (i) such time as the Collateral Agent receives an RUS Notice stipulating that such event has ceased to exist; or (ii) 30 days after receipt by the Collateral Agent of a Borrower Notice stipulating that such event has ceased to exist, provided that the Collateral Agent does not receive an RUS Notice within such timeframe disputing the cessation of such Event of Default, and further provided that no additional RUS Notice of Default shall have been received in respect of any other subsisting Event(s) of Default. Upon receipt of any Borrower Notice under subparagraph (ii) of this Subsection, the Collateral Agent shall provide a copy of such Borrower Notice to RUS.

SECTION 5.02. Remedies Upon Default. If an Event of Default shall have occurred and be continuing, RUS may issue a notice (an “RUS Notice of Default”), which may be combined with the notice provided under Section 5.01(b), suspending the rights of the Borrower under Section 3.08 in part without suspending all such rights (as specified by RUS in its sole and absolute discretion) without waiving or otherwise affecting RUS’ rights to give additional RUS Notices of Default from time to time suspending other rights under Section 3.08 so long as an Event of Default has occurred and is continuing. Subject to paragraph (b) of this Section 5.02, upon cessation of an Event of Default, all rights of the Borrower suspended under the applicable RUS Notice of Default shall revert in the Borrower.

(a) Upon the occurrence of an Event of Default, the Collateral Agent shall, for the benefit and at the direction of RUS, have the right to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, the Borrower agrees that the Collateral Agent shall have the right, but only if so instructed by an RUS Order and subject to the requirements of applicable law and the Collateral Agent’s right (in its sole and absolute discretion) to receive indemnification or other reasonable assurances that its costs and expenses in connection therewith will be paid, to sell or otherwise dispose of all or any part of the Pledged Collateral

at a public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale of securities (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to Persons who will represent and agree that they are purchasing the Pledged Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Pledged Collateral so sold. Each such purchaser at any sale of Pledged Collateral shall hold the property sold absolutely, free from any claim or right on the part of the Borrower, and the Borrower hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which the Borrower now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

(b) The Collateral Agent shall give the Borrower 10 days' written notice (which the Borrower agrees is reasonable notice within the meaning of Section 9-611 of the Uniform Commercial Code or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Pledged Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the notice (if any) of such sale. At any such sale, the Pledged Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Pledged Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Pledged Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Pledged Collateral is made on credit or for future delivery, the Pledged Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Pledged Collateral so sold and, in case of any such failure, such Pledged Collateral may be sold again upon like notice. At any public (or, to the extent permitted by law, private) sale made pursuant to this Pledge Agreement, RUS may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of the Borrower (all said rights being also hereby waived and released to the extent permitted by law), the Pledged Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to RUS from the Borrower as a credit against the purchase price, and RUS may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to Pledged Collateral therefor. For purposes hereof, a written agreement to purchase the Pledged Collateral or any portion thereof shall be treated as a sale thereof; the Collateral

Agent shall be free to carry out such sale pursuant to such agreement and the Borrower shall not be entitled to the return of the Pledged Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Pledge Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section 5.02 shall be deemed to conform to the commercially reasonable standards as provided in Section 9-610(b) of the Uniform Commercial Code or its equivalent in other jurisdictions.

SECTION 5.03. Application of Proceeds. The Collateral Agent shall apply the proceeds of any collection or sale of Pledged Collateral, including any Pledged Collateral consisting of cash, as follows:

FIRST, to the payment of all reasonable costs and expenses incurred by the Collateral Agent in connection with or reasonably related or reasonably incidental to such collection or sale or otherwise in connection with or related or incidental to this Pledge Agreement or any of the Obligations, including all court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent (in its sole discretion) hereunder on behalf of the Borrower and any other reasonable costs or expenses incurred in connection with the exercise of any right or remedy hereunder;

SECOND, to the payment to RUS in full of the Obligations; such payment to be for an amount certified in a RUS Notice delivered to the Collateral Agent as being the amount due and owing to RUS under the Obligations; and

THIRD, to the Borrower, its successors or assigns, or as a court of competent jurisdiction may otherwise direct.

Upon any sale of the Pledged Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Pledged Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 5.04. Securities Act. In view of the position of the Borrower in relation to the Pledged Collateral, or because of other current or future circumstances, a question may arise under the Securities Act of 1933, as now or hereafter in effect, or any similar statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being called the “Federal Securities Laws”) with respect to any disposition of the

Pledged Collateral permitted hereunder. The Borrower understands that compliance with the Federal Securities Laws might very strictly limit the course of conduct of the Collateral Agent if the Collateral Agent were to attempt to dispose of all or any part of the Pledged Collateral, and might also limit the extent to which or the manner in which any subsequent transferee of any Pledged Collateral could dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Collateral Agent in any attempt to dispose of all or part of the Pledged Collateral under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. The Borrower recognizes that in light of such restrictions and limitations the Collateral Agent may, with respect to any sale of the Pledged Collateral, limit the purchasers to those who will agree, among other things, to acquire such Pledged Collateral for their own account, for investment, and not with a view to the distribution or resale thereof. The Borrower acknowledges and agrees that in light of such restrictions and limitations, the Collateral Agent, in its sole and absolute discretion (a) may proceed to make such a sale whether or not a registration statement for the purpose of registering such Pledged Collateral or part thereof shall have been filed under the Federal Securities Laws and (b) may approach and negotiate with a single potential purchaser to effect such sale. The Borrower acknowledges and agrees that any such sale might result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions. In the event of any such sale, the Collateral Agent shall incur no responsibility or liability for selling all or any part of the Pledged Collateral at a price that the Collateral Agent, in its sole and absolute discretion, may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might have been realized if the sale were deferred until after registration as aforesaid or if more than a single purchaser were approached. The provisions of this Section 5.04 will apply notwithstanding the existence of a public or private market upon which the quotations or sales prices may exceed substantially the price at which the Collateral Agent sells.

ARTICLE VI

The Collateral Agent

SECTION 6.01. Certain Duties and Responsibilities.

(a) At all times under this Pledge Agreement:

(i) the Collateral Agent undertakes to perform such duties and only such duties as are specifically set forth in this Pledge Agreement, and no implied covenants or obligations shall be read into this Pledge Agreement against the Collateral Agent; and

(ii) in the absence of bad faith on its part, the Collateral Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Collateral Agent and substantially conforming to the requirements of this Pledge Agreement; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Collateral Agent the Collateral Agent shall be under a duty to

examine the same to determine whether or not they substantially conform to the requirements of this Pledge Agreement.

(b) No provision of this Pledge Agreement shall be construed to relieve the Collateral Agent from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct, except that:

(i) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(ii) the Collateral Agent shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Collateral Agent was grossly negligent in ascertaining the pertinent facts; and

(iii) no provision of this Pledge Agreement shall require the Collateral Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) Whether or not therein expressly so provided, every provision of this Pledge Agreement relating to the conduct or affecting the liability of or affording protection to the Collateral Agent shall be subject to the provisions of this Section.

SECTION 6.02. Certain Rights of Collateral Agent. Except as otherwise provided in Section 6.01:

(a) the Collateral Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Borrower mentioned herein shall be sufficiently evidenced by a Borrower Notice or Borrower Order;

(c) any request or direction of RUS mentioned herein shall be sufficiently evidenced by an RUS Notice or RUS Order;

(d) whenever in the administration of this Pledge Agreement the Collateral Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Collateral Agent (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate in the case of the Borrower, and a certificate signed by the Secretary in the case of RUS;

(e) the Collateral Agent may consult with counsel and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(f) the Collateral Agent shall be under no obligation to exercise any of the rights or powers vested in it by this Pledge Agreement at the request or direction of either the Borrower or RUS pursuant to this Pledge Agreement, unless such party shall have offered to the Collateral Agent reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(g) the Collateral Agent shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, or to recompute, verify, reclassify or recalculate any information contained therein, but the Collateral Agent, in its sole and absolute discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Collateral Agent shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Borrower, personally or by agent or attorney;

(h) the Collateral Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Collateral Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(i) unless explicitly stated herein to the contrary, the Collateral Agent shall have no duty to inquire as to the performance of any Borrower's covenants herein. In addition, the Collateral Agent shall not be deemed to have knowledge of an Event of Default, unless the Collateral Agent has received an RUS Notice in accordance with Section 5.01(a), and shall not be deemed to have knowledge of the cessation of the same until such time as it receives a Borrower Notice in accordance with Section 5.01(b); and

(j) unless explicitly stated herein to the contrary, the Collateral Agent shall have no obligation to take any action with respect to any Event of Default until it has received an RUS Notice in accordance with Section 5.01(a), and the Collateral Agent shall have no liability for any action or inaction taken, suffered or omitted in respect of any such event by it prior to such time as the applicable RUS Notice is delivered. Similarly, the Collateral Agent shall have no obligation to take any action with respect to the cessation of an Event of Default until it has received a Borrower Notice applicable to such event in accordance with Section 5.01(b), and the Collateral Agent shall have no liability for any action or inaction taken, suffered or omitted in respect of any such event by it prior to such time as the applicable Borrower Notice is delivered.

SECTION 6.03. Money Held by Collateral Agent. Money held by the Collateral Agent hereunder need not be segregated from other funds except to the extent required by law. The Collateral Agent shall have no liability to pay interest on or (except as expressly provided herein) invest any such moneys.

SECTION 6.04. Compensation and Reimbursement.

