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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2015

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	52-0891669
(State or other jurisdiction of incorporation or organization)	(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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
7.20% Collateral Trust Bonds, due 2015	New York Stock Exchange
6.55% Collateral Trust Bonds, due 2018	New York Stock Exchange
7.35% Collateral Trust Bonds, due 2026	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x 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 x

The Registrant does not issue capital stock because it is a tax-exempt cooperative.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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,” “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 CFC or its members and the factors listed and described under “Item 1A. Risk Factors” of this Report. 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.

PART I

Item 1. Business

OVERVIEW

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 under Section 501(c)(4) of the Internal Revenue Code. 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. As described below under “Allocation and Retirement of Patronage Capital,” CFC annually allocates its net earnings, which consist of net income excluding the effect of certain non cash accounting entries, to (i) a cooperative educational fund; (ii) a general reserve, if necessary; (iii) members based on each member’s patronage of CFC’s loan programs during the year; and (iv) a members’ capital reserve. As a member-owned cooperative, CFC has no publicly held equity securities outstanding. CFC funds its activities primarily through a combination of publicly and privately held debt securities and member investments.

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 resulting from defaulted loans or bankruptcy. 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.

RTFC is a taxable Subchapter T cooperative association originally incorporated in South Dakota in 1987 and reincorporated as a member-owned cooperative association in the District of Columbia in 2005. RTFC’s principal purpose is to provide financing for its rural telecommunications members and their affiliates. RTFC’s membership consists of a combination of not-for-profit entities and for-profit entities. 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. Under a guarantee agreement, RTFC pays CFC a fee and, in exchange, CFC reimburses

RTFC for loan losses. As permitted under Subchapter T of the Internal Revenue Code, RTFC pays income tax based on its net income, excluding patronage-sourced earnings allocated to its patrons. RTFC is headquartered with CFC in Dulles, Virginia.

NCSC is a taxable cooperative incorporated in 1981 in the District of Columbia as a member-owned cooperative association. The principal purpose of NCSC is to provide financing to its members, entities eligible to be members of CFC and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefit to Class A, B and C members of CFC. See "Members" below for a description of our member classes. NCSC's membership consisted primarily of distribution systems, power supply systems and statewide and regional associations that were members of CFC as of May 31, 2015. CFC, which is the primary source of funding for NCSC, manages NCSC's business operations under a management agreement that is automatically renewable on an annual basis unless terminated by either party. NCSC pays CFC a fee and, in exchange, CFC reimburses NCSC for loan losses under a guarantee agreement. As a taxable cooperative, NCSC pays income tax based on its reported taxable income and deductions. NCSC is headquartered with CFC in Dulles, Virginia.

CFC controlled and held foreclosed assets in two entities, Caribbean Asset Holdings, LLC ("CAH") and Denton Realty Partners, LP ("DRP"), during the year ended May 31, 2015 ("fiscal year 2015"). CAH 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. DRP held a land development loan and limited partnership interests in certain receivables related to a real estate development. DRP was dissolved during the fourth quarter of fiscal year 2015, subsequent to the sale of the remainder of its assets.

Our principal operations are currently organized for management reporting purposes into three business segments: CFC, RTFC and NCSC. We provide information on the financial performance of our business segments in "Note 15—Segment Information."

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, are available for free at www.nrucfc.coop as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"). These reports also are available for free on the SEC's website at www.sec.gov. Information posted on our website is not incorporated by reference into this Form 10-K.

OUR BUSINESS

Our business strategy and policies are set by our board of directors and may be amended or revised from time to time by the board of directors. We are a not-for-profit tax-exempt cooperative finance organization, whose primary focus is to provide our members with the credit products they need to fund their operations. As such, our business focuses on lending to electric systems and securing access to capital through diverse funding sources at rates that allow us to offer competitively priced credit products to our members.

Focus on Electric Lending

CFC focuses on lending to electric utility cooperatives. Most of our electric cooperative borrowers continue to demonstrate stable operating performance and strong financial ratios because the majority of electric cooperatives' customers are residential, for whom electricity is an essential service. Our electric cooperative members experience limited competition as they generally operate in exclusive territories, the majority of which are not rate regulated. Loans to electric utility organizations represented approximately 98% of the outstanding loan portfolio as of May 31, 2015. Over the last five years, outstanding loans to electric utility organizations have increased by approximately

19%.

Maintain Diversified Funding Sources

We strive to maintain diversified funding sources by issuing collateral trust bonds and medium-term notes in the capital markets and offering investments in commercial paper to both members and non members. Additionally, to help meet our financing needs, we obtain financing through funding programs such as the Guaranteed Underwriter Program of the United

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States Department of Agriculture ("USDA"), as well as note purchase agreements with the Federal Agricultural Mortgage Corporation ("Farmer Mac"). CFC also offers various long- and short-term unsecured debt securities to its members and affiliates, including subordinated certificates, commercial paper, select notes, daily liquidity fund notes and medium-term notes. We provide additional information on our funding sources in "Item 7. Management's Discussion and Analysis ("MD&A")—Consolidated Balance Sheet Analysis," "Item 7. MD&A—Liquidity Risk," "Note 5—Short-Term Debt and Credit Arrangements" and "Note 6—Long-Term Debt."

LOAN PROGRAMS

CFC lends to its members and associates. RTFC lends to its members, organizations affiliated with its members and associates. NCSC lends to its members and associates. Loans to NCSC associates may require a guarantee of repayment to NCSC from the CFC member cooperative with which it is affiliated. CFC, RTFC and NCSC loans generally contain provisions that trigger an event of default if there is any material adverse change in the business or condition, financial or otherwise, of the borrower.

CFC Loan Programs

Long-Term Loans

CFC's long-term loans generally have the following characteristics:

- terms of up to 35 years on a senior secured basis;
- amortizing or bullet maturity loans with serial payment structures;
- the property, plant and equipment financed by and securing the long-term loan has a useful life equal to or in excess of the loan maturity;
- flexibility for the borrower to select a fixed interest rate for periods of one to 35 years or a variable rate; and
- the ability for the borrower to select various tranches with either a fixed or variable interest rate for each tranche.

Most borrowers have the option of selecting a fixed or variable interest rate at the time of each advance on long-term loan facilities. When selecting a fixed rate, the borrower has the option to choose a fixed rate for a term of one year through the final maturity of the loan. When the selected fixed interest rate term expires, the borrower may select another fixed rate for a term of one year through the loan maturity or the current variable rate. Long-term fixed rates are set daily for new loan advances and loans that reprice. The fixed rate on each loan is determined on the day the loan is advanced or repriced based on the term selected. The long-term variable rate is set on the first day of each month.

To be in compliance with the covenants in the loan agreement and eligible for loan advances, distribution systems generally must maintain an average modified debt service coverage ratio, as defined in the loan agreement, of 1.35 or greater. CFC may make long-term loans to distribution systems, on a case-by-case basis, that do not meet these general criteria. Power supply systems generally are required either (i) to maintain an average modified debt service coverage ratio, as defined in the loan agreement, of 1.00 or greater or (ii) to establish and collect rates and other revenue in an amount to yield margins for interest, as defined in an indenture, in each fiscal year sufficient to equal at least 1.00 or (iii) both. CFC may make long-term loans to power supply systems, on a case-by-case basis, that may include other requirements, such as maintenance of a minimum equity level.

Line of Credit Loans

Line of credit loans are generally unsecured. Line of credit loans are designed primarily to assist borrowers with liquidity and cash management and are generally advanced at variable interest rates. Line of credit loans are typically revolving facilities and generally require the borrower to pay off the principal balance for at least five consecutive business days at least once during each 12-month period. Line of credit loans also are made available as interim financing when a member either receives Rural Utilities Service (“RUS”) approval to obtain a loan and is awaiting its initial advance of funds or submits a loan application that is pending approval from RUS (sometimes referred to as “bridge loans”). These bridge loans are not required to be paid down for five consecutive business days. Unlike other line of credit loans, RUS loan advances, when received, must be used to repay these interim facilities.

Syndicated Line of Credit Loans

A syndicated line of credit loan is typically a large financing offered by a group of lenders that work together to provide funds for a single borrower. Syndicated loans are generally unsecured, floating-rate loans that can be provided on a revolving or term basis for tenors that range from several months to five years. Syndicated financing is arranged for borrowers on a case-by-case basis. CFC may act as lead lender, arranger and administrative agent for the syndicated facilities. CFC uses its best efforts to syndicate the loan requirements of certain borrowers. The success of such efforts depends on the financial position and credit quality of the borrower as well as market conditions.

RTFC Loan Programs

Loans to rural local exchange carriers or holding companies of rural local exchange carriers represented 94% and 93% of RTFC’s total outstanding loans as of May 31, 2015 and 2014, respectively. Most of these rural telecommunications companies have diversified their operations and also provide broadband services.

Long-Term Loans

RTFC makes long-term loans to rural telecommunications companies for debt refinancing, construction or upgrades of infrastructure, acquisitions and other corporate purposes.

RTFC’s long-term loans generally have the following characteristics:

- terms not exceeding 10 years on a senior secured basis;
- the property, plant and equipment financed by and securing the long-term loan has a useful life equal to or in excess of the loan maturity;
- flexibility for the borrower to select a fixed interest rate for periods from one year to the final loan maturity or a variable interest rate; and
- the ability for the borrower to select various tranches with either a fixed or variable interest rate for each tranche.

For most loans, when a selected fixed interest rate term expires, the borrower may select another fixed-rate term or a variable rate. The fixed rate on a loan is determined on the day the loan is advanced or converted to a fixed rate based on the term selected. The long-term variable rate is set on the first day of each month.

To borrow from RTFC, a rural telecommunication system generally must be able to demonstrate the ability to achieve and maintain an annual debt service coverage ratio of 1.25. RTFC may make long-term loans to rural telecommunication systems, on a case-by-case basis, that do not meet these general criteria.

Line of Credit Loans

Line of credit loans are generally unsecured. Line of credit loans are designed primarily to assist borrowers with liquidity and cash management and are generally advanced at variable interest rates. Line of credit loans are typically revolving facilities and generally require the borrower to pay off the principal balance for at least five consecutive business days at least once during each 12-month period. Line of credit loans also are made available as interim financing, or bridge loans, when a borrower either receives RUS approval to obtain a loan and is awaiting its initial advance of funds or submits a loan application that is pending approval from RUS. RUS loan advances, when received, must be used to repay these interim facilities.