(a) The Borrower agrees:

(i) to pay to the Collateral Agent from time to time reasonable compensation for all services rendered by it hereunder;

(ii) except as otherwise expressly provided herein, to reimburse the Collateral Agent upon its request for all reasonable expenses, out-of-pocket costs, disbursements and advances incurred or made by the Collateral Agent in accordance with any provision of this Pledge Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except to the extent any such expense, disbursement or advance may be attributable to its gross negligence or bad faith; and

(iii) to indemnify the Collateral Agent for, and to defend and hold it harmless against, any loss, liability or expense incurred without gross negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this Pledge Agreement or the performance of its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent such loss, liability or expense may be attributable to its gross negligence or bad faith; provided, however, that the Borrower shall have no liability under this clause for any settlement of any litigation or other dispute effected without the prior written consent of the Borrower (such consent not to be unreasonably withheld).

(b) Any such amounts payable as provided hereunder shall be additional Obligations secured by the Lien hereof. The provisions of this Section 6.04 shall remain operative and in full force and effect regardless of the termination of this Pledge Agreement or the Consolidated Bond Guarantee Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of this Pledge Agreement or the Consolidated Bond Guarantee Agreement, or any investigation made by or on behalf of the Collateral Agent or RUS. All amounts due under this Section 6.04 shall be payable on written demand therefor.

SECTION 6.05. Corporate Collateral Agent Required; Eligibility. There shall at all times be a Collateral Agent hereunder which shall be a corporation or association organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by Federal or State authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Neither the Borrower nor any Person directly or indirectly controlling, controlled by or under common control with the Borrower shall serve as Collateral Agent hereunder. If at any time the Collateral

Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 6.06. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Collateral Agent and no appointment of a successor Collateral Agent pursuant to this Article shall become effective until the acceptance of appointment by the successor Collateral Agent under Section 6.07.

(b) The Collateral Agent may resign at any time by giving written notice thereof to the Borrower. If an instrument of acceptance by a successor Collateral Agent shall not have been delivered to the Collateral Agent within 30 days after the giving of such notice of resignation, the resigning Collateral Agent may petition any court of competent jurisdiction for the appointment of a successor Collateral Agent.

(c) If at any time:

(i) except if an Event of Default has occurred and is continuing, the Borrower, in its sole and absolute discretion, elects to remove the Collateral Agent; or

(ii) the Collateral Agent shall cease to be eligible under Section 6.05 or shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Collateral Agent or of its property shall be appointed or any public officer shall take charge or control of the Collateral Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Borrower may remove the Collateral Agent by delivery of a Borrower Order to that effect.

(d) If the Collateral Agent shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Collateral Agent for any cause, the Borrower shall promptly appoint a successor Collateral Agent by delivering a Borrower Notice to the retiring Collateral Agent, the successor Collateral Agent and RUS to such effect.

SECTION 6.07. Acceptance of Appointment by Successor. Every successor Collateral Agent appointed hereunder shall execute, acknowledge and deliver to the Borrower, RUS and to the retiring Collateral Agent an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Collateral Agent shall become effective and such successor Collateral Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Collateral Agent; but, on request of the Borrower, RUS or the successor Collateral Agent, such retiring Collateral Agent shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Collateral Agent all the rights, powers and trusts of the retiring Collateral Agent, and shall duly assign, transfer and deliver to such successor Collateral Agent all property and money held by such retiring Collateral Agent hereunder, subject nevertheless to its Lien, if any, provided for in Section 6.04. Upon request of any such successor Collateral Agent, the Borrower shall execute any and all

instruments for more fully and certainly vesting in and confirming to such successor Collateral Agent all such rights, powers and trusts.

No successor Collateral Agent shall accept its appointment unless at the time of such acceptance such successor Collateral Agent shall be eligible under Section 6.05 hereof.

SECTION 6.08. Merger, Conversion, Consolidation or Succession to Business. Any corporation into which the Collateral Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Collateral Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Collateral Agent, shall be the successor of the Collateral Agent hereunder, provided such corporation shall be eligible under Section 6.05 hereof without the execution or filing of any paper or any further act on the part of any of the parties hereto.

ARTICLE VII

Miscellaneous

SECTION 7.01. Notices.

(a) All notices and other communications hereunder to be made to any party shall be in writing and shall be addressed as specified in Schedule II attached hereto as appropriate. The address, telephone number, or facsimile number for any party may be changed at any time and from time to time upon written notice given by such changing party to the other parties hereto. A properly addressed notice or other communication to the Borrower shall be deemed to have been delivered at the time it is sent by facsimile (fax) transmission. A properly addressed notice or other communication to the Collateral Agent shall be deemed to have been delivered at the time it is sent by facsimile (fax) transmission. A properly addressed notice or other communication to RUS shall be deemed to have been delivered at the time it is sent by facsimile (fax) transmission, provided that the original of such faxed notice or other communication shall have been received by RUS within five Business Days.

(b) All Borrower Notices and Borrower Orders delivered to the Collateral Agent shall be contemporaneously copied to RUS by the Borrower, and all RUS Notices and RUS Orders delivered to the Collateral Agent shall be contemporaneously copied by RUS to the Borrower, and all Collateral Agent notices delivered to either the Borrower or RUS shall be contemporaneously copied to the other such party by the Collateral Agent.

SECTION 7.02. Waivers; Amendment.

(a) No failure or delay by a party in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of each party hereunder are cumulative and are not exclusive of any rights or

remedies that such party would otherwise have. No waiver of any provision of this Pledge Agreement or consent to any departure by any party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section 7.02, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any party in any case shall entitle any party to any other or further notice or demand in similar or other circumstances.

(b) Neither this Pledge Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower, the Collateral Agent and RUS.

SECTION 7.03. Successors and Assigns. Whenever in this Pledge Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Collateral Agent or RUS that are contained in this Pledge Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 7.04. Counterparts; Effectiveness. This Pledge Agreement may be executed in counterparts, each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed signature page to this Pledge Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Pledge Agreement.

SECTION 7.05. Severability. Any provision of this Pledge Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.06. GOVERNING LAW. THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE UNITED STATES OF AMERICA, TO THE EXTENT APPLICABLE, AND OTHERWISE THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.07. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS PLEDGE AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER

AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS PLEDGE AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.07.

SECTION 7.08. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Pledge Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Pledge Agreement.

SECTION 7.09. Security Interest Absolute. All rights of the Collateral Agent and/or RUS hereunder, the grant of a security interest in the Pledged Collateral and all obligations of the Borrower hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Consolidated Bond Guarantee Agreement, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Consolidated Bond Guarantee Agreement or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations, or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Obligations or this Pledge Agreement.

SECTION 7.10. Termination or Release.

(a) This Pledge Agreement shall terminate on the date when the Collateral Agent receives an RUS Notice to the effect that all of the Obligations have been indefeasibly paid in full and the Federal Financing Bank has no further commitment to lend under the Bonds, and at such time the Lien hereof shall be released.

(b) Upon any withdrawal, substitution or other disposal by the Borrower of any Pledged Collateral that is permitted by the terms of this Pledge Agreement, or upon the effectiveness of any written consent to the release of the security interest granted hereby in any Pledged Collateral, the Lien hereof securing such Pledged Collateral shall be automatically released.

(c) In connection with any termination or release pursuant to paragraph (a) or (b) the Collateral Agent shall deliver to the Borrower the Pledged Collateral and shall execute and deliver to the Borrower, at the Borrower's expense, all documents that the Borrower shall reasonably request to evidence such termination or release. Any execution and delivery of documents pursuant to this Section 7.10 shall be without recourse to or warranty by the Collateral Agent.

SECTION 7.11. Collateral Agent Appointed Attorney-in-Fact. The Borrower hereby appoints the Collateral Agent the attorney-in-fact of the Borrower for the purpose of, upon the occurrence and during the continuance of an Event of Default, carrying out the provisions of this

Pledge Agreement with respect to the Pledged Collateral and taking any action and executing any instrument that the Collateral Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest but is subject nevertheless to the terms and conditions of this Pledge Agreement. Without limiting the generality of the foregoing, the Collateral Agent shall have the right, upon the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Collateral Agent's name or in the name of the Borrower (a) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Pledged Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Pledged Collateral; (c) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Pledged Collateral or to enforce any rights in respect of any Pledged Collateral; (d) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Pledged Collateral; (e) to notify, or to require the Borrower to notify, obligors under Pledged Securities to make payment directly to the Collateral Agent; and (f) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Pledged Collateral, and to do all other acts and things necessary to carry out the purposes of this Pledge Agreement, as fully and completely as though the Collateral Agent were the absolute owner of the Pledged Collateral for all purposes; provided that nothing herein contained shall be construed as requiring or obligating the Collateral Agent to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent, or to present or file any claim or notice, or to take any action with respect to the Pledged Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby. The Collateral Agent and RUS shall be accountable only for amounts actually received as a result of the exercise of the powers granted to them herein, and neither they nor their officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

Pledge Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Pledge Agreement to be duly executed, all as of the day and year first above written.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION,

by

/s/ SHELDON C. PETERSEN

Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

UNITED STATES OF AMERICA, acting
through the Administrator of the Rural Utilities
Service,

by

/s/ BRANDON MCBRIDE

Name: Brandon McBride

Title: Administrator of the Rural
Utilities Service

U.S. BANK NATIONAL ASSOCIATION

by

/s/ JUDITH HYPPOLITE

Name: Judith Hyppolite

Title: Vice President

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

SECOND AMENDED, RESTATED AND CONSOLIDATED PLEDGE AGREEMENT DATED
AS OF MARCH 29, 2016

CERTIFICATE OF PLEDGED COLLATERAL FILED WITH
U.S. BANK NATIONAL ASSOCIATION, Collateral Agent

_____, Governor (or Chief Financial Officer or Chief Operating Officer)
and _____, Vice-President, respectively, of National Rural Utilities
Cooperative Finance Corporation, hereby certify to RUS and the Collateral Agent under the
above-mentioned Amended, Restated and Consolidated Pledge Agreement as amended to the
date hereof (herein called the "Pledge Agreement") as follows:

1. The Allowable Amount of Pledged Collateral shown in
item 9 in the most recent Certificate of Pledged Collateral
dated _____ delivered to the Collateral Agent is ... \$
2. The increase (or decrease) in the Allowable Amount of
such Pledged Collateral and the Allowable Amount of any
Eligible Securities substituted for other Pledged Securities
pursuant to Section 3.07 of the Pledge Agreement,
remaining on deposit with the Collateral Agent, as shown
on Schedule A hereto, is..... \$
3. The Allowable Amount, as at the date of such most recent
Certificate of Pledged Collateral, of Pledged Collateral
which has, since such date, ceased to be Eligible Securities
(including Pledged Securities fully paid) is \$
4. The present Allowable Amount of Pledged Collateral
certified to the Collateral Agent in the most recent
Certificate of Pledged Collateral (item 1 plus (or minus, if
decrease) item 2, minus item 3) is \$
5. The Allowable Amount of Pledged Collateral certified
hereby, including the Pledged Collateral deposited
herewith, which were not certified in the most recent
Certificate of Pledged Collateral, all as shown on Schedule
B hereto, is \$

SCHEDULE I
TO
SECOND AMENDED, RESTATED AND
CONSOLIDATED PLEDGE AGREEMENT

6. The cumulative amount excluded from the Allowable Amount of Pledged Collateral on Schedule B based on the Maximum Debtor Principal Amount is..... \$
7. The Allowable Amount of Pledged Collateral held by the Collateral Agent on the date hereof and included in this Certificate before any withdrawals (item 4 plus (item 5-item 6)) is..... \$
8. The Allowable Amount of Pledged Collateral the withdrawal of which is hereby requested, if any, as shown on Schedule C hereto (the Pledged Collateral made the basis of such withdrawal being designated on Schedule A and/or Schedule B hereto) is..... \$
9. The Allowable Amount of Pledged Collateral held by the Collateral Agent on the date hereof and included in this Certificate after any withdrawals(item 7 minus item 8) is.\$
10. The aggregate principal amount of the Bonds outstanding at the date hereof is..... \$
11. The aggregate amount by which such Allowable Amount of Pledged Securities exceeds the aggregate principal amount of the Bonds outstanding (item 9 minus item 10) is..... \$

All terms which are defined in the Pledge Agreement are used herein as so defined.

Dated:

OF NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

PLEDGED COLLATERAL HELD BY THE COLLATERAL AGENT
SCHEDULE A TO OFFICERS' CERTIFICATE
DATED

Pledged Collateral	Name of Issuer	Allowable Amount included in Certificate last Previously filed (Item 1)	Increase (Decrease) in such Allowable Amount (Items 2 and 3)	Current Allowable Amount (Item 4)
Cash.....				
Permitted Investments (Here List).....				
Pledged Securities (Here List Securities)..				

SCHEDULE I
TO
SECOND AMENDED, RESTATED AND
CONSOLIDATED PLEDGE AGREEMENT

**PLEDGED COLLATERAL BEING SUBMITTED TO THE COLLATERAL AGENT
SCHEDULE B TO OFFICERS' CERTIFICATE
DATED**

Pledged Collateral	Name of Issuer	Allowable Amount (Item 5)
Cash.....		
Permitted Investments (Here List).....		
Pledged Securities (Here List Securities)...		

SCHEDULE I
TO
SECOND AMENDED, RESTATED AND
CONSOLIDATED PLEDGE AGREEMENT

**PLEDGED COLLATERAL BEING DEPOSITED
SCHEDULE C TO OFFICERS' CERTIFICATE
DATED**

Pledged Collateral	Name of Issuer	Allowable Amount (Item 8)
Cash.....		
Permitted Investments (Here List).....		
Pledged Securities (Here List Securities).....		

SCHEDULE II
TO
SECOND AMENDED, RESTATED AND
CONSOLIDATED PLEDGE AGREEMENT

Addresses for Notices

1. The addresses referred to in Section 7.01 hereof, for purposes of delivering communications and notices, are as follows:

If to RUS:

Rural Utilities Service
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250
Fax: 202-720-1725
Attention of: The Administrator
Subject: Guaranteed Underwriter Program

and

Ms. Amy McWilliams
Management Analyst
Rural Utilities Service
United States Department of Agriculture
1400 Independence Avenue, SW
Stop 1568, Room 0226-S
Washington, DC 20250
Amy.McWilliams@wdc.usda.gov

If to the Borrower:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Telephone: 703-467-7402
Fax: 703-467-5178
Attention of: J. Andrew Don, Chief Financial Officer

With a copy to:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Telephone: 703-467-1872

SCHEDULE I
TO
SECOND AMENDED, RESTATED AND
CONSOLIDATED PLEDGE AGREEMENT

Fax: 703-467-5651
Attention of Roberta B. Aronson, Esq., General Counsel

If to the Collateral Agent:

U.S. Bank National Association
100 Wall Street
Suite 1600
New York, NY 10005-3701
Telephone: 212-951-8561
Fax: 212-509-3384
Attention of: K. Wendy Kumar, Vice President

SECOND AMENDED, RESTATED, AND CONSOLIDATED BOND
GUARANTEE AGREEMENT

dated as of March 29, 2016

between

UNITED STATES OF AMERICA
acting through the
Rural Utilities Service
as Guarantor,

and

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION,
as the Borrower.

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SECOND AMENDED, RESTATED AND
CONSOLIDATED BOND GUARANTEE AGREEMENT dated as
of March 29, 2016, between the UNITED STATES OF AMERICA
(the “Government”), acting through the Rural Utilities Service, a
Rural Development agency of the United States Department of
Agriculture, and its successors and assigns (“RUS”); and
NATIONAL RURAL UTILITIES COOPERATIVE FINANCE
CORPORATION, a cooperative association existing under the
laws of the District of Columbia (the “Borrower”).

RECITALS

1. The Federal Financing Bank, a body corporate and instrumentality of the Government under the general supervision of the Secretary of the Treasury, and its permitted successors and assigns (“FFB”), has previously made loans to the Borrower in the aggregate principal amount of up to \$5,173,286,000 upon the terms and subject to the conditions set forth in the following Bond Purchase Agreements by and among the Borrower, FFB and RUS, each as in effect as of the date hereof: (a) that certain Series A Bond Purchase Agreement dated as of June 14, 2005, (b) that certain Series B Bond Purchase Agreement dated as of April 28, 2006, (c) that certain Series C Bond Purchase Agreement dated as of September 19, 2008, (d) that certain Series D Bond Purchase Agreement dated as of November 10, 2010, (e) that certain Series E Bond Purchase Agreement dated as of December 1, 2011 (f) that certain Series F Bond Purchase Agreement dated as of December 13, 2012, (g) that certain Series G Bond Purchase Agreement dated as of November 21, 2013, and (h) that certain Series H Bond Purchase Agreement dated as of November 18, 2014 (collectively, the “Original Bond Purchase Agreements”), and upon the terms and subject to the conditions set forth in the following Future Advance Bonds, each as in effect as of the date hereof: (a) that certain Series A Future Advance Bond dated as of June 14, 2005, (b) that certain Series B Future Advance Bond dated as of April 28, 2006, (c) that certain Series C Future Advance Bond dated as of September 19, 2008, (d) that certain Series D Future Advance Bond dated as of November 10, 2010, (e) that certain Series E Future Advance Bond dated as of December 1, 2011, (f) that certain Series F Future Advance Bond dated as of December 13, 2012, (g) that certain Series G Future Advance Bond dated as of November 21, 2013, and (h) that certain Series H Future Advance Bond dated as of November 18, 2014 (collectively, the “Original Bonds”).

2. RUS previously determined that the Borrower was eligible to receive guarantees under Section 313A of the Rural Electrification Act of 1936, as amended (the “RE Act”) and the regulations promulgated thereunder (as set forth in Section 1720 of Part 7 of the Code of Federal Regulations (the “Regulations”)) and entered into that certain Amended, Restated, and Consolidated Bond Guarantee Agreement dated as of December 13, 2012, by and between the Borrower and RUS, as supplemented by Supplement No. 1 dated as of November 21, 2013, and Supplement No. 2 dated as of November 18, 2014 (the “2012 Bond Guarantee Agreement”).

3. On February 20, 2015, the Borrower applied to RUS (the "Application"), in accordance with the RE Act and the Regulations, for RUS to guarantee a ninth loan from FFB to the Borrower, the proceeds of which would be used by the Borrower to fund new Eligible Loans (as defined herein) or to refinance existing debt instruments of the Borrower used to fund Eligible Loans.

4. RUS has determined that the Borrower is eligible for guarantees under Section 313A of the RE Act.

5. FFB is willing to make a loan to the Borrower in the aggregate principal amount of up to \$250,000,000.00 upon the terms and subject to the conditions set forth in the Series K Bond Purchase Agreement among FFB, the Borrower and the Government dated as of the date hereof, as the same may be amended, supplemented, consolidated or restated from time to time in accordance with the terms thereof (the "Series K Bond Purchase Agreement"; together, with the Original Bond Purchase Agreements, the "Bond Purchase Agreements"), and upon the terms and subject to the conditions set forth in the Series K Future Advance Bond issued by the Borrower to FFB and dated as of the date hereof (the "Series K Bond"; together with the Original Bonds, the "Bonds").