NCSC Loan Programs

Long-Term Loans

NCSC’s long-term loans generally have the following characteristics:

- terms of up to 35 years on a senior secured or unsecured basis;
- amortizing or bullet maturity loans with serial payment structures;

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- the property, plant and equipment financed by and securing the long-term loan has a useful life equal to or in excess of the loan maturity;
- flexibility for the borrower to select a fixed interest rate for periods of one to 35 years or a variable rate; and
- the ability for the borrower to select various tranches with either a fixed or variable interest rate for each tranche.

NCSC allows most borrowers to select a fixed interest rate or a variable interest rate at the time of each advance on long-term loan facilities. When selecting a fixed rate, the borrower has the option to choose a fixed rate for a term of one year through the final maturity of the loan. When the selected fixed interest rate term expires, the borrower may select another fixed rate for a term of one year through the loan maturity or the current variable rate. NCSC sets long-term fixed rates daily for new loan advances and loans that reprice. The fixed rate on a loan is determined on the day the loan is advanced or repriced based on the term selected. The long-term variable rate is set on the first day of each month.

Line of Credit Loans

Line of credit loans, which are generally unsecured revolving facilities, are designed primarily to assist borrowers with liquidity and cash management and are generally advanced at variable interest rates.

Loan Features and Options

Interest Rates

As a member-owned cooperative finance organization, we are a cost-based lender. Our interest rates are set primarily based on our cost of funding, general and administrative expenses, loan loss provision and to provide a reasonable level of earnings. Various standardized discounts may reduce the stated interest rates for Class A and Class B borrowers meeting certain criteria related to performance, volume, collateral and equity requirements.

Conversion Option

Generally, a borrower may convert a long-term loan from a variable interest rate to a fixed interest rate at any time without a fee and convert a long-term loan from a fixed rate to another fixed rate or to a variable rate at any time upon payment of a conversion fee, if applicable, based on current loan policies.

Prepayment Option

Generally, borrowers may prepay long-term fixed-rate loans at any time, subject to payment of an administrative fee and a make-whole premium and prepay long-term variable-rate loans at any time, subject to payment of an administrative fee. Line of credit loans may be prepaid at any time without a fee, unless the interest rate on the loan is fixed or based on a LIBOR index.

Loan Security

Long-term loans are typically senior secured on parity with other secured lenders (primarily RUS), if any, by all assets and revenue of the borrower, subject to standard liens typical in utility mortgages such as those related to taxes, worker's compensation awards, mechanics' and similar liens, rights-of-way and governmental rights. We are able to obtain liens on parity with liens for the benefit of RUS because RUS' form of mortgage expressly provides for other lenders such as CFC to have a parity lien position if the borrower satisfies certain conditions or obtains a written lien accommodation from RUS. When we make loans to borrowers that have existing loans from RUS, we generally require those borrowers to either obtain such a lien accommodation or satisfy the conditions necessary for our loan to be secured on parity under the mortgage with the loan from RUS.

As noted above, our line of credit loans are generally unsecured.

GUARANTEE PROGRAMS

When we guarantee debt obligations for our members, we use the same credit policies and monitoring procedures for guarantees as for loans and commitments. If a member system defaults in its obligation to pay debt service, then we are obligated to pay any required amounts under 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 system. In general, the member system is required to repay any amount advanced by us with interest pursuant to the documents evidencing the member system's reimbursement obligation. We have no significant guarantee concentrations in any one state or territory.

Guarantees of Long-Term Tax-Exempt Bonds

We guarantee debt issued for our members' construction or acquisition of pollution control, solid waste disposal, industrial development and electric distribution facilities. Governmental authorities issue such debt on a non-recourse basis and the interest thereon is exempt from federal taxation. The proceeds of the offering are made available to the member system, which in turn is obligated to pay the governmental authority amounts sufficient to service the debt. The debt we guarantee may include short- and long-term obligations.

If a system defaults for failure to make the debt payments, we are obligated to pay, after available debt service reserve funds have been exhausted, scheduled debt service under our guarantee. Such payment will prevent the occurrence of an event of default that would otherwise permit acceleration of the bond issue. The system is required to repay any amount that we advance pursuant to our guarantee plus interest on that advance. This repayment obligation, together with the interest thereon, is typically senior secured on parity with other lenders (including, in most cases, RUS), by a lien on substantially all of the system's assets. If the security instrument is a common mortgage with RUS, then in general, we may not exercise remedies for up to two years following default. However, if the debt is accelerated under the common mortgage because of a determination that the related interest is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan. The system is required to pay us initial and/or ongoing guarantee fees in connection with these transactions.

Certain guaranteed long-term debt bears interest at variable rates that are adjusted at intervals of one to 270 days including weekly, every five weeks or semi-annually to a level favorable to their resale or auction at par. If funding sources are available, the member that issued the debt may choose a fixed interest rate on the debt. When the variable rate is reset, holders of variable-rate debt have the right to tender the debt for purchase at par. In some transactions, we have committed to purchase this debt as liquidity provider if it cannot otherwise be re-marketed. If we hold the securities, the cooperative pays interest to us at our short-term variable interest rate. The system is required to pay us standby liquidity fees in connection with these transactions.

Letters of Credit

In exchange for a fee, we issue irrevocable letters of credit to support members' obligations to energy marketers, other third parties and to the USDA Rural Business and Cooperative Development Service. Each letter of credit is supported by a reimbursement agreement with the member on whose behalf the letter of credit was issued. In the event a beneficiary draws on a letter of credit, the agreement generally requires the member to reimburse us within one year from the date of the draw, with interest accruing from that date at our line of credit variable interest rate.

Other Guarantees

We may provide other guarantees as requested by our members. These guarantees may be made on a secured or unsecured basis with guarantee fees set to cover our general and administrative expenses, a provision for losses and a reasonable margin.

INVESTMENT POLICY

We invest funds in accordance with policies adopted by our board of directors. Under our current investment policy, funds may be invested in direct obligations of, or guaranteed by, the United States or agencies thereof and investments in government-sponsored enterprises. Our policy also permits us to invest in certain financial institutions in the form of overnight investment products and Eurodollar deposits, bankers' acceptances, certificates of deposit, working capital acceptances or other deposits. Other permitted investments include highly rated obligations, such as commercial paper, certain obligations of foreign governments and certain corporate bonds. In addition, we may invest in repurchase agreements secured by direct obligations of the United States or its agencies and highly rated commercial paper that is set aside in a segregated account. All of these investments are subject to certain limitations set forth in our investment policy.

INDUSTRY

Rural Electric Industry

Overview

Since the enactment of the Rural Electrification Act in 1936, RUS has financed the construction of electric generating plants, transmission facilities and distribution systems to provide electricity to rural areas. Principally through the creation of local electric cooperatives originally financed under the Rural Electrification Act loan program in 47 states and three U.S. territories, the percentage of farms and residences in rural areas of the United States receiving central station electric service increased from 11% in 1934 to almost 100% currently.

RUS makes insured loans and loan guarantees and provides other forms of financial assistance to rural electric system borrowers. RUS is authorized to make direct loans to systems that qualify for the hardship program (5% interest rate), the municipal rate program (based on a municipal government obligation index) and a treasury rate program (at treasury plus 1/8%). RUS also is authorized to guarantee loans that bear interest at a rate agreed upon by the borrower and the lender (which generally has been the Federal Financing Bank ("FFB")). RUS exercises oversight over borrowers' operations. Its loans and guarantees are secured by a mortgage or indenture on substantially all of the system's assets and revenue.

Leading up to CFC's formation in 1969, there was a growing need for capital for electric cooperatives to build new electric facilities due to growth in rural America. The electric cooperatives formed CFC so a source of financing would be available to them to supplement the RUS loan programs and to mitigate uncertainty related to government funding.

CFC aggregates the combined strength of its rural electric member cooperatives to access the public capital markets. CFC works cooperatively with RUS; however, CFC is not a federal agency or a government-sponsored enterprise, and is not owned or controlled by any federal agency or government-sponsored enterprise. Our members are not required to have outstanding loans from RUS as a condition of borrowing from CFC. CFC meets the financial needs of its rural members by:

- providing bridge loans required by borrowers in anticipation of receiving RUS funding;
- providing financial products not otherwise available from RUS including lines of credit, letters of credit, guarantees on tax-exempt financing, weather-related disaster recovery lines of credit, unsecured loans and investment products such as commercial paper, member capital securities, select notes and medium-term notes;
- meeting the financing needs of those rural electric systems that repay or prepay their RUS loans and replace the government loans with private capital; and

- providing financing to RUS-eligible rural electric systems for facilities that are not eligible for financing from RUS.

Electric Member Competition

The movement toward electric competition at the retail level has largely ceased. The electric utility industry has evolved into a "hybrid" model in which there are significant differences in the retail regulatory approaches followed in different states and regions.

Customer choice regulation, where customers have a choice of alternative energy suppliers, has had little impact on distribution and power supply cooperatives, and we do not expect a material impact going forward. Retail customer choice existed in 14 states as of May 31, 2015. Those states were Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and Texas. In general, even in those states, very few consumers served by CFC members have switched to other suppliers.

Many factors restrict the choices customers have available to them and, therefore, mitigate the effect of customer choice and competition in areas served by cooperatives. These factors include, but are not limited to, the following:

- utilities in many states may still be regulated regarding rates on non competitive services, such as distribution;
- 20 states regulate the debt securities issued by utilities, including cooperatives, which could affect funding costs and, therefore, the electric rates charged to customers;
- Federal Energy Regulatory Commission regulation of rates as well as terms and conditions of transmission service;
- the fact that few competitors demonstrated much interest in providing electric energy to residential or rural customers; and
- distribution systems own the lines to the customer and it would not be feasible for a competitor to build a second line to serve the same customers in almost all situations. Therefore, the distribution systems still charge a fee or access tariff for the service of delivering power, regardless of who supplies the power.

Electric Member Regulation

There were 25 states in which some or all electric cooperatives are subject to state regulation over the rates they charge as of May 31, 2015. In 14 of the 25 states, all electric cooperatives are subject to full or partial state regulation over their electric rates, and the cooperatives in these states do not have a right to opt out of regulation. Those states are Arizona, Arkansas, Georgia, Hawaii, Kentucky, Louisiana, Maine, Maryland, New Mexico, New York, Utah, Vermont, Virginia and West Virginia. The Federal Energy Regulatory Commission also has jurisdiction to regulate transmission rates, wholesale rates, terms and conditions of service, and the issuance of securities by public utilities within its jurisdiction, which includes only a few cooperatives.

Our distribution and power supply members are subject to regulation by various federal, regional, state and local authorities with respect to the environmental effects of their operations. At the federal level, the U.S. Environmental Protection Agency (“EPA”) has proposed a number of rulemakings, including cooling water intake structures, coal ash disposal, hazardous air pollutants and interstate transport of air pollutants, that could force the electric utility industry to incur capital costs to comply with these regulations and possibly retire coal-fired generating capacity. On August 3, 2015, the U.S. Environmental Protection Agency (EPA) issued its final Clean Power Plan Rule for regulating greenhouse gas emissions from existing fossil fuel-fired power plants. The regulation, falling under Section 111(d) of the federal Clean Air Act, is designed to cut carbon emissions (from 2005 levels) from affected facilities by 32% by 2030. The regulation has the potential to raise the cost of electricity from fossil fuel generation and accelerate the retirement of some existing plants. We believe the Clean Power Plan Rule will be litigated. Its financial impact on our members will depend on the judicial review process and changes in the political landscape. In most cases, any associated costs of compliance can be passed on to cooperative consumers without additional regulatory approval.

Rural Telecommunications Industry

Overview

Telecommunications systems include not-for-profit cooperative organizations and for-profit commercial organizations that primarily provide local exchange and access telecommunications services to rural areas.

Independent rural telecommunications companies provide service throughout many of the rural areas of the United States. These approximately 1,300 companies are called independent because they are not affiliated with the former Regional Bell Operating Companies, mainly, Verizon, AT&T and CenturyLink. Included in the 1,300 total are approximately 260 not-for-profit cooperatives. A majority of the remainder of these independent rural telecommunications companies are privately held commercial companies. Less than 15 of these commercial companies are publicly traded or have issued bonds in the capital markets.

Most rural telecommunications companies' networks incorporate digital switching, fiber optics, Internet protocol telephony and other advanced technologies that support the provision of voice, data and video services.

Telecommunications Competition

The Telecommunications Act of 1996 (the "Telecom Act") created a framework for competition and deregulation in the local wireline telecommunications market. For the most part, local exchange competition has benefited rural local exchange carriers by enabling them to enter nearby towns and cities as competitive local exchange carriers, leveraging their existing infrastructure and reputation for providing high-quality, modern telecommunications service. Rural local exchange carriers enjoy an exemption from the Telecom Act requirement to provide competitors with access to their networks, absent a determination that it would be in the public interest to do so. Relatively few rural local exchange carriers have competitive local exchange carriers request access to their networks. The expansion of wireless telephone service has contributed to the decrease in wireline telephone subscribers as numerous residential customers elect to rely solely on a mobile device. Competition within the wireless market is robust as intended by the Federal Communications Commission ("FCC") by licensing multiple providers in each market.

Telecommunications Regulation

Rural local exchange carriers generally are regulated at the state and federal levels. Most state commissions regulate local service rates and intrastate access rates, and some regulate borrowing and service quality. The FCC regulates interstate access rates and provides authority for certain types of telecom operations.

The FCC regulates wireline telephony under Title II of the Telecom Act. Video, wireless and competitive local exchange services are less regulated. Most rural local exchange carriers have expanded their service offerings to customers in less regulated business segments. With few competitors in the most rural parts of their service areas, rural local exchange carriers generally have been successful in these growth and diversification efforts.

On October 27, 2011, the FCC adopted an order to reform the Universal Service Fund ("USF") and intercarrier compensation systems. This comprehensive plan was intended to restructure the USF to support broadband deployment to unserved parts of the country going forward and revamp the rates carriers pay each other to connect local toll and long distance toll calls. The FCC plans to transform the USF, in stages, over a multi year period, from a mechanism to support voice telephone service to one that supports the deployment of both fixed and mobile broadband. The existing USF is to be phased out and replaced with a new Connect America Fund with a firm budget of no more than $4,500 million per year through 2017. The Connect America Fund includes the targeted Mobility Fund to support the deployment of wireless broadband networks to unserved areas and the Remote Areas Fund, to ensure affordable access to broadband networks for the most remote areas in the nation. In regard to intercarrier compensation systems, the FCC's 2011 USF order included immediate reforms aimed at curbing arbitrage schemes, phantom traffic and other such schemes as well as a multi year "glide path" toward comprehensive reform of the intercarrier compensation systems payment framework. The ultimate goal is bill-and-keep, a system where carriers look first to their subscribers to cover the costs of the networks, then to explicit universal service support where necessary.

In pursuit of its net neutrality policy, in March 2015 the FCC adopted revised "open Internet" rules that reclassified broadband Internet access as a Title II service. The open Internet rules ban blocking, throttling, and paid prioritization, and expanded existing service transparency requirements.

LENDING COMPETITION

Electric Lending

RUS is the largest lender to electric cooperatives. RUS provides long-term secured loans. CFC provides financial products and services, primarily in the form of long-term and short-term loans, to its electric cooperative members to supplement RUS financing, to provide loans to members that have elected not to borrow from RUS, and to bridge long-term financing provided by RUS.

CFC’s primary competitor is CoBank, ACB, a federally chartered instrumentality of the United States that is a member of the Farm Credit System. CFC also competes with banks, other financial institutions and the capital markets to provide loans and other financial products to our members. As a result, we are competing with the customer service, pricing and funding options the member is able to obtain from these sources. We attempt to minimize the effect of competition by offering a variety of loan options and value-added services and by leveraging the working relationships developed with the majority of our members. Further, on an annual basis, we allocate substantially all net earnings to members (i) through the members' capital reserve and (ii) in the form of patronage capital, which reduces our members' effective cost of borrowing. The value-added services that we provide include, but are not limited to, benchmarking tools, financial models, and various conferences, meetings and training workshops.

In order to meet other financing needs of our members, we offer options including credit support in the form of letters of credit and guarantees, loan syndications and loan participations. Our credit products are tailored to meet the specific needs of each cooperative and we often offer specific transaction structures that our competitors do not or are unable to provide. CFC also offers certain risk mitigation products and interest rate discounts on secured, long-term loans for its members that meet certain criteria, including performance, volume, collateral and equity requirements.

CFC has established certain funds to benefit its members. Since 1981, CFC has set aside a portion of its annual net earnings in a cooperative educational fund to promote awareness and appreciation of the cooperative principles. As directed by the CFC Board of Directors, a portion of the contributions to the funds are distributed through the electric cooperative statewide associations. Since 1986, CFC has supported its members' efforts to protect their service territories from erosion or takeover by other utilities through assistance from the Cooperative System Integrity Fund. This program is funded through voluntary contributions from members, and amounts are distributed to applicants who establish that (i) all or a significant portion of their consumers, services or facilities face a hostile threat of acquisition or annexation by a competing entity, (ii) that it faces a significant threat in its ability to continue to provide non-electric energy services to customers or (iii) it is facing regulatory, judicial or legislative challenges that threaten its existence under the cooperative business model.

Our rural electric borrowers are mostly private companies; thus, the overall size of the rural electric lending market cannot be determined from public information. We estimate the size of the overall rural electric lending market from the annual financial and statistical reports filed with us by our members using calendar year data; however, there are certain limitations with regard to these estimates, including the following:

- while the underlying data included in the financial and statistical reports may be audited, the preparation of the financial and statistical reports is not audited;
- in some cases, not all members provide the annual financial and statistical reports on a timely basis to be included in summarized results; and
- the financial and statistical reports do not include comprehensive data on indebtedness by lenders other than RUS.

According to financial data provided to us by our 808 reporting distribution systems and 58 reporting power supply systems as of December 31, 2014, and our 810 reporting electric cooperative distribution systems and 58 reporting power supply systems as of December 31, 2013, long-term debt outstanding to CFC, RUS and other lenders in the electric cooperative industry by those entities was as follows as of December 31, 2014 and 2013:

	December 31,			
(Dollars in thousands)	2014	% of Total	2013	% of Total
Total long-term debt reported by members:				
Distribution	$44,399,581		$43,556,428	
Power supply	45,264,091		44,323,068	
Less: long-term debt funded by RUS	(42,749,636)		(42,485,241)	
Members' non-RUS long-term debt	$46,914,036		$45,394,255	
Funding source of member's long-term debt:				

Long-term debt funded by CFC	$19,110,899	41 %	$18,463,481	41 %
Long-term debt funded by other lenders	27,803,137	59	26,930,774	59
Members' non-RUS long-term debt	$46,914,036	100 %	$45,394,255	100 %

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Members' long-term debt funded by CFC, by type, as of December 31, 2014 and 2013 is summarized further below.

	December 31,					
(Dollars in thousands)	2014	% of Total		2013	% of Total	
Distribution	$15,055,933	79	%	$14,641,426	79	%
Power supply	4,054,966	21		3,822,055	21	
Long-term debt funded by CFC	$19,110,899	100	%	$18,463,481	100	%

We are not able to specifically identify the amount of debt our members have outstanding to CoBank, ACB, from either the annual financial and statistical reports our members file with us or from CoBank, ACB's public disclosure, but we believe that CoBank, ACB, is the lender other than CFC and RUS with significant long-term debt outstanding to the rural electric cooperatives.

Telecommunications Lending

In 1949, the Rural Electrification Act was amended to allow lending for the establishment and improvement of rural telecommunications service. For the federal government's fiscal year ending September 30, 2015, RUS has $690 million in annual lending authority for its Telecommunications Infrastructure Loan program.

RTFC is not in direct competition with RUS, but rather competes with other lenders for supplemental lending and for the full lending requirement of the rural telecommunications companies that decide not to borrow from RUS or for projects not eligible for RUS financing. Given the increased availability of government financing for rural broadband, it is unlikely we will participate in this financing to any significant degree outside of incremental lending to existing rural local exchange carrier borrowers to provide broadband services to their customers or interim financing in connection with the federal funding programs.

RTFC's competition includes commercial banks and CoBank, ACB. The competitive market for providing credit to the rural telecommunications industry is difficult to quantify. Many rural telecommunications companies are not borrowers of RTFC, RUS or CoBank, ACB, and commercial banks generally do not publish information solely on their telecom portfolios.

RUS had approximately $4,387 million in long-term loans outstanding to telecommunications borrowers as of December 31, 2014. In comparison, RTFC had $391 million in long-term loans outstanding to telecommunications borrowers as of December 31, 2014.

REGULATION

CFC, RTFC and NCSC are not subject to federal regulatory oversight or compliance with regard to lending. CFC, RTFC and NCSC are subject to state laws that pertain to the business conducted in each state, including but not limited to lending laws, usury laws and laws governing mortgages.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") imposes requirements on certain entities that use derivatives such as clearing trades through a central organization, posting margin, and recordkeeping.

CFC does not participate in the derivatives markets for speculative, trading or investing purposes and does not make a market in derivatives. CFC is an end user of derivative financial instruments. CFC engages in over-the-counter derivative transactions to hedge the interest rate risks associated with lending to its members.