6. The Borrower and RUS have agreed to (i) amend and restate the 2012 Bond Guarantee Agreement, (ii) set forth the terms by which RUS will issue its guarantee of the Series K Bond, and (iii) set forth the terms by which RUS will issue additional guarantees, as contemplated by Section 313A of the RE Act, upon the terms and subject to the conditions hereinafter provided.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, RUS and the Borrower agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions. As used in this Agreement, the following terms shall have the following meanings:

"91-day Treasury-Bill Rate" shall mean, for any date, the rate equal to the weighted average per annum discount rate (expressed as a bond equivalent yield and applied on a daily basis) for direct obligations of the United States with a maturity of thirteen weeks ("91-day Treasury-Bills") sold at the applicable 91-day Treasury-Bill auction on or most recently prior to such date, as published on the website <http://www.treasurydirect.gov/RI/OFBills> or otherwise as reported by the U.S. Department of the Treasury. In the event that the results of the auctions of 91-day Treasury Bills cease to be published or reported as provided above, or that no 91-day Treasury Bill auction is held in a particular week, then the 91-day Treasury-Bill Rate in effect as a result of the last such publication or report will remain in effect until such time, if any, as the results of

auctions of 91-day Treasury-Bills will again be so published or reported or such auction is held, as the case may be.

“2012 Bond Guarantee Agreement” shall have the meaning given to that term in the recitals hereto.

“Administrator” shall mean the Administrator of RUS.

“Advance” shall have the meaning given to that term in the Bond.

“Agreement” shall mean this Second Amended, Restated and Consolidated Bond Guarantee Agreement, as the same may be amended, supplemented, consolidated or restated from time to time.

“Application” shall have the meaning given to that term in the recitals hereto.

“Bond” shall have the meaning given to that term in the recitals hereto.

“Bond Fee” shall mean the fee applicable to each Advance as calculated in accordance with paragraph 9(b) of the Bond.

“Bond Purchase Agreements” shall have the meaning given to that term in the recitals hereto.

“Bond Documents” shall mean the Bonds, the Bond Purchase Agreements, the Guarantees, this Agreement, the Pledge Agreement and the Reimbursement Notes.

“Borrower” shall have the meaning given to that term in the Preamble.

“Borrower Notice” shall have the meaning given to that term in the Pledge Agreement.

“Business Day” shall mean any day other than a Saturday, a Sunday, a legal public holiday under 5 U.S.C. §6103 for the purpose of statutes relating to pay and leave of employees or any other day declared to be a legal holiday for the purpose of statutes relating to pay and leave of employees by Federal statute or Federal Executive Order.

“Certificate of Pledged Collateral” shall have the meaning given to that term in the Pledge Agreement.

“Closing Date” shall mean March 29, 2016.

“Consolidated Subsidiary” means at any date any Subsidiary and any other entity the accounts of which would be combined or consolidated with those of the Borrower in its combined or consolidated financial statements if such statements were prepared as of such date.

“Eligible Loan” shall mean all or part of any Loan that the Borrower has made for any electrification or telephone purpose eligible under the RE Act, to the extent the Loan is not used directly or indirectly to fund projects for the generation of electricity.

“Event of Default” shall have the meaning given to that term in Section 10.1.

“FFB” shall have the meaning given to that term in the recitals hereto.

“Financial Statements”, in respect of a Fiscal Year, shall mean the consolidated financial statements (including footnotes) of the Borrower for that Fiscal Year as audited by independent certified public accountants appointed by the Borrower.

“Fiscal Year” shall mean the fiscal year of the Borrower, as such may be changed from time to time, which at the date hereof commences on June 1 of each calendar year and ends on May 31 of the following calendar year.

“Government” shall have the meaning given to that term in the Preamble.

“Guarantee” shall mean a guarantee executed by the Secretary, in the form attached to a Bond.

“Guarantee Fee” shall have the meaning given to that term in Section 4.1.

“Guaranteed Bond” shall mean a Bond with the executed Guarantee attached thereto.

“Indebtedness” with respect to any Person shall mean without duplication:

- (a) all indebtedness which would appear as indebtedness on a balance sheet of such Person prepared in accordance with generally accepted accounting principles (i) for money borrowed, (ii) which is evidenced by securities sold for money or (iii) which constitutes purchase money indebtedness;
- (b) all indebtedness of others guaranteed by such Person (not including endorsements for collection or deposit in the ordinary course of business);
- (c) all indebtedness secured by any mortgage, lien, pledge, charge or encumbrance upon property owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness; and
- (d) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement (including any lease in the nature of a title retention agreement) with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession of such property), but only if such property is included as an asset on the balance sheet of such Person,

provided that, in computing the “Indebtedness” of such Person, there shall be excluded any particular indebtedness if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository in trust money (or evidences of such indebtedness) in the amount necessary to pay, redeem or satisfy such indebtedness; and provided further that no provision of this definition shall be construed to include as “Indebtedness” of the Borrower or its Consolidated Subsidiaries any indebtedness by virtue of any agreement by the Borrower or its Consolidated Subsidiaries to advance or supply funds to Members or Consolidated Subsidiary members.

“Investment Grade Rating” shall mean, in respect of any ratable instrument, a rating for that instrument in one of the four highest rating categories (within which there may be subcategories or gradations which are to be ignored for the purposes of this definition) of a Rating Agency. At the date hereof, this would require the following: (i) a BBB- rating or higher from Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.; (ii) a Baa3 rating or higher from Moody’s Investors Service, Inc.; or (iii) a BBB- rating or higher from Fitch, Inc.

“Loan” shall mean a loan that the Borrower has or will have outstanding to any of its Members or associates.

“Member” shall mean any Person who is member or patron of the Borrower, as the case may be.

“Original Bonds” shall have the meaning given to that term in the recitals hereto.

“Original Bond Purchase Agreements” shall have the meaning given to that term in the recitals hereto.

“Person” means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Pledge Agreement” shall mean the Second Amended, Restated and Consolidated Pledge Agreement dated as of March 29, 2016 entered into by the Borrower, RUS and U.S. Bank National Association, an executed copy of which is attached as Annex C hereto, and an executed original of which has previously been delivered to each of the parties thereto, as the same may be amended, supplemented, or restated from time to time in accordance with the terms thereof and hereof.

“Program” shall mean the guarantee program for bonds and notes issued for electrification or telephone purposes authorized by Section 313A of the RE Act and 7 C.F.R. Part 1720.

“Rating Agency” shall mean (i) Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., Moody’s Investors Service, Inc., or Fitch, Inc.; and (ii) their respective successor rating agencies.

“RE Act” shall have the meaning given to that term in the recitals hereto.

“Regulations” shall have the meaning given to that term in the recitals hereto.

“Reimbursement Note” shall mean a note issued by the Borrower to RUS, in the form of Annex D attached hereto, as the same may be amended, supplemented, or restated from time to time in accordance with the terms thereof and hereof.

“Requested Advance Date” shall have the meaning given to that term in the Bonds.

“RUS” shall have the meaning given to that term in the Preamble.

“Secretary” shall mean the Secretary of Agriculture acting through the Administrator.

“Senior Secured Credit Rating” means a credit rating of the Borrower by a Rating Agency in the category of “Senior Secured”, as set forth in an annual credit opinion or letter for the Borrower.

“Series K Bond” shall have the meaning given to that term in the recitals hereto.

“Series K Guarantee” shall mean the Guarantee executed by the Secretary and attached to the Series K Bond.

“Series K Bond Purchase Agreement” shall have the meaning given to that term in the recitals hereto.

“Subrogation Claim” shall have the meaning given to that term in Section 9.3(a).

“Subsidiary” of any Person means (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through its Subsidiaries; and (ii) any other Person in which such Person directly or indirectly through Subsidiaries has more than a 50% voting and equity interest; provided that no Person shall be deemed a Subsidiary whose only assets are (A) loans guaranteed, in whole or in part, as to principal and interest by the Government through RUS pursuant to a guarantee; and (B) investments incidental thereto.

“Termination Date” shall mean the date upon which this Agreement terminates in accordance with Section 11.9.

SECTION 1.2. Principles of Construction. Unless the context shall otherwise indicate, the terms defined in Section 1.1 hereof include the plural as well as the singular and the singular as well as the plural. The words “hereafter”, “herein”, “hereof”, “hereto” and “hereunder”, and words of similar import, refer to this Agreement as a whole. The descriptive headings of the various articles and sections of this Agreement were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of the provisions hereof.

ARTICLE II

THE GUARANTEES

SECTION 2.1. Guarantee of Original Bonds. Prior to the execution of this Agreement, the Secretary executed Guarantees for each of the Original Bonds pursuant to Section 313A of the RE Act. Such Guarantees are obligations supported by the full faith and credit of the Government and are incontestable except for fraud or misrepresentation of which FFB had actual knowledge at the time it extended the loan represented by the Guaranteed Bonds. The Guarantees remain in full force and effect and are subject to the provisions set forth in this Agreement.

SECTION 2.2. Execution of Series K Guarantee. Upon presentation to RUS of the Series K Bond, and upon satisfaction of the conditions set forth in Section 3.1 of this Agreement, and subject to Section 2.3, the Secretary shall execute, pursuant to the RE Act, the Series K Guarantee.

SECTION 2.3. Coverage of the Series K Guarantee. The Series K Guarantee shall be an obligation supported by the full faith and credit of the Government and incontestable except for fraud or misrepresentation of which FFB had actual knowledge at the time it extended the loan represented by the Series K Guaranteed Bond.

SECTION 2.4. Payment on the Guarantees. RUS guarantees the full repayment of the principal, interest, late payment charges, Bond Fees and discount or prepayment premiums, if any, when and as due on the Guaranteed Bonds in accordance with the terms of the Guarantees, provided, however, that any payment by RUS under each Guarantee does not relieve the Borrower of any of its obligations or liabilities under or in respect of this Agreement or any of the Bond Documents.

SECTION 2.5. Issuance of Additional Guarantees. RUS may from time to time issue additional guarantees of loans of the Borrower pursuant to the RE Act. Such guarantees shall become subject to this Agreement by the execution of a supplement by RUS and the Borrower substantially in the form attached hereto as Annex A.

ARTICLE III

CONDITIONS PRECEDENT

SECTION 3.1. Conditions Precedent to Issuance of a Guarantee. RUS shall be under no obligation to execute and deliver a Guarantee unless and until the following conditions have been satisfied or waived in writing:

(a) Bond Documents. RUS shall have received originals of: (i) the Bond to which the Guarantee relates (with an unexecuted Guarantee attached thereto) duly executed on behalf of the Borrower, identical in all respects to the form of Bond attached to the Bond Purchase Agreement except to the extent that RUS may have approved changes therein, (ii) a Bond Purchase Agreement duly executed on behalf of the Borrower and FFB, identical in all respects to the form of Bond Purchase Agreement in Annex B attached hereto except to the extent that RUS may have approved changes therein, and (iii) a Reimbursement Note duly executed on behalf of the Borrower, identical in all respects to the form of Reimbursement Note in Annex D attached hereto except to the extent that RUS may have approved changes therein.

(b) Amount of RE Act Loans. The Borrower shall have provided RUS a certification by its Governor and its Chief Financial Officer or Chief Operating Officer (or other senior management acceptable to the Secretary) certifying that as of the Closing Date the outstanding principal amount of Loans made for electrification and telephone purposes eligible under the RE Act is equal to or greater than the amount of the Borrower's Guaranteed Bonds under the Program, including the Bond.

(c) Opinion of Counsel. Counsel to the Borrower shall have furnished an opinion substantially as to each of the matters listed in Annex E attached hereto.

(d) No material adverse change. The Borrower shall have certified to the Secretary (in the manner specified in paragraph (g) of this Section 3.1), and the Secretary shall be satisfied, that no material adverse change shall have occurred in the financial condition of the Borrower between the date of the Application and the date of execution of the Guarantee.

(e) Investment Grade Rating of Bond. The Borrower shall have provided evidence of an Investment Grade Rating from a Rating Agency for the Bond, without regard to the Guarantee.

(f) Senior Secured Credit Rating. The Borrower shall have provided evidence satisfactory to the Secretary of its Senior Secured Credit Rating.

(g) Certification of Senior Management. The Borrower shall have provided RUS a certification by its Governor and its Chief Financial Officer or Chief Operating Officer (or other senior management acceptable to the Secretary), substantially in the form

attached of Annex F attached hereto, of the following: (i) that the Borrower is a lending institution organized as a private, not-for-profit, cooperative association with the appropriate expertise, experience and qualifications to make loans for electrification or telephone purposes; (ii) the matter to be certified under paragraph (d) of this Section 3.1; and (iii) acknowledgment of the Borrower's commitment to comply with the reporting requirements specified in Article VI.

(h) UCC Filing. The Borrower shall have provided RUS with evidence that the Borrower has filed the financing statement required pursuant to Section 2.05(i) of the Pledge Agreement.

SECTION 3.2. Conditions Precedent to each Advance. The following conditions shall be fulfilled to the satisfaction of RUS or waived in writing by RUS prior to the drawdown of each Advance under a Guaranteed Bond:

(a) Existing Loans.

(i) The Borrower shall have certified to the Secretary (in the manner specified in paragraph (d) of this Section 3.2): (A) the total aggregate principal amount of outstanding Eligible Loans as of the Requested Advance Date; (B) the total aggregate principal amount of outstanding Loans as of the Requested Advance Date; and (C) the percentage the amount in subparagraph (A) comprises of the amount in subparagraph (B).

(ii) For Advances made under the Series K Bond, advances made under the Original Bonds, or advances under any new Bonds executed by the Borrower subsequent to the Closing Date, the Borrower shall have certified as to the portion of Eligible Loans that is comprised of (A) refinanced RUS debt; (B) debt of Members for whom both RUS and the Borrower have outstanding loans; and (C) debt of Members for whom both RUS and the Borrower have outstanding concurrent loans pursuant to Section 307 of the RE Act, and that the amount of Eligible Loans in (A), (B) and (C) of this subparagraph exceeds the amount of Bonds outstanding as of the date thereof.

(b) Use of Proceeds. The Borrower shall have certified to the Secretary (in the manner specified in paragraph (d) of this Section 3.2) that the Advance will be applied: (A) to fund new Eligible Loans under the RE Act; and/or (B) to refinance existing debt instruments of the Borrower, in the case of each such debt instrument up to the percentage certified by the Borrower in accordance with Section 3.2(a)(i)(C) hereof.

(c) No material adverse change. The Borrower shall have certified to the Secretary (in the manner specified in paragraph (d) of this Section 3.2), and the Secretary shall be satisfied, that no material adverse change shall have occurred in the financial condition of the Borrower between the Closing Date and the applicable Requested Advance Date.

(d) Certification of Senior Management. The Borrower shall have provided RUS a certification by its Governor and its Chief Financial Officer or Chief Operating Officer (or other senior management acceptable to the Secretary), substantially in the form attached as Annex G attached hereto, of the matters to be certified under paragraphs (a), (b) and (c) of this Section 3.2.

(e) Certificate of Pledged Collateral. The Borrower shall have provided RUS a copy of a Certificate of Pledged Collateral in accordance with the terms of the Pledge Agreement.

ARTICLE IV

GUARANTEE FEE

SECTION 4.1. Guarantee Fee. The Borrower shall pay a guarantee fee (the “Guarantee Fee”), to the RUS for deposit into the Rural Economic Development Subaccount maintained under Section 313(b)(2)(A) of the RE Act.

SECTION 4.2. Amount of Guarantee Fee; Dates of Payment. %3. The Guarantee Fee will be in the amount of 30 basis points (0.30 percent) of the unpaid principal amount of the Bonds, payable as provided in paragraph (b) of this Section 4.2.

(a) The Guarantee Fee will be payable, in advance, on each January 15 and July 15 in the amount of 15 basis points (0.15 percent) of the outstanding principal amount of the Bonds on that date. In addition, on the date of each Advance under a Bond, the Borrower will pay to RUS the Guarantee Fee on the principal amount of such advance in the amount of (i) 30 basis points (0.30 percent) of the principal amount of such advance multiplied by (ii) the ratio of (x) the actual amount of days from the date of such advance until the next January 15 or July 15, whichever comes first, to (y) 365 (except in calendar years including February 29, when the number shall be 366).

(b) Payments of the Guarantee Fee are non-refundable as of the date and in the amount required to be paid hereunder, without regard to any reduction in the principal amount of the Bonds after that date.

ARTICLE V

SERVICING OF THE GUARANTEED BONDS

SECTION 5.1. Servicing. The Secretary, or other agent of the Secretary on his or her behalf, shall have the right to service the Guaranteed Bonds, and periodically inspect the books and accounts of the Borrower to ascertain compliance with the provisions of the RE Act with respect to the guarantees under Section 313A thereof and the Bond Documents. The Secretary, or agent thereof, shall endeavor to give the Borrower at least five Business Days’ notice

of any intention to inspect the Borrower's books and accounts. Such inspection shall be made only during regular office hours of the Borrower or at any time the Borrower and Secretary, or agent thereof, find mutually convenient.

ARTICLE VI

REPORTING REQUIREMENTS

SECTION 6.1. Annual Reporting Requirements. Until the Termination Date, the Borrower shall provide the Secretary with the following items within 90 days of the end of each Fiscal Year, in each case, in form and substance satisfactory to the Secretary:

- (a) the Financial Statements for such Fiscal Year;
- (b) a Certificate of Pledged Collateral as of the end of such Fiscal Year;
- (c) a letter substantially in the form of Annex H attached hereto, by KPMG LLP or by such other reputable, independent certified public accountants engaged by the Borrower, who in the judgment of the Secretary have the requisite skills, knowledge, reputation and experience to provide such letter, such letter to be based upon Schedule A to the applicable certificate delivered under paragraph (b) of this Section 6.1;
- (d) a receipt from the Collateral Agent (as defined in the Pledge Agreement), or such other evidence as is satisfactory to the Secretary, as to the Pledged Collateral held by the Collateral Agent at the end of such Fiscal Year, such Pledged Collateral to agree with Schedule A to the applicable certificate delivered under paragraph (b) of this Section 6.1;
- (e) a projection of the Borrower's balance sheet, income statement and statement of cash flows over the ensuing five years, pro forma assuming the full principal amount of the Bond is advanced;
- (f) the most recent credit assessment of the Borrower issued by a Rating Agency;
- (g) the most recent Senior Secured Credit Rating issued by a Rating Agency;
and
- (h) such other information as is reasonably requested by the Secretary.

SECTION 6.2. Default Notices. If an action, occurrence or event shall happen that is, or with notice and the passage of time would become, an Event of Default, the Borrower shall deliver a Borrower Notice of such action, occurrence or event

to RUS before 4:00 p.m. District of Columbia time on the Business Day following the date the Borrower becomes aware of such action, occurrence or event, and, if such Event of Default should occur, shall submit to RUS, as soon as possible thereafter, a report setting forth its views as to the reasons for the Event of Default, the anticipated duration of the Event of Default and what corrective actions the Borrower is taking to cure such Event of Default.