The Commodities Futures Trade Commission ("CFTC") is the lead federal agency responsible for promulgation of certain rules implementing the Dodd-Frank Act requirements related to the utilization of swaps and derivative products. The CFTC issued a final rule, Clearing Exemption for Certain Swaps Entered into by Cooperatives, in August, 2013 which created an exemption from clearing for cooperatives, including CFC. In addition, legislation passed by Congress, H.R. 26, and signed into law in January 2015 further amended the Dodd-Frank Act by exempting certain entities, including cooperatives such as CFC, from margin requirements for uncleared swaps. The CFTC will need to issue a rule implementing this margining exemption.

The Dodd-Frank Act requires the SEC to promulgate rules related to executive compensation and compensation clawbacks, which may require us to make additional disclosures or alter controls and/or risk management practices. We will continue to monitor and, where appropriate, advocate with respect to the implementation of the Dodd-Frank Act and its impact on us until all final rules become effective.

MEMBERS

Our consolidated membership, after taking into consideration systems that are members of both CFC and NCSC and eliminating memberships between CFC, RTFC and NCSC, totaled 1,462 members and 229 associates as of May 31, 2015.

CFC

CFC's bylaws provide that cooperative or nonprofit corporations, public corporations, utility districts and other public bodies that received or are eligible to receive a loan or commitment for a loan from RUS or any successor agency (as well as subsidiaries, federations or statewide and regional associations that are wholly owned or controlled by such entities) are eligible for membership. One of the criteria for eligibility for RUS financing is a "rural area" test. CFC relies on the definition of "rural" as specified in the Rural Electrification Act, as amended. "Rural" is defined in the Rural Electrification Act as any area other than a city, town or unincorporated area that has a population of less than 20,000, or any area within the service area of a borrower who, at the date of enactment of the Food, Conservation, and Energy Act of 2008, had an outstanding RUS electric loan. The definition of "rural" under the act permits an area to be defined as "rural" regardless of the development of such area subsequent to the approval of the outstanding loan. Thus, those entities that received or qualify for financing from RUS are eligible to apply for membership and subsequently borrow from CFC regardless of whether there is an outstanding loan with RUS. There are no requirements to maintain membership, although the board has the authority to suspend a member under certain circumstances. CFC has not suspended a member to date.

CFC has the following types of members, all of which are not-for-profit entities or subsidiaries or affiliates of not-for-profit entities.

Class A – Distribution Systems

Cooperative or nonprofit corporations, public corporations, utility districts and other public bodies, which received or are eligible to receive a loan or commitment for a loan from RUS or any successor agency, and that are engaged or planning to engage in furnishing utility services to their members and patrons for their use as ultimate consumers. The majority of our distribution system members are consumer-owned electric cooperatives.

Distribution systems are utilities engaged in retail sales of electricity to residential and commercial consumers in their defined service areas. Such sales are generally on an exclusive basis using the distribution system's infrastructure including substations, wires and related support systems. Distribution systems vary in size from small systems that serve a few thousand customers to large systems that serve more than 200,000 customers. Thus, the amount of loan funding required by different distribution systems varies significantly. Distribution systems may serve customers in more than one state.

Most distribution systems have all-requirements power purchase contracts with their power supply systems, which are owned and controlled by the member distribution systems. Wholesale power for resale also comes from other sources, including power supply contracts with government agencies, investor-owned utilities and other entities, and, in some cases, the distribution systems own generating facilities.

Class B – Power Supply Systems

Cooperative or nonprofit corporations that are federations of Class A members or of other Class B members, or both, or that are owned and controlled by Class A members or by other Class B members, or both, and that are engaged or planning to engage in furnishing utility services primarily to Class A members or other Class B members. Our power supply system members are member-owned electric cooperatives.

The power supply systems vary in size from one with hundreds of megawatts of power generation capacity to systems that have no generating capacity, which generally operate transmission lines to supply certain distribution systems or manage power supply purchase arrangements for the benefit of their distribution system members. Certain other power supply systems have been formed but do not yet own generation or transmission facilities or have financing commitments from us. Thus, the amount of loan funding required by different power supply systems varies significantly. Power supply members may serve distribution systems located in more than one state.

The wholesale power supply contracts with their distribution system members permit the power supply system, subject to regulatory approval in certain instances, to establish rates to produce revenue sufficient to cover debt service, to meet the cost of operation and maintenance of all generation, transmission and related facilities and to pay the cost of any power and energy purchased for resale.

Class C – Statewide and Regional Associations

Statewide and regional associations that are wholly owned or controlled by Class A members or Class B members, or both, or that are wholly owned subsidiaries of a CFC member, and that do not furnish utility services but supply other forms of service to their members. Such statewide organizations provide training, and legislative, regulatory, media and related services. Certain states have an organization that represents and serves the distribution systems and power supply systems located in the state.

Class D – National Associations of Cooperatives

National associations of cooperatives that are Class A, Class B and Class C members, provided said national associations have, at the time of admission to membership in CFC, members domiciled in at least 80% of the states in the United States. National Rural Electric Cooperative Association ("NRECA") is our sole Class D member. NRECA provides training, sponsors regional and national meetings, and provides legislative, regulatory, media and related services for nearly all rural electric cooperatives.

CFC Class A, B, C and D members are eligible to vote on matters put to a vote of the membership. Associates are not eligible to vote on matters put to a vote of the membership.

CFC's membership as of May 31, 2015 comprised:

- 839 Class A distribution systems;
- 72 Class B power supply systems;
- 65 Class C statewide and regional associations, including NCSC; and
- 1 Class D national association of cooperatives.

In addition, CFC has associates that are nonprofit groups or entities organized on a cooperative basis that are owned, controlled or operated by Class A, B, C or D members and are engaged in or plan to engage in furnishing non-electric services primarily for the benefit of the ultimate consumers of CFC members. CFC had 48 associates, including RTFC, as of May 31, 2015.

RTFC

Membership in RTFC is limited to cooperative corporations, private corporations, public corporations, nonprofit corporations, utility districts and other public bodies that are approved by the RTFC Board of Directors and are actively borrowing or are eligible to borrow from RUS. These companies must be engaged directly or indirectly in furnishing telephone or telecommunications services. Holding companies, subsidiaries and other organizations that are owned, controlled or operated by members are referred to as affiliates, and are eligible to borrow from RTFC. Associates are organizations that provide non-telecommunications services to rural telecommunications companies that are approved by the RTFC Board of Directors. Neither affiliates nor associates are eligible to vote at meetings of the members.

RTFC's membership comprised 486 members as of May 31, 2015. RTFC also had 5 associates. CFC is not a member of RTFC. RTFC's members and associates comprised 193 not-for-profit entities and 298 for-profit entities as of May 31, 2015.

NCSC

Membership in NCSC includes organizations that are Class A, B or C members of CFC, or eligible for such membership.

NCSC's membership comprised 378 distribution systems, 1 power supply system and 1 statewide association as of May 31, 2015. All of NCSC's members also were CFC members. CFC, however, is not a member of NCSC. In addition to members, NCSC had 177 associates as of May 31, 2015. NCSC's associates may include members of CFC, entities eligible to be members of CFC and for-profit and not-for-profit entities that are owned, controlled or operated by or provide significant benefit to Class A, B and C members of CFC.

The business affairs of CFC, RTFC and NCSC are governed by separate boards of directors for each entity. We provide additional information on CFC's corporate governance in "Item 10. Directors, Executive Officers and Corporate Governance."

TAX STATUS

In 1969, CFC obtained a ruling from the Internal Revenue Service recognizing CFC's exemption from the payment of federal income taxes as an organization described under Section 501(c)(4) of the Internal Revenue Code.

In order for CFC to maintain its exemption under Section 501(c)(4) of the Internal Revenue Code, CFC must be "not organized for profit" and must be "operated exclusively for the promotion of social welfare" within the meaning of that section of the tax code. The Internal Revenue Service determined that CFC is an organization that is "operated exclusively for the promotion of social welfare" because the ultimate beneficiaries of its lending activities, like those of the RUS loan program, are the consumers of electricity produced by rural electric systems, the communities served by these systems and the nation as a whole.

As an organization described under Section 501(c)(4) of the Internal Revenue Code, no part of CFC's net earnings can inure to the benefit of any private shareholder or individual. This requirement is referred to as the private inurement prohibition and was added to Section 501(c)(4) of the Internal Revenue Code in 1996. A legislative exception allows organizations like CFC to continue to make allocations of net earnings to members in accordance with its cooperative status.

CFC believes its operations have not changed materially from those described to the Internal Revenue Service in its exemption filing. CFC reviews the impact on operations of any new activity or potential change in product offerings or business in general to determine whether such change in activity or operations would be inconsistent with its status as an organization described under Section 501(c)(4).

RTFC is a taxable cooperative under Subchapter T of the Internal Revenue Code and is not subject to income taxes on income from patronage sources that is allocated to its borrowers, as long as the allocation is properly noticed and at least 20% of the amount allocated is retired in cash prior to filing the applicable tax return. RTFC pays income tax based on its net income, excluding amounts allocated to its borrowers.

NCSC is a taxable cooperative that pays income tax based on its reported taxable income and deductions.

ALLOCATION AND RETIREMENT OF PATRONAGE CAPITAL

District of Columbia cooperative law requires cooperatives to allocate net earnings to patrons, to a general reserve in an amount sufficient to maintain a balance of at least 50% of paid-up capital, and to a cooperative educational fund, as well as permits additional allocations to board-approved reserves. District of Columbia cooperative law also requires that a cooperative's net earnings be allocated to all patrons in proportion to their individual patronage and each patron's allocation be distributed to the patron unless the patron agrees that the cooperative may retain its share as additional capital.

CFC

Annually, the CFC Board of Directors allocates its net earnings to its patrons in the form of patronage capital, to a cooperative educational fund, to a general reserve, if necessary, and to other board-approved reserves. Net earnings are calculated by adjusting net income to exclude the non-cash effects of the accounting for derivative financial instruments and foreign currency translation. Net losses, if any, do not affect amounts previously allocated as patronage capital or to the reserves. Net earnings will first be used to offset prior-period losses, if any.

An allocation to the general reserve is made, if necessary, to maintain the balance of the general reserve at 50% of the membership fees collected. CFC’s bylaws require the allocation to the cooperative educational fund to be at least 0.25% of its net earnings. Funds from the cooperative educational fund are disbursed annually to statewide cooperative organizations to fund the teaching of cooperative principles and for other cooperative education programs.

Currently, CFC has one additional board-approved reserve, the members’ capital reserve. The CFC Board of Directors determines the amount of net earnings that is allocated to the members’ capital reserve, if any. The members’ capital reserve represents net earnings that CFC holds to increase equity retention. The net earnings held in the members’ capital reserve have not been specifically allocated to members, but may be allocated to individual members in the future as patronage capital if authorized by the CFC Board of Directors.