ARTICLE VII

LIMITATIONS ON AMENDMENTS TO THE GUARANTEED BONDS

SECTION 7.1. Limitations on Amendments to the Guaranteed Bonds. No amendment or supplement to, and no modification or rescission of, the Guaranteed Bonds shall be effective unless approved in writing by RUS, nor shall any waiver of any rights of RUS under the Guaranteed Bonds be effective against RUS unless such waiver has been approved in writing by RUS. No amendment or supplement to, and no modification of, any of the other Bond Documents, which materially adversely affects RUS, shall be effective unless approved in writing by RUS, nor shall any waiver of any rights of RUS under any of the Bond Documents be effective against RUS unless such waiver has been approved in writing by RUS.

ARTICLE VIII

REPRESENTATIONS OF THE PARTIES

SECTION 8.1. Representation of RUS. RUS represents that the Guarantees endorsed on the original of the Guaranteed Bonds constitute legal, valid and binding obligations supported by the full faith and credit of the Government, incontestable except for fraud or misrepresentation of which FFB had actual knowledge at the time it extended the loan represented by the Guaranteed Bonds.

SECTION 8.2. Representations of the Borrower. The Borrower hereby represents to RUS that on the date hereof, the Closing Date, and each Requested Advance Date:

(a) the Borrower has been duly organized and is validly existing and in good standing as a cooperative association under the laws of the District of Columbia;

(b) the Borrower has the corporate power and authority to execute and deliver this Agreement and each of the other Bond Documents to which the Borrower is a party, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder;

(c) the Borrower has taken all necessary corporate action to authorize the execution and delivery of this Agreement and each of the other Bond Documents to which the Borrower is a party, the consummation by the Borrower of the transactions contemplated hereby and thereby and the performance by the Borrower of its obligations hereunder and thereunder;

(d) this Agreement and each of the other Bond Documents to which the Borrower is a party have been duly authorized, executed and delivered by the Borrower and constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to: (i) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general applicability relating to or affecting creditors' rights generally; and (ii) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law;

(e) no approval, consent, authorization, order, waiver, exemption, variance, registration, filing, notification, qualification, license, permit or other action is now, or under existing law in the future will be, required to be obtained, given, made or taken, as the case may be, with, from or by any regulatory body, administrative agency or governmental authority having jurisdiction over the Borrower to authorize the execution and delivery by the Borrower of this Agreement or any of the other Bond Documents to which the Borrower is a party, or the consummation by the Borrower of the transactions contemplated hereby or thereby or the performance by the Borrower of its obligations hereunder or thereunder;

(f) neither the execution or delivery by the Borrower of this Agreement or any of the other Bond Documents to which the Borrower is a party nor the consummation by the Borrower of any of the transactions contemplated hereby or thereby nor the performance by the Borrower of its obligations hereunder or thereunder, including, without limitation, the pledge of the Pledged Securities (as such term is defined in the Pledge Agreement) to RUS if required, conflicts with or will conflict with, violates or will violate, results in or will result in a breach of, constitutes or will constitute a default under, or results in or will result in the imposition of any lien or encumbrance pursuant to any term or provision of the articles of incorporation or the bylaws of the Borrower or any provision of any existing law or any rule or regulation currently applicable to the Borrower or any judgment, order or decree of any court or any regulatory body, administrative agency or governmental authority having jurisdiction over the Borrower or the terms of any mortgage, indenture, contract or other agreement to which the Borrower is a party or by which the Borrower or any of its properties is bound;

(g) there is no action, suit, proceeding or investigation before or by any court or any regulatory body, administrative agency or governmental authority presently pending or, to the knowledge of the Borrower, threatened with respect to the Borrower, this Agreement or any of the other Bond Documents to which the Borrower is a party challenging the validity or enforceability of this Agreement or any of the other Bond Documents to which

the Borrower is a party or seeking to restrain, enjoin or otherwise prevent the consummation by the Borrower of the transactions contemplated by this Agreement or any of the other Bond Documents to which the Borrower is a party or which, if adversely determined, would have a material adverse effect on the Borrower's financial condition or its ability to perform its obligations under this Agreement or any of the other Bond Documents to which the Borrower is a party;

(h) the Borrower is a lending institution organized as a member-owned, not-for-profit, cooperative association with the appropriate expertise, experience and qualifications to make loans for electrification or telephone purposes;

(i) the total principal amount of the Guaranteed Bonds under the Program does not exceed the total principal amount of outstanding Loans, made for electrification and telephone purposes eligible under the RE Act, as of the Closing Date; and

(j) no material adverse change has occurred in the financial condition of the Borrower between the date of the Application and the date this representation is given.

ARTICLE IX

AGREEMENTS OF THE BORROWER

SECTION 9.1. Patronage Refunds. The Borrower shall not make cash patronage refunds in excess of five percent of its total patronage capital, as disclosed in its most recent Financial Statements, during any portion of a Fiscal Year in which the Borrower has a Senior Secured Credit Rating (without regard to the Guarantee or any other third party credit support) that is not equal to at least two of the following ratings: (i) "A-" or higher from Standard & Poor's, a division of The McGraw-Hill Companies, Inc.; (ii) "A3" or higher from Moody's Investors Service, Inc.; (iii) "A-" or higher from Fitch, Inc.; and (iv) an equivalent rating from a successor rating agency to any of those Rating Agencies. While the Borrower is subject to such restriction, equity securities issued as part of a patronage refund shall not be redeemed in cash, and, if the Borrower shall have outstanding any common stock or preferred stock, the Borrower shall not issue any dividends on any such stock.

SECTION 9.2. Security and Collateral. (a) The Pledged Securities (as such term is defined in the Pledge Agreement) shall be pledged immediately upon the execution of the Pledge Agreement and delivery of the Certificate of Pledged Collateral in accordance with the terms and conditions of the Pledge Agreement to secure the payment obligations of the Borrower under this Agreement and under the Reimbursement Notes.

(b) Until the Termination Date, the Borrower shall cause the Pledged Collateral (as such term is defined in the Pledge Agreement) to be at all times not less than 100% of the aggregate principal amount of the Guaranteed Bonds and any other guaranteed bonds issued by the Borrower under the Program and, except as provided for in paragraph (a) of this Section 9.2 or otherwise permitted by the Pledge Agreement, shall not create, or permit to exist, any pledge, lien, charge, mortgage, encumbrance, debenture, hypothecation or other similar security instrument that secures, or in any way attaches to, such Pledged Collateral without the prior written consent of RUS.

SECTION 9.3. Subrogation. (a) The Borrower agrees that RUS shall be subrogated to the rights of FFB to the extent of any and all payments made by RUS under each Guarantee (herein called the “Subrogation Claim”). The Borrower agrees to pay directly to RUS all amounts due on the Guaranteed Bonds as to which RUS is so subrogated, together with interest thereon (to the extent permitted by applicable law) at a rate determined by the following paragraph, and such payments shall satisfy the obligations of the Borrower hereunder with respect to such amounts paid by RUS.

(a) The Subrogation Claim of RUS shall bear interest from the date of payment by RUS under the Guarantees until the date such claim is satisfied. Interest shall accrue at an annual rate of the greater of 1.5 times the 91-day Treasury-Bill Rate or 200 basis points (2.00%) above the interest rate on the Guaranteed Bonds.

SECTION 9.4. Use of Proceeds. (a) The Borrower shall only apply the proceeds of the Guaranteed Bonds to finance new Eligible Loans or, subject to paragraph (b), to refinance existing debt instruments of the Borrower.

(a) The Borrower may only apply the proceeds of each Advance to refinance any of the Borrower’s indebtedness up to the percentage certified by the Borrower under Section 3.2(a)(iii) hereof of the amount of such indebtedness being refinanced.

SECTION 9.5. Compliance with Covenants in Other Agreements. The Borrower and each of its Subsidiaries will observe and perform within any applicable grace period all covenants and agreements (as the same may be from time to time amended or waived) contained in any agreement or instrument relating to any Indebtedness of the Borrower or any of its Subsidiaries, aggregating for the Borrower and its Subsidiaries in excess of \$50,000,000, if the effect of the failure to observe or perform such covenant or agreement is to accelerate, or to permit the holder of such Indebtedness or any other Person to accelerate, the maturity of such Indebtedness.

SECTION 9.6. Ratings. For the term of the Bonds, the Borrower shall request, and do all things reasonably within its power to obtain (including paying all fees incidental thereto), Senior Secured Credit Ratings from at least two Rating Agencies on at least an annual basis.

SECTION 9.7. Acknowledgement of Borrower. The Borrower acknowledges and agrees that failure by the Borrower to receive any repayment under a Loan, does not affect the Borrower's obligations to make payments under this Agreement or any other Bond Document.

SECTION 9.8. Financial Expert. The Borrower will cause a financial expert (within the meaning of Section 407 of the Sarbanes-Oxley Act of 2002) to serve on the audit committee of its board of directors until the Termination Date; and shall not allow the financial expert position on the audit committee to remain vacant for more than 90 consecutive days.

SECTION 9.9. Compliance with Federal Laws and Regulations. The Borrower shall comply with all applicable Federal laws and regulations.