All remaining net earnings are allocated to CFC’s members in the form of patronage capital. The amount of net earnings allocated to each member is based on the member’s patronage of CFC’s lending programs during the year. No interest is earned by members on allocated patronage capital. There is no effect on CFC’s total equity as a result of allocating net earnings to members in the form of patronage capital or to board-approved reserves. The CFC Board of Directors has voted annually to retire a portion of the patronage capital allocation. Upon retirement, patronage capital is paid out in cash to the members to which it was allocated. CFC’s total equity is reduced by the amount of patronage capital retired to its members and by amounts disbursed from board-approved reserves.

Pursuant to CFC’s bylaws, the CFC Board of Directors determines the method, basis, priority and order of retirement of amounts allocated. The current policy of the CFC Board of Directors is to retire 50% of the prior fiscal year’s allocated net earnings following the end of each fiscal year and to hold the remaining 50% for 25 years to fund operations. The amount and timing of future retirements remains subject to annual approval by the CFC Board of Directors, and may be affected by CFC’s financial condition and other factors. 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.

RTFC

In accordance with District of Columbia cooperative law and its bylaws and board policies, RTFC allocates its net earnings to its patrons, a cooperative educational fund and a general reserve, if necessary. Net losses, if any, do not affect amounts previously allocated as patronage capital or to the reserves.

Pursuant to RTFC’s bylaws, the RTFC Board of Directors shall determine the method, basis, priority and order of retirement of amounts allocated. RTFC’s bylaws require that it allocate at least 1% of net earnings to a cooperative educational fund. Funds from the cooperative educational fund are disbursed annually to fund the teaching of cooperative principles and for other cooperative education programs. An allocation to the general reserve is made, if necessary, to maintain the balance of the general reserve at 50% of the membership fees collected. The remainder is allocated to borrowers in proportion to their patronage. RTFC provides notice to its members of the amount allocated and retires 20% of the allocation for that year in cash prior to the filing of the applicable tax return. Any additional amounts are retired as determined by the RTFC Board of Directors with due regard for RTFC’s financial condition. There is no effect on the balance of equity due to the allocation of net earnings to members or board-approved reserves. The retirement of amounts previously allocated to members or amounts disbursed from board-approved reserves reduces the balance of RTFC equity.

NCSC

In accordance with District of Columbia cooperative law and its bylaws and board policies, NCSC allocates its net earnings to a cooperative educational fund, to a general reserve, if necessary, and to other board-approved reserves. Net earnings are calculated by adjusting net income to exclude the non-cash effects of the accounting for derivative financial instruments. Net losses, if any, do not affect amounts previously allocated to the reserves.

Pursuant to NCSC's bylaws, the NCSC Board of Directors shall determine the method, basis, priority and order of amounts allocated and retired. An allocation to the general reserve is made, if necessary, to maintain the balance of the general reserve at 50% of the membership fees collected. NCSC's bylaws require the allocation to the cooperative educational fund to be at least 0.25% of its net earnings. Funds from the cooperative educational fund are disbursed annually to fund the teaching of cooperative principles and for other cooperative education programs. The NCSC Board of Directors has the authority to determine if and when patronage-sourced net earnings will be retired. There is no effect on the balance of equity due to the allocation of net earnings. The amounts disbursed from board-approved reserves reduce the balance of NCSC equity.

EMPLOYEES

We had 232 employees as of May 31, 2015. We believe that our relations with our employees are good.

Item 1A. Risk Factors

Our financial condition, results of operations and liquidity are subject to various risks and uncertainties inherent in our business. The risks described below are the risks we consider to be material to our business. Other risks may prove to be material or important in the future. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer adversely. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

RISK FACTORS

Our business depends on access to external financing.

We depend on access to the capital markets and other sources of financing, such as our revolving credit agreements, investment from our members, private debt issuances through Farmer Mac and funding from the FFB through the Guaranteed Underwriter Program, to fund new loan advances and refinance our long-term and short-term debt and, if necessary, to fulfill our obligations under our guarantee and repurchase agreements. We cannot assure that we will be able to raise capital in the future at all or on terms that are acceptable to us. Market disruptions, downgrades to our long-term debt and/or short-term debt ratings, adverse changes in our business or performance, downturns in the electric industry and other events over which we have no control may deny or limit our access to the capital markets and/or subject us to higher costs for such funding. Our access to other sources of funding also could be limited by the same factors, by adverse changes in the business or performance of our members, by the banks committed to our revolving credit agreements or Farmer Mac, or by changes in federal law or the Guaranteed Underwriter Program.

Our funding needs are determined primarily by scheduled short- and long-term debt maturities and the amount of our loan advances to our borrowers relative to the scheduled payment amortization of loans previously made by us. If we are unable to timely issue debt into the capital markets or obtain funding from other sources, we may not have the funds to meet all of our obligations as they become due.

Fluctuating interest rates could adversely affect our income, margin and cash flow.

We are a cost-based lender that sets our interest rates on loans based on our cost of funding. We set our line of credit interest rate and long-term variable interest rate monthly based on the cost of our underlying funding. We do not match fund the majority of our long-term fixed-rate loans with a specific debt issuance at the time the loans are advanced. Instead, long-term fixed-rate loans are aggregated until the volume reaches a level that will allow an economically efficient issuance of long-term debt to fund long-term fixed-rate loans. As such, we are exposed to interest rate risk on our long-term fixed-rate loans during the period from which we have set a fixed rate on the loan until the time we obtain the long-term funding for the loan. Fixed-rate loans funded with variable-rate debt totaled $1,350 million, or 6%, of both total assets and total assets excluding derivative assets as of May 31, 2015.

A decrease in long-term fixed interest rates provided by other lenders could result in an increase in prepayments on long-term fixed-rate loans scheduled to reprice. Borrowers are able to prepay the long-term fixed-rate loan without a make-whole fee at the time the fixed-rate term expires and the loan reprices. An increase in loan prepayments due to repricings could cause a decrease to earnings for the period of time it takes to use cash from such prepayments to repay maturing debt or make new loan advances. Fixed-rate loans with a fixed-rate term scheduled to reprice during the next 12 months totaled $1,110 million as of May 31, 2015.

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Competition from other lenders could impair our financial results.
We compete with other lenders for the portion of the rural utility loan demand for which RUS will not lend and for loans to members that have elected not to borrow from RUS. The primary competition for the non-RUS loan volume is from CoBank, ACB, a federally chartered instrumentality of the United States that is a member of the Farm Credit System. As a government-sponsored enterprise, CoBank, ACB, has the benefit of an implied government guarantee. Competition may limit our ability to raise rates to cover all increases in costs and may negatively impact net income. Raising our interest rates to cover increased costs could cause a reduction in new lending business.

Our elected directors also serve as officers or directors of certain of our individual member cooperatives, which may result in a potential conflict of interest with respect to loans, guarantees and extensions of credit that we may make to or on behalf of such member cooperatives.
In accordance with our charter documents and the purpose for which we were formed, we lend only to our members and associates. CFC's directors are elected or appointed from our membership, with 10 director positions filled by directors of members, 10 director positions filled by general managers or chief executive officers of members, two positions appointed by NRECA and one at-large position that must, among other things, be a director, financial officer, general manager or chief executive of one of our members. CFC currently has loans outstanding to members that are affiliated with CFC directors and may periodically extend new loans to such members. The relationship of CFC's directors to our members may give rise to conflicts of interests from time to time. See "Item 13. Certain Relationships and Related Transactions, and Director Independence—Review and Approval of Transactions with Related Persons" for a description of our policies with regard to approval of loans to members affiliated with CFC directors.

We are subject to credit risks related to collecting the amounts owed to us on our outstanding loans. Increased credit risk related to our loans or actual losses that exceed our allowance for loan losses could impair our financial results.
Our allowance for loan losses, which is established through a provision charged to expense, represents management's best estimate of probable losses that have been incurred within the existing loan portfolio. The level of the allowance reflects management's continuing evaluation of credit risk related to industry concentrations; economic conditions; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses and risks inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, if actual losses incurred exceed current estimates of probable losses included in the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Material increases in the allowance for loan losses will result in a decrease in net income and may have a material adverse effect on our financial results.

We have been and may in the future be in litigation with borrowers related to enforcement or collection actions pursuant to loan documents. In such cases, the borrower or others may assert counterclaims against us or initiate actions against us related to the loan documents. Unfavorable rulings could have a material adverse effect on our financial results.

We own and operate assets and entities obtained through foreclosure and are subject to the same performance and financial risks as any other owner or operator of similar assets or businesses.
As the owner and operator of assets and entities obtained through foreclosure, we are subject to the same performance and financial risks as any other owner or operator of similar assets or entities. In particular, there is the risk that the value of the foreclosed assets or entities will deteriorate, negatively affecting our results of operations. We assess our portfolio of foreclosed assets for impairment periodically as required under generally accepted accounting principles

in the United States. Impairment charges, if required, represent a reduction to earnings in the period of the charge. There may be substantial judgment used in the determination of whether such assets are impaired and in the calculation of the amount of the impairment. In addition, when foreclosed assets are sold to a third party, the sale price we receive may be below the amount previously recorded in our financial statements, which will result in a loss being recorded in the period of the sale.

The non-performance of counterparties to our derivative agreements could impair our financial results.
We use interest rate swaps to manage our interest rate risk. There is a risk that the counterparties to these agreements will not perform as agreed, which could adversely affect our results of operations. The non-performance of a counterparty on an agreement would result in the derivative no longer being an effective risk management tool, which could negatively affect our overall interest rate risk position. In addition, if a counterparty fails to perform on our derivative obligation, we could incur a financial loss to replace the derivative with another counterparty and/or a loss through the failure of the counterparty to pay us amounts owed.

A reduction in the credit ratings for our debt could adversely affect our liquidity and/or cost of debt.
Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of debt funding. We currently contract with three nationally recognized statistical rating organizations to receive ratings for our secured and unsecured debt and our commercial paper. Our credit ratings are important to our liquidity. In order to access the commercial paper markets at current levels, we believe that we need to maintain our current ratings for commercial paper of P1 from Moody’s Investors Service (“Moody’s”), A-1 from Standard & Poor’s Ratings Services (“S&P”) and F-1 from Fitch Ratings Inc. (“Fitch”). Changes in rating agencies’ rating methodology, actions by governmental entities or others, additional losses from impaired loans and other factors could adversely affect the credit ratings on our debt. A reduction in our credit ratings could adversely affect our liquidity, competitive position, or the supply or cost of debt financing available to us. A significant increase in our interest expense could cause us to sustain losses or impair our liquidity by requiring us to seek other sources of financing, which may be difficult to obtain.

A decline in our credit rating could trigger payments under our derivative agreements, which could impair our financial results.
We have certain interest rate swaps that contain credit risk-related contingent features referred to as rating triggers. Under certain rating triggers, if the 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. If either counterparty terminates the agreement, a net payment may be due from one counterparty to the other based on the fair value, excluding credit risk, of the underlying derivative instrument. These rating triggers are based on our senior unsecured credit ratings by Moody’s and S&P. Based on the fair market value of our interest rate exchange agreements subject to rating triggers, we would have been required to make a payment of up to $221 million as of May 31, 2015, if all agreements for which we owe amounts were terminated as of that date and our senior unsecured ratings fell to or below Baa1 by Moody’s or to or below BBB+ by S&P. In calculating the required payments, we only considered agreements that, when netted for each counterparty pursuant to a master netting agreement, would require a payment upon termination. In the event that we are required to make a payment as a result of a rating trigger, it could have a material adverse impact on our financial results.

Our senior unsecured debt credit ratings by Moody’s, S&P and Fitch were A, A2 and A, respectively, as of May 31, 2015. While the rating triggers on our interest rate exchange agreements are not tied to the rating outlooks by Moody’s, S&P or Fitch, such rating outlooks may provide an indication of possible future movement in the ratings. Moody’s, S&P and Fitch each had our ratings on stable outlook as of May 31, 2015. On July 6, 2015, S&P revised its outlook of CFC to negative.

Our concentration of loans to borrowers within the rural electric industry could impair our revenue if that industry experiences economic difficulties.
Approximately 98% of our total outstanding loan exposure as of May 31, 2015 was to rural electric cooperatives. Factors that have a negative impact on our member rural electric cooperatives’ financial results could also impair their ability to make payments on our loans. If our members’ financial results materially deteriorate, we could be required to increase our allowance for loan losses through provisions for loan loss on our income statement that would reduce reported net income.

Advances in technology may change the way electricity is generated and transmitted prior to the maturity of our loans to rural electric systems.

Advances in technology could reduce demand for generation and transmission services. The development of alternative technologies that produce electricity, including solar cells, wind power and microturbines, has expanded due to environmental concerns and could ultimately provide affordable alternative sources of electricity and permit end users to adopt distributed generation systems that would allow them to generate electricity for their own use. As these and other technologies, including energy conservation measures, are created, developed and improved, the quantity and frequency of electricity usage by rural customers could decline. To the extent that advances in technology and conservation make our electric system members' power supply, transmission and/or distribution facilities obsolete prior to the maturity of our loans, there could be an adverse impact on the ability of our members to repay such loans. This could lead to an increase in nonperforming or restructured loans and an adverse impact on our results of operations.

Loss of our tax-exempt status could increase our tax liability.
CFC has been recognized by the Internal Revenue Service as an organization for which income is exempt from federal taxation under Section 501(c)(4) of the Internal Revenue Code (other than any net income from an unrelated trade or business). In order to maintain CFC's tax-exempt status, it must continue to operate exclusively for the promotion of social welfare by operating on a cooperative basis for the benefit of its members by providing them cost-based financial products and services consistent with sound financial management, and no part of CFC's net earnings may inure to the benefit of any private shareholder or individual other than the allocation or return of net earnings or capital to its members in accordance with CFC's bylaws and incorporating statute in effect in 1996.

If CFC were to lose its status as a 501(c)(4) organization, we believe that it would be subject to the tax rules generally applicable to cooperatives under Subchapter T of the Internal Revenue Code. As a Subchapter T cooperative, CFC would be allowed to allocate its patronage-sourced income to its members and exclude the amount of such patronage dividends for which qualified written notices of allocation are provided to members and at least 20% of the amount allocated is returned in cash. However, CFC would be taxed as a regular corporation on income in excess of allowed deductions, if any.

Our ability to comply with covenants related to our revolving credit agreements, collateral trust bond and medium-term note indentures and debt agreements could affect our ability to retire patronage capital, may accelerate certain debt obligations and could affect our ability to obtain financing and maintain the current credit rating levels on our debt.
We must maintain compliance with all covenants and conditions related to our revolving credit agreements and debt indentures. We are required to maintain a minimum adjusted TIER for the six most recent fiscal quarters of 1.025, an adjusted leverage ratio of no more than 10-to-1 and we must maintain loans pledged as collateral for various debt issuances at or below 150% of the related secured debt outstanding as a condition to borrowing under our revolving credit agreements. Our revolving credit agreements also state that we must earn a minimum annual adjusted TIER of 1.05 in order to retire patronage capital to members. See "MD&A—Non-GAAP Financial Measures" for additional information on our adjusted measures and a reconciliation to the most comparable GAAP measures.

If we are unable to borrow under the revolving credit agreements, our short-term debt ratings would most likely decline, and our ability to issue commercial paper could become significantly impaired. As a member-owned cooperative, all of our retained equity belongs to our members. As such, a restriction on the retirement of patronage capital in any year would result in a delay in the return of such amounts to the members until we earn an annual TIER of at least 1.05 and our board approves the retirement of the amounts allocated from the year in which retirement was restricted. A patronage capital retirement in any one year reduces the effective cost of borrowing for a member's loan from CFC. Thus, if CFC does not retire patronage capital to its members, it results in a higher effective interest rate on borrowings from CFC for that year.

Pursuant to our collateral trust bond indentures, we are required to maintain eligible collateral pledged at least equal to 100% of the principal amount of the bonds issued under the indenture. Pursuant to one of our collateral trust bond indentures and our medium-term note indenture, we are required to limit senior indebtedness to 20 times the sum of our members' equity, subordinated deferrable debt and members' subordinated certificates.

If we are in default under our collateral trust bond or medium-term note indentures, the existing holders of these securities have the right to accelerate the repayment of the full amount of the outstanding debt principal of the security before the stated maturity of such debt. That acceleration of debt repayments poses a significant liquidity risk as we might not have enough cash or committed credit available to repay the debt. In addition, if we are not in compliance with the collateral trust bond and medium-term note covenants, we would be unable to issue new debt securities under such indentures. If we were unable to issue new collateral trust bonds and medium-term notes, our ability to fund new loan advances and refinance maturing debt would be impaired.

We are required to pledge eligible distribution system or power supply system loans as collateral equal to at least 100% of the outstanding balance of debt issued under a revolving note purchase agreement with Farmer Mac. We also are required to maintain distribution and power supply loans as collateral on deposit equal to at least 100% of the outstanding balance of debt under the Guaranteed Underwriter Program of the USDA, which supports the Rural Economic Development Loan and Grant program. Collateral coverage less than 100% for either of these debt programs constitutes an event of default, which if not cured within 30 days, could result in creditors accelerating the repayment of the outstanding debt principal before the stated maturity. This poses a liquidity risk of possibly not having enough cash or committed credit available to repay the debt. In addition, we would be unable to issue new debt securities under the applicable debt agreement, which could impair our ability to fund new loan advances and refinance maturing debt.

Breaches of our information technology systems may damage relationships with our members or subject us to reputational, financial, legal or operational consequences.
Cyber-related attacks pose a risk to the security of our members' strategic business information and the confidentiality and integrity of our data. Although we employ a number of measures to secure such information and prevent access to our data, including encryption and authentication technologies, monitoring and testing and employee training, security breaches may occur through the actions of third parties, employee error, malfeasance, technology failures or other irregularities. Any such breach or unauthorized access could result in a loss of this information, a delay or inability to provide service of affected products, damage to our reputation, including a loss of confidence in the security of our products and services, and significant legal and financial exposure. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, we may be unable to anticipate these techniques or implement adequate preventative measures. While CFC maintains insurance coverage that, subject to policy terms and conditions, covers certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. Data security and privacy continue to receive heightened legislative and regulatory focus in the United States. Many states have enacted legislation requiring notification to those affected by a security breach. Our failure to comply with these laws and regulations could result in fines, sanction and litigation. Additionally, new regulation in the areas of data security and privacy may increase our costs and our members' costs.

Our lending activities are not subject to regulation or regulatory oversight.
Unlike Federal Deposit Insurance Corporation ("FDIC")-insured banking institutions, our lending activity is not subject to federal regulation. Some federal regulations require FDIC-insured financial institutions to meet certain requirements or refrain from certain activities, such as requirements to maintain certain levels of capital and restrictions on engaging in activities that may cause conflicts of interest or excess risk. These regulations also appoint one or more regulatory agencies to evaluate and oversee compliance with these regulations. Although our policies and practices require us to meet some of these requirements, we are not required by law or regulation to adhere to these requirements, and no external agency ensures compliance with our policies and practices.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

CFC owns approximately 141,000 square feet of office, meeting and storage space that serves as its headquarters in Loudoun County, Virginia.

Item 3. 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. In such cases, the borrower or others may assert counterclaims or initiate actions against us. 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.

Related to the Innovative Communication Corporation ("ICC") bankruptcy proceedings, ICC's former indirect majority shareholder and former chairman, and related parties, have asserted claims against CFC and certain of its officers and directors and other parties in various proceedings and forums. CFC has successfully defended these claims, certain of which are now on appeal.

In June 2015, RTFC received a notice of deficiency from the Virgin Islands Bureau of Internal Revenue alleging that RTFC owes tax or other amounts, plus interest, in connection with tax years 1996 and 1997, and 1999 through 2005. RTFC believes that these allegations are without merit and plans to timely contest this determination in the District Court of the Virgin Islands.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Not applicable.

Item 6. Selected Financial Data

The following table provides a summary of selected financial data for the five-year period ended 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 ("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 "Item 7. MD&A—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.