ARTICLE X

EVENTS OF DEFAULT

SECTION 10.1. Events of Default. Each of the following actions, occurrences or events shall, but only (except in the case of subsections (a), (c) and (e) below) if the Borrower does not cure such action, occurrence or event within 30 days of notice from RUS requesting that it be cured, constitute an "Event of Default" under the terms of this Agreement:

(a) A failure by the Borrower to make a payment of principal, interest or a Bond Fee when due on a Guaranteed Bond;

(b) The issuance of a Guaranteed Bond in violation of the terms and conditions of this Agreement or any of the other Bond Documents;

(c) A failure by the Borrower to make payment of the Guarantee Fee required by Article IV when due;

(d) A misrepresentation by the Borrower to the Secretary in any material respect in connection with this Agreement, the Guaranteed Bonds or the information reported pursuant to Article VI;

(e) A failure by the Borrower to comply with the covenant contained in Section 9.5 hereof; or

(f) A failure by the Borrower to comply with any other material covenant or provision contained in this Agreement or any of the other Bond Documents, except that the failure of the Borrower to comply with Section 9.8 hereof shall not constitute such an Event of Default.

SECTION 10.2. Compulsory Redemption. If an Event of Default occurs, the Secretary may demand that the Borrower redeem the Guaranteed Bonds in accordance with its terms.

SECTION 10.3. Acceleration by RUS's Purchase of the Bonds. If an Event of Default occurs, and RUS purchases from FFB each Bond in its entirety in the manner provided in Section 13.5 of each Bond Purchase Agreement, then the entire purchase price shall be included in the Principal Amount of the Reimbursement Notes as defined therein and shall be immediately due and payable to RUS. Payment to RUS of all amounts due under the Reimbursement Notes after such an acceleration shall satisfy in full all obligations of the Borrower under the Bonds and Reimbursement Notes and all corresponding obligations under the other Bond Documents, including any obligations to reimburse RUS for any payments thereafter made by RUS under the RUS Guarantees.

SECTION 10.4. Effect of Payments by RUS pursuant to the RUS Guarantees. No payment by RUS pursuant to the RUS Guarantees shall (i) be considered a payment for purposes of determining the existence of a failure of the Borrower to perform its obligations to RUS under the Bond Documents, or (ii) relieve the Borrower of its obligations to reimburse RUS for payments made by RUS pursuant to the RUS Guarantees. Payment by the Borrower to RUS of amounts due under the Reimbursement Notes shall satisfy *pro tanto* the corresponding obligations of the Borrower under the Bonds.

SECTION 10.5. Remedies Not Exclusive. Upon the occurrence of an Event of Default, the Secretary shall be entitled to take such other action as is provided for by law, in this Agreement, or in any of the other Bond Documents, including injunctive or other equitable relief.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE UNITED STATES OF AMERICA, TO THE EXTENT APPLICABLE, AND OTHERWISE THE LAWS OF THE DISTRICT OF COLUMBIA.

SECTION 11.2. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER

AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.2.

SECTION 11.3. Method of Payment. All payments to be made by the Borrower to RUS hereunder, shall be made in the manner notified to the Borrower by RUS from time to time in accordance with Section 11.4.

SECTION 11.4. Notices. All notices and other communications hereunder to be made to any party shall be in writing and shall be addressed as specified in Schedule I attached hereto as appropriate. The address, telephone number, or facsimile number for any party may be changed at any time and from time to time upon written notice given by such changing party to the other parties hereto. A properly addressed notice or other communication to the Borrower shall be deemed to have been delivered at the time it is sent by facsimile (fax) transmission. A properly addressed notice or other communication to RUS shall be deemed to have been delivered at the time it is sent by facsimile (fax) transmission, provided that the original of such faxed notice or other communication shall have been received by RUS within five Business Days.

SECTION 11.5. Benefit of Agreement. This Agreement shall become effective when it shall have been executed by RUS and the Borrower, and thereafter shall be binding upon and inure to the respective benefit of the parties and their permitted successors and assigns.

SECTION 11.6. Entire Agreement. This Agreement, including Schedule I hereto and Annexes A to H hereto, and the other Bond Documents, constitutes the entire agreement between the parties hereto concerning the matters contained herein and supersedes all prior oral and written agreements and understandings between the parties.

SECTION 11.7. Amendments and Waivers. (a) No failure or delay of RUS or the Borrower in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be authorized as provided in paragraph (b) of this Section 11.7, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) No provision of this Agreement may be amended or modified except pursuant to an agreement in writing entered into by RUS and the Borrower. No provision of this Agreement may be waived except in writing by the party or parties receiving the benefit of and under such provision.

SECTION 11.8. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument.

SECTION 11.9. Termination of Agreement. This Agreement shall terminate upon the indefeasible payment in full of all amounts payable hereunder, under the Reimbursement Notes and under the Guaranteed Bonds.

SECTION 11.10. Survival. The representations and warranties of each of the parties hereto contained in this Agreement and contained in each of the other Bond Documents to which such party hereto is a party thereto, and the parties' obligations under any and all thereof, shall survive and shall continue in effect following the execution and delivery of this Agreement, any disposition of the Guaranteed Bonds and the expiration or other termination of any of the other Bond Documents, but, in the case of each Bond Document, shall not survive the expiration or the earlier termination of such Bond Document, except to the extent expressly set forth in such Bond Document.

SECTION 11.11. Severability. If any term or provision of this Agreement or any Bond Document or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or such provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable any remaining terms or provisions of such Bond Document or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed by an authorized officer as of the day and year first above written.

UNITED STATES OF AMERICA, acting
through the Administrator of the Rural
Utilities Service

By: /s/ BRANDON MCBRIDE

Name: Brandon McBride

Title: Administrator
Rural Utilities Service

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE
CORPORATION, as the Borrower

By: /s/ SHELDON C. PETERSEN

Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

SCHEDULE I
TO
AMENDED, RESTATED AND CONSOLIDATED BOND GUARANTEE
AGREEMENT

Addresses for Notices

1. The addresses referred to in Section 11.4 hereof, for purposes of delivering communications and notices, are as follows:

If to RUS:

Rural Utilities Service
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250
Fax: 202-720-1725
Attention of: The Administrator
Subject: Guaranteed Underwriter Program

and

Ms. Amy McWilliams
Management Analyst
Rural Utilities Service
United States Department of Agriculture
1400 Independence Avenue, SW
Stop 1568, Room 0226-S
Washington, DC 20250
Amy.McWilliams@wdc.usda.gov

If to the Borrower:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Telephone: 703-467-7402
Fax: 703-467-5178
Attention of: J. Andrew Don, Chief Financial Officer

With a copy to:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Telephone: 703-467-1872

Fax: 703-467-5651

Attention of: Roberta B. Aronson, Esq., General Counsel

ANNEX A

Form of Supplement to Second Amended, Restated and Consolidated Bond Guarantee
Agreement

SUPPLEMENT TO SECOND AMENDED, RESTATED AND CONSOLIDATED BOND GUARANTEE AGREEMENT dated as of [] (the "Supplement") by and between the UNITED STATES OF AMERICA (the "Government"), acting through the Rural Utilities Service, a Rural Development agency of the United States Department of Agriculture, and its successors and assigns ("RUS"); and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a cooperative association existing under the laws of the District of Columbia (the "Borrower").

RECITALS

1, The Borrower and RUS are parties to that certain Second Amended, Restated and Consolidated Bond Guarantee Agreement, dated as of March 29, 2016, pursuant to which RUS has agreed to issue guarantees of certain Bonds, as contemplated by Section 313A of the RE Act, upon the terms and subject to the conditions provided therein (the "Original Agreement"). Capitalized terms that are not defined herein shall have the meanings assigned to them in the Original Agreement.

2. On [date of Application], the Borrower applied to RUS, in accordance with Section 313A of the Act and the Regulations, for RUS to guarantee a [Application number] loan from FFB to the Borrower, the proceeds of which would be used by the Borrower to fund new Eligible Loans or to refinance existing debt instruments of the Borrower used to fund Eligible Loans.

3, FFB is willing to make a loan to the Borrower in the aggregate principal amount of up to \$[] upon the terms and subject to the conditions set forth in that certain Series [] Bond Purchase Agreement, dated as of [], by and among FFB, the Borrower and RUS, as the same may be amended, supplemented, consolidated or restated from time to time in accordance with the terms thereof (the "Series [] Bond Purchase Agreement"), and upon the terms and subject to the conditions set forth in the Series [] Future Advance Bond issued by the Borrower to FFB and dated as of the date hereof (the "Series [] Bond").

4. RUS has determined that the Borrower is eligible for guarantees under Section 313A of the RE Act and is willing to issue its guarantee of the Series [] Bond (the "Section [] Guarantee") upon the terms and subject to the conditions set forth in the Original Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, RUS and the Borrower agree as follows:

SECTION 1. Recitals. The foregoing recitals are incorporated into the Original Agreement by reference.

SECTION 2. Definitions.

A. The following definitions will be added to Section 1.1 of the Original Agreement:
“Series [] Bond” shall have the meaning given to that term in the recitals hereto.

“Series [] Bond Purchase Agreement” shall have the meaning given to that term in the recitals hereto.

“Series [] Guarantee” shall have the meaning given to that term in the recitals hereto.

B. The following definitions shall be amended as indicated below:
“Bonds” shall mean the Original Bonds and the Series [] Bond dated as of [].

“Bond Purchase Agreement” shall mean the Original Bond Purchase Agreements, the Series K Bond Purchase Agreement, and the Series [] Bond Purchase Agreement dated as of [].

SECTION 3. Conditions Precedent to the Issuance of the Series [] Guarantee. The obligation of RUS to enter into this Supplement and to issue the guarantee of the Series [] Bond pursuant to the terms hereof is subject to the satisfaction of the conditions precedent listed in Section 3.1 of the Original Agreement unless and until such conditions have been satisfied or waived in writing.