Five-Year Summary of Selected Financial Data

	Year Ended May 31,					Change	
(Dollars in thousands)	2015	2014	2013	2012	2011	2015 vs. 2014	2014 vs. 2013
Statement of operations							
Interest income	$952,976	$957,540	$955,753	$960,961	$1,008,911	—	—
Interest expense	(635,684)	(654,655)	(692,025)	(761,778)	(841,080)	(3)	(5)
Net interest income	317,292	302,885	263,728	199,183	167,831	5	15
Provision for loan losses	21,954	(3,498)	70,091	18,108	83,010	(728)	(105)
Fee and other income	36,783	17,762	38,181	17,749	23,646	107	(53)
Derivative gains (losses) (1)	(196,999)	(34,421)	84,843	(236,620)	(30,236)	472	(141)
Results of operations of foreclosed assets(2)	(120,148)	(13,494)	(897)	(67,497)	(15,989)	790	1,404
Operating expenses(3)	(76,530)	(72,566)	(84,182)	(65,337)	(71,447)	5	(14)
Other non-interest expense	(870)	(1,738)	(10,928)	(16,990)	(4,273)	(50)	(84)
Income (loss) before income taxes	(18,518)	194,930	360,836	(151,404)	152,542	(109)	(46)
Income tax (expense) benefit	(409)	(2,004)	(2,749)	2,607	(1,327)	(80)	(27)
Net income (loss)	$(18,927)	$192,926	$358,087	$(148,797)	$151,215	(110) %	(46) %
Adjusted statement of operations							
Adjusted interest expense(4)	$(718,590)	$(728,617)	$(748,486)	$(774,624)	$(847,928)	(1) %	(3) %
Adjusted net interest income(4)	234,386	228,923	207,267	186,337	160,983	2	10
Adjusted net income(4)	95,166	153,385	216,783	74,977	174,603	(38)	(29)
Ratios							
Fixed-charge coverage ratio/TIER (5)	—	1.29	1.52	—	1.18	—	(23) bps
Adjusted TIER(4)	1.13	1.21	1.29	1.10	1.21	(8)	(8)

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	May 31,					Change	
	2015	2014	2013	2012	2011	2015 vs. 2014	2014 vs. 2013
Balance sheet							
Cash, investments and time deposits	$818,308	$943,892	$908,694	$250,212	$352,216	(13)%	4%
Loans to members[(6)]	21,469,017	20,476,642	20,305,874	18,919,612	19,330,797	5	1
Allowance for loan losses	(33,690)	(56,429)	(54,325)	(143,326)	(161,177)	(40)	4
Loans to members, net	21,435,327	20,420,213	20,251,549	18,776,286	19,169,620	5	1
Total assets	22,893,130	22,232,743	22,071,651	19,951,335	20,561,622	3	1
Short-term borrowings	3,127,754	4,099,331	4,557,434	3,449,593	3,451,267	(24)	(10)
Long-term debt	16,287,540	14,513,284	13,821,306	13,179,098	13,672,466	12	5
Subordinated deferrable debt	400,000	400,000	400,000	186,440	186,440	—	—
Members' subordinated certificates	1,505,444	1,612,227	1,766,402	1,739,454	1,813,652	(7)	(9)
Total debt outstanding	21,320,738	20,624,842	20,545,142	18,554,585	19,123,825	3	—
Total liabilities	21,981,344	21,262,369	21,260,390	19,460,580	19,874,313	3	—
Total equity	911,786	970,374	811,261	490,755	687,309	(6)	20
Guarantees[(7)]	986,500	1,064,822	1,112,771	1,249,330	1,104,988	(7)	(4)
Ratios							
Leverage ratio[(8)]	25.19	23.01	27.58	42.20	30.52	218 bps	(457) bps
Adjusted leverage ratio[(4)]	6.58	6.24	6.11	6.46	6.48	34	13
Debt-to-equity ratio[(9)]	24.11	21.91	26.21	39.65	28.92	220	(430)
Adjusted debt-to-equity ratio[(4)]	6.26	5.90	5.76	6.01	6.09	36	14

— Change is less than 1% 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 adoption of the derivative accounting guidance that required derivatives to be reported at fair value on the balance sheet.

(2) Includes impairment charges of $111 million, $1 million and $45 million for the years ended May 31, 2015, 2014 and 2012, respectively, related to certain tangible assets, identifiable intangible assets and goodwill of CAH.

(3)Consists of salaries and employee benefits and other general and administrative expenses.

(4) See "Item 7. MD&A—Non-GAAP Financial Measures" for details on the calculation of these adjusted non-GAAP ratios and the reconciliation to the most comparable GAAP measures.

(5)Calculated based on net income plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same for the years ended May 31, 2015, 2014, 2013, 2012 and 2011, because we did not have any capitalized interest during these periods. We reported a net loss of $19 million and $149 million for the years ended May 31, 2015 and 2012, respectively; therefore, the TIER for these periods is below 1.00.

(6)Consists of outstanding principal balance of member loans and deferred loan origination costs of $10 million as of May 31, 2015, 2014 and 2013, and deferred loan origination costs of $8 million and $6 million as of May 31, 2012 and 2011, respectively.

(7)Represents the total outstanding guarantee amount as of the end of each period; however, the amount recorded on our consolidated balance sheets for our guarantee obligations is significant less than the outstanding guarantee total. See "Note 12—Guarantees" for additional information.
(8)Calculated based on total liabilities and guarantees at period end divided by total equity at period end.
(9)Calculated based on total liabilities at period end divided by total equity at period end.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Our financial statements include the consolidated accounts of National Rural Utilities Cooperative Finance Corporation ("CFC"), Rural Telephone Finance Cooperative ("RTFC"), National Cooperative Services Corporation ("NCSC") and certain entities created and controlled by CFC to hold foreclosed assets. See "Item 1. Business—Overview" for 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. 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, which we discuss in this MD&A, consist of adjusted times interest earned ratio ("TIER") and adjusted debt-to-equity ratio. The most comparable GAAP measures are TIER and debt-to-equity ratio, respectively. 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. See "Non-GAAP Financial Measures" for a detailed reconciliation of these adjusted measures to the most comparable GAAP measures.
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 audited consolidated financial statements and related notes in this Annual Report on Form 10-K for the fiscal year ended May 31, 2015 ("2015 Form 10-K") and the information contained elsewhere in this report, including the risk factors discussed under "Part I—Item 1A. Risk Factors."
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 sound financial results 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.

Financial Performance

Reported Results

We reported a net loss of $19 million and TIER below 1.00 for the fiscal year ended May 31, 2015 ("fiscal year 2015"). In comparison, we reported net income of $193 million and TIER of 1.29 for fiscal year 2014, and net income of $358 million and TIER of 1.52 for fiscal year 2013. Our debt-to-equity ratio increased to 24.11-to-1 as of May 31, 2015 from 21.91-to-1 as of May 31, 2014. Our reported results for fiscal year 2015 reflect the unfavorable impact of significantly higher net derivative losses of $197 million and impairment charges of $111 million related to our foreclosed asset Caribbean Asset Holdings ("CAH"). These items were partially offset by higher net interest income and a release in our allowance for loan losses due to certain changes in assumptions. We provide additional information on the CAH impairment charge below under "Consolidated Results of Operations" and in "Note 4—Foreclosed Assets" and information on the allowance release in "Critical Accounting Policies and Estimates—Allowance for Loan Losses."

We expect volatility from period to period in our reported GAAP results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of our derivative instruments, which we mark to market through earnings.

As previously noted, we therefore use adjusted non-GAAP measures to evaluate our performance and for compliance with our debt covenants.

Adjusted Non-GAAP Results

Our adjusted net income totaled $95 million and our adjusted TIER was 1.13 for fiscal year 2015. In comparison, we reported adjusted net income of $153 million and adjusted TIER of 1.21 for fiscal year 2014, and adjusted net income of $217 million and adjusted TIER of 1.29 for fiscal year 2013. Our adjusted debt-to-equity ratio increased to 6.26-to-1 as of May 31, 2015, from 5.90-to-1 as of May 31, 2014.

Our adjusted net income for fiscal year 2015 reflects the unfavorable impact of the CAH impairment charges of $111 million, which more than offset the improvements in our core operations resulting from strategic actions taken to reduce our funding costs. As a result of these actions, we experienced a reduction in our average debt cost that contributed to an increase in adjusted net interest income. Our adjusted results for fiscal year 2015 also include the favorable impact of higher fee and other non-interest income and the release in the allowance for loan losses.

Lending Activity

Total loans outstanding, which consists of the unpaid principal balance and excludes deferred loan origination costs, was $21,459 million as of May 31, 2015, an increase of $992 million, or 5%, from May 31, 2014. The increase was primarily due to an increase in CFC distribution and power supply loans of $1,060 million and $95 million, respectively, which was attributable to members refinancing with us loans issued by other lenders and member advances for capital investments. This increase was partially offset by a decrease in NCSC loans of $96 million and a decrease in RTFC loans of $64 million.

CFC had long-term fixed-rate loans totaling $1,227 million that repriced during fiscal year 2015. Of this total, $994 million repriced to a new long-term fixed rate; $157 million repriced to a long-term variable rate; and $76 million were repaid in full.

Funding Activity

Our outstanding debt volume generally increases and decreases in response to member loan demand. As outstanding loan balances increased during fiscal year 2015, our debt outstanding also increased. Total debt outstanding was $21,321 million as of May 31, 2015, an increase of $696 million, or 3%, from May 31, 2014. Significant funding-related developments during the fiscal year are discussed below.

- During fiscal year 2014, the CFC Board of Directors authorized management to execute the call of the outstanding $387 million of 7.5% member capital securities and offer members the option to invest in a new series of member capital securities that currently have a 5% interest rate. All $387 million of the 7.5% member capital securities had been redeemed as of May 31, 2015. Members had invested $219 million in the new series of member capital securities as of May 31, 2015.

- On October 28, 2014, we amended the $1,123 million four-year and $1,068 million five-year revolving credit agreements to (i) increase the total aggregate amount of commitments under the four-year and five-year agreements to $1,720 million and $1,700 million, respectively, and (ii) extend the commitment termination date for the five-year agreement to October 28, 2019. Also, on October 28, 2014, we terminated the existing $1,036 million three-year revolving credit agreement, which was scheduled to mature on October 28, 2016.

- On November 12, 2014, we issued $300 million aggregate principal amount of 2.30% collateral trust bonds due 2019.

- On November 18, 2014, we closed on a $250 million committed loan facility ("Series H") from the FFB guaranteed by the United States of America, acting through the RUS as part of the Guaranteed Underwriter Program. Under the Series H facility, we are able to borrow any time before October 15, 2017, with each advance having a final maturity not longer than 20 years from the advance date. This commitment increased the total funding available to us under committed loan facilities from the FFB. We had up to $750 million available to us as part of this program as of May 31, 2015.

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- On December 1, 2014, we redeemed the $400 million, 1.00% collateral trust bonds due February 2, 2015. The redemption was effected for liability management purposes. The principal and accrued interest at the December 1, 2014 redemption date were paid with a combination of cash on hand and other sources of liquidity, including issuance of long-term debt.

- On January 8, 2015, the commitment amount under the revolving note purchase agreement with Farmer Mac was increased by $600 million to $4,500 million, and the draw period was extended by four years to January 11, 2020.

- On January 27, 2015, we issued $400 million aggregate principal amount of 2.00% collateral trust bonds due 2020 and $500 million of aggregate principal amount of 2.85% collateral trust bonds due 2025. We used these funds primarily to reduce our outstanding dealer commercial paper by $989 million to $985 million as of May 31, 2015, from $1,974 million as of May 31, 2014.