SECTION 4. Prior Representation of RUS. The representation made by RUS in Section 8.1 of the Original Agreement is true and correct as of the date hereof.

SECTION 5. Prior Representations of the Borrower. All representations made by the Borrower in Section 8.2 of the Original Agreement are true and correct as of the date hereof.

SECTION 6. Incorporation; Inconsistency with Original Agreement. Except as otherwise amended or modified herein, the terms, conditions and provisions of the Original Agreement are incorporated herein by reference as if set forth in full herein and remain in full force and effect. In the event of any conflict or inconsistency between the terms of this Supplement and the Original Agreement, the terms of this Supplement shall control. Nothing in this Supplement shall, however, eliminate or modify any special condition, special affirmative covenant or special negative covenant, if any, specified in the Original Agreement.

SECTION 7. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE UNITED STATES OF AMERICA, TO THE EXTENT APPLICABLE, AND OTHERWISE THE LAWS OF THE DISTRICT OF COLUMBIA.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed by an authorized officer as of the day and year first above written.

UNITED STATES OF AMERICA, acting
through the Administrator of the Rural
Utilities Service

By: /s/ BRANDON MCBRIDE

Name: Brandon McBride

Title: Administrator
Rural Utilities Service

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE
CORPORATION, as the Borrower

By: /s/ SHELDON C. PETERSEN

Name: Sheldon C. Petersen

Title: Governor and
Chief Executive Officer

ANNEX B

Form of Bond Purchase Agreement

ANNEX C

Pledge Agreement

Dated as of March 29, 2016

ANNEX D

Form of Reimbursement Note

ANNEX E

Opinion of Counsel to the Borrower

(1) The Borrower has been duly incorporated and is validly existing as a not-for-profit cooperative association in good standing under the laws of the District of Columbia with corporate power and authority to execute and perform its obligations under the Bond Documents.

(2) The Bond Documents have been duly authorized, executed and delivered by the Borrower, and such documents constitute the legal, valid and binding agreements of the Borrower, enforceable against the Borrower in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general applicability relating to or affecting creditors' rights generally, and (b) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law.

(3) Neither the execution nor the delivery by the Borrower of any of the Bond Documents nor the consummation by the Borrower of any of the transactions contemplated therein, including, without limitation, the pledge of the Pledged Securities (as such term is defined in the Pledge Agreement) to RUS if required, nor the fulfillment by the Borrower of the terms of any of the Bond Documents will conflict with or violate, result in a breach of or constitute a default under any term or provision of the Articles of Incorporation or By-laws of the Borrower or any law or any regulation or any order known to Counsel currently applicable to the Borrower of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Borrower or the terms of any indenture, deed of trust, note, note agreement or instrument to which the Borrower is a party or by which the Borrower or any of its properties is bound.

(4) No approval, authorization, consent, order, registration, filing, qualification, license or permit of or with any state or Federal court or governmental agency or body including, without limitation, RUS, having jurisdiction over the Borrower is required for any consummation by the Borrower of the transactions contemplated by the Bond Documents except such as have been obtained from RUS; provided, however, no opinion is expressed as to the applicability of any Federal or state securities law to any sale, transfer or other disposition of the Guaranteed Bond after the date hereof.

(5) There is no pending or, to the best of Counsel's knowledge, threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator with respect to the Borrower, or any of the Bond Documents, or which, if adversely determined, would have a material adverse effect on the Borrower's financial condition or its ability to perform its obligations under any of the Bond Documents, except as previously disclosed.

Officers' Closing Certificate

Governor and
Chief Executive Officer

ANNEX G

Officers' Advance Certificate

TO: The United States of America acting through the Rural Utilities Service.

We, [], Governor and Chief Executive Officer, and [], of National Rural Utilities Cooperative Finance Corporation (the "Borrower"), pursuant to the Second Amended, Restated and Consolidated Bond Guarantee Agreement dated as of March 29, 2016, between the Borrower and the United States of America acting through Rural Utilities Service (the "Bond Guarantee Agreement"), hereby certify on behalf of the Borrower that:

(1) (i) as at the last day of the most recent month ended more than 10 business days before the date hereof, the total aggregate principal amount of outstanding Eligible Loans is: \$;

(ii) as at the last day of the most recent month ended more than 10 business days before the date hereof, the total aggregate principal amount of outstanding Loans is: \$;

(iii) the percentage the amount under (i) comprises of the amount under (ii) is: %;

(2) (i) Of the total aggregate principal amount of outstanding Eligible Loans under (1) (i), the amount associated with refinancing RUS Debt is: \$;

(ii) Of the total aggregate principal amount of outstanding Eligible Loans under (1) (i), the amount associated with debt of Members for whom both RUS and the Borrower have outstanding loans is: \$;

(iii) Of the total aggregate principal amount of outstanding Eligible Loans under (1) (i), the amount associated with debt of Members for whom both RUS and the Borrower have outstanding concurrent loans pursuant to Section 307 of the RE Act is: \$; and

(iv) The sum of the amount of Eligible Loans in (2)(i), (2)(ii), and (2)(iii) of \$ _____ exceeds the amount of Bonds outstanding of \$ _____ as of this date.

(3) the Advance will be applied to: (i) fund new Eligible Loans under the RE Act; or (ii) to refinance existing debt instruments of the Borrower, in the case of each such debt instrument up to the percentage set forth in clause (1)(iii) above;

(4) as at the date hereof, no material adverse change has occurred in the financial condition of the Borrower between the Closing Date and the applicable Requested Advance Date; and

(5) as at the date hereof, all of the representations contained in Section 8.2 of the Bond Guarantee Agreement remain true and correct in all respects.

Capitalized terms used in this certificate shall have the meanings given to those terms in the Bond Guarantee Agreement.

DATED as of this 29th day of March, 2016.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE
CORPORATION

Governor and
Chief Executive Officer

ANNEX H

Auditors' Letter

To the Board of Directors of
National Rural Utilities Cooperative Finance Corporation
Dulles, Virginia

We have performed the procedures enumerated below, which were agreed to by National Rural Utilities Cooperative Finance Corporation (the "Company") and the Rural Utilities Service (the "RUS"), solely to assist in evaluating the Company's compliance with Section 6.1(b) of the Second Amended, Restated and Consolidated Bond Guarantee Agreement between the Company and the United States of America, acting through the RUS, dated March 29, 2016 (the "Bond Guarantee Agreement"), as of [last day of preceding fiscal year]. The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. We obtained the attached schedule of the total aggregate unpaid principal amount of the securities identified by the Company as comprising the Pledged Securities, as defined in the Bond Guarantee Agreement, as of [last day of preceding fiscal year] from Company management and compared the total aggregate unpaid principal amount shown on such schedule (\$ _____) to the Company's underlying accounting records as of the same date and found them to be in agreement.
2. We obtained the attached schedule of the total aggregate amount of all amounts outstanding under the Guaranteed Bonds, as defined in the Bond Guarantee Agreement, as of [last day of preceding fiscal year] from Company management and compared the amount shown on such schedule (\$ _____) to the Company's underlying accounting records as of the same date and found them to be in agreement.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Company and the RUS and is not intended to be and should not be used by anyone other than these specified parties.

July , 20

Yours truly,

KPMG LLP

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

Computation of Ratio of Earnings to Fixed Charges

(Dollars in thousands)	Nine Months Ended	Years Ended May 31,				
	February 29, 2016	2015	2014	2013	2012	2011
Earnings:						
Net income (loss)	\$ (155,775)	\$ (18,927)	\$ 192,926	\$ 358,087	\$ (148,797)	\$ 151,215
Add: Fixed charges	504,013	635,684	654,655	692,025	761,849	841,288
Less: Interest capitalized ⁽¹⁾ ...	—	—	—	—	(71)	(208)
Income available for fixed charges	<u>\$ 348,238</u>	<u>\$ 616,757</u>	<u>\$ 847,581</u>	<u>\$ 1,050,112</u>	<u>\$ 612,981</u>	<u>\$ 992,295</u>
Fixed charges:						
Interest on all borrowings ⁽²⁾ .	\$ 504,013	\$ 635,684	\$ 654,655	\$ 692,025	\$ 761,778	\$ 841,080
Interest capitalized	—	—	—	—	71	208
Total fixed charges	<u>\$ 504,013</u>	<u>\$ 635,684</u>	<u>\$ 654,655</u>	<u>\$ 692,025</u>	<u>\$ 761,849</u>	<u>\$ 841,288</u>
Ratio of earnings to fixed charges	<u>0.69</u>	<u>0.97</u>	<u>1.29</u>	<u>1.52</u>	<u>0.80</u>	<u>1.18</u>

⁽¹⁾Interest capitalized consists of interest paid in connection with financing the construction of our new headquarters building during the construction period.

⁽²⁾Interest expense includes the amortization of discounts and issuance costs.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

I, Sheldon C. Petersen, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 4, 2016

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen

Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

I, J. Andrew Don, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 4, 2016

By: /s/ J. ANDREW DON

J. Andrew Don

Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Executive Officer of National Rural Utilities Cooperative Finance Corporation ("CFC"), hereby certify to the best of my knowledge as follows:

1. CFC's Quarterly Report on Form 10-Q for the quarterly period ended February 29, 2016 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: April 4, 2016

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

National Rural Utilities Cooperative Finance Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Financial Officer of National Rural Utilities Cooperative Finance Corporation ("CFC"), hereby certify to the best of my knowledge as follows:

1. CFC's Quarterly Report on Form 10-Q for the quarterly period ended February 29, 2016 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: April 4, 2016

By: /s/ J. ANDREW DON

J. Andrew Don

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.