Outlook for the Next 12 Months

We expect the amount of new long-term loan advances to exceed scheduled loan repayments by $1,044 million 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.

We had $1,939 million of long-term debt scheduled to mature over the next 12 months as of May 31, 2015. We believe that 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 $734 million in cash and time deposits, up to $750 million available under committed loan facilities from the FFB, $3,419 million available under committed revolving lines of credit with a syndicate of banks and, subject to market conditions, up to $2,589 million available under a revolving note purchase agreement with Farmer Mac as of May 31, 2015. On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac for an additional $300 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 $2,143 million as of May 31, 2015, 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 also believe we can continue to roll over our dealer commercial paper of $985 million as of May 31, 2015. We intend to manage our short-term wholesale funding risk by maintaining our dealer commercial paper within an approximate range between $1,000 million and $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.

On June 26, 2015, CFC and CAH executed a non-binding letter of intent (“LOI”) to sell the telecommunications and cable television operations held by operating subsidiaries of CAH as foreclosed assets. The potential transaction is subject to, among other things, further due diligence, the negotiation and agreement on terms of a definitive and binding purchase and sale agreement, and customary closing conditions, including applicable regulatory approvals. Our current expectation is that we will complete the sale of CAH during fiscal year 2016.

Our goal is to maintain the adjusted debt-to-equity ratio at or below 6.00-to-1. However, because of the increase in outstanding loan balances during the fiscal year 2015 and the expected further increase during fiscal 2016, we anticipate additional borrowings to support our loan growth. As a result, our adjusted debt-to-equity ratio will likely continue to be higher than 6.00-to-1 in the near term.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. 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

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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 summary of our significant accounting policies under "Note 1—Summary of Significant Accounting Policies."

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. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. 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.

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's estimate of probable losses inherent in our loan portfolio as of each balance sheet date. Our allowance for loan losses, which totaled $34 million and $56 million as of May 31, 2015 and 2014, respectively, includes a collective allowance for all loans in our portfolio that are not individually impaired and a specific allowance for individually impaired loans.

Collective Allowance

As part of our credit risk management process, we regularly evaluate each borrower and loan in our loan portfolio and assign an internal risk rating. The collective loss reserve is calculated using an internal model to estimate incurred losses for segments within our loan portfolio that have similar risk categories. Our loan segments, which are based on member borrower type, are stratified further into loan pools based on the borrower risk rating. We then apply loss factors to the outstanding principal balance of each of these loan pools. The loss factors reflect the probability of default, or default rate, and the loss severity, or recovery rate, over an estimated loss emergence period of five years for each loan pool. We utilize third-party industry default data to estimate default rates. We utilize our historical loss experience for each borrower type, adjusted for management's judgment, to estimate recovery rates. Management may also apply judgment to adjust the loss factors derived from our models, taking into consideration model imprecision and specific, known events, such as current credit conditions, that may affect the credit quality of our loan portfolio but are not yet reflected in our model-generated loss factors. We determine the collective allowance by applying the default rate and recovery rate to each loan pool.

Specific Allowance

The specific allowance for individually impaired loans that are not collateral dependent is calculated based on the difference between the recorded investment in the loan and the present value of the expected future cash flows, discounted at the loan's effective interest rate. If the loan is collateral dependent, we measure the impairment based on the current fair value of the collateral less estimated selling costs.

Key Assumptions

Determining the appropriateness of the allowance for loan losses is a complex process subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity and are difficult to predict. The key assumptions in determining our collective allowance that require significant management judgment and may have a material impact on the amount of the allowance include our evaluation of the risk profile of various loan portfolio segments and the internally assigned borrower risk ratings; the estimated loss emergence period; the selection of third-party proxy data to determine the probability of default; our historical loss experience and assumptions regarding recovery rates; and management's judgment in the selection and evaluation of qualitative factors to assess the overall current level of exposure within our loan portfolio. The key assumptions in determining our specific allowance that require significant management judgment and may have a material impact on the amount of the allowance include estimating the amount and timing of expected cash flows from impaired loans and estimating the value of underlying collateral, which impacts loss severity and certain cash flow assumptions. The degree to which any particular assumption affects the allowance for loan losses depends on the severity of the change and its relationship to the other assumptions.

We regularly evaluate the underlying assumptions we use in determining the allowance for loan losses and periodically update our assumptions to better reflect present conditions, including current trends in borrower risk and/or general economic trends, portfolio concentration risk, changes in risk management practices, changes in the regulatory environment and other environmental factors specific to our loan portfolio segments. In the fourth quarter of fiscal year 2015, we adjusted the recovery rate assumptions used in determining the collective allowance for loan losses for certain portfolio segments to reflect our most recent historical loss experience and made adjustments to selected qualitative factors that we consider in estimating losses. These adjustments resulted in an $18 million reduction in the allowance for loan losses as of May 31, 2015. Of the $18 million reduction, $13 million was attributable to the changes in the recovery rate assumptions for certain portfolio segments, and the remaining $5 million was attributable to our qualitative factor reassessment.

Sensitivity Analysis

As noted above, our allowance for credit losses is sensitive to numerous factors, depending on the portfolio segment. Changes in our assumptions or economic conditions could affect our estimate of probable credit losses inherent in the portfolio at the balance sheet date, which would also impact the related provision for loan losses recognized in our consolidated results of operations. For example, changes in the inputs below, without consideration of any offsetting or correlated effects of other inputs, would have the following effects on our total allowance of loan losses as of May 31, 2015.

- A 10% increase or decrease in the default rates for all of our portfolio segments would result in a corresponding decrease or increase of $3 million.
- A 1% increase or decrease in the recovery rates for all of our portfolio segments would result in a corresponding decrease or increase of $3 million.
- A one-notch downgrade in the internal risk ratings for our entire loan portfolio would result in an increase of approximately $38 million, while a one-notch upgrade would result in a decrease of approximately $18 million.

The purpose of these sensitivity analyses is to provide an indication of the isolated impacts of hypothetical alternative assumptions on modeled loss estimates. It is difficult to estimate how potential changes in a specific factor might affect the total allowance for loan losses because management evaluates a variety of factors and inputs in estimating the allowance for loan losses.

We provide additional information on the methodology for determining the allowance for loan losses in “Note 1—Summary of Significant Accounting Policies” and changes in our allowance for loan losses in “Note 3—Loans and Commitments.”

Fair Value

Financial Instruments

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). 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

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management's judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value.

Significant judgment may be required to determine whether certain financial instruments measured at fair value are classified as Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

Financial instruments recorded at fair value on a recurring basis, primarily investment securities, deferred compensation investments and derivatives, represented 1% of our total assets as of May 31, 2015 and 2014, and 2% of total liabilities as of both May 31, 2015 and 2014. The fair value of these financial instruments was determined using either Level 1 or 2 inputs. We did not have any financial instruments recorded at fair value on a recurring basis for which the fair value was determined using Level 3 inputs as of May 31, 2015 and 2014.

We discuss the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value, in corroborating these inputs, in "Note 13—Fair Value Measurement" and "Note 14—Fair Value of Financial Instruments."

Fair Value of Foreclosed Assets

We measure foreclosed assets at fair value on a nonrecurring basis and carry these assets at the lower of cost or fair value less estimated costs to sell. Our foreclosed assets totaled $117 million as of May 31, 2015, down from $246 million as of May 31, 2014. We controlled and held foreclosed assets in only one entity, CAH, as of May 31, 2015. We dissolved DRP, the other entity in which we held foreclosed assets, during the fourth quarter of fiscal year 2015.

We historically have estimated the fair value of CAH based on a market approach and an income approach (discounted cash flow method). In applying these approaches, we relied on a number of factors, including actual operating results, an updated cash flow forecast based on developments during the period, business plans, revised economic projections and market data. We also considered recent transaction activity and market multiples for the telecommunications industry. Management utilized what it considered to be the most appropriate inputs and assumptions, based upon available market data and/or projections of future cash flows, to estimate fair value. Significant management judgment was necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our estimate of fair value were based on the best available market information and are consistent with internal forecasts and operating plans.

As a result of certain events and developments during fiscal year 2015, we recognized impairment charges related to CAH totaling $111 million, of which $27 million was recorded in the second quarter and $84 million was recorded in the fourth quarter. The impairment charge of $27 million in the second quarter of fiscal year 2015 was attributable to CAH experiencing less than expected revenue growth resulting from lower than anticipated new subscriber growth and customer migration rates to its new network and Internet services and was estimated using the aforementioned methods and assumptions. As indicated above in "Executive Summary," on June 26, 2015, CFC and CAH executed a non-binding LOI to sell the telecommunications and cable television operations held by operating subsidiaries of CAH as foreclosed assets. The terms of the LOI, which assume a debt-free, cash-free transaction, together with our estimated costs to sell, resulted in an additional impairment charge of $84 million in the fourth quarter of fiscal year 2015, which reduced our carrying value of CAH to $117 million as of May 31, 2015. We provide additional information on the CAH impairment charges below under "Consolidated Results of Operations—Non-Interest Income" and in "Note 4—Foreclosed Assets."

ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted in fiscal year 2015, 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 consolidated results of operations between fiscal years 2015 and 2014 and between fiscal years 2014 and 2013. Following this section, we provide a comparative analysis of our consolidated balance sheets as of May 31, 2015 and 2014. 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 1 presents our average balance sheets for fiscal years 2015, 2014 and 2013, 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 1 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net periodic derivative cash settlements in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under "Non-GAAP Financial Measures."

Table 1: Average Balances, Interest Income/Interest Expense and Average Yield/Cost

	Year Ended May 31,								
(Dollars in thousands)	2015			2014			2013		
Assets:	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
Long-term fixed-rate loans	$18,990,768	$886,545	4.67 %	$18,377,834	$887,010	4.83 %	$17,223,370	$874,287	5.08 %
Long-term variable-rate loans	702,397	20,184	2.87	737,186	20,388	2.77	721,747	21,684	3.00
Line of credit loans	1,119,647	26,411	2.36	1,278,549	31,376	2.45	1,245,635	32,378	2.60
Restructured loans	7,560	15	0.20	10,819	136	1.26	157,059	13,956	8.89
Nonperforming loans	1,572	—	—	7,952	236	2.97	48,653	—	—
Interest-based fee income(1)	—	11,888	—	—	11,314	—	—	7,123	—
Total loans	20,821,944	945,043	4.54	20,412,340	950,460	4.66	19,396,464	949,428	4.89
Cash, investments and time deposits	806,942	7,933	0.98	953,589	7,080	0.74	732,045	6,325	0.86
Total interest-earning assets	$21,628,886	$952,976	4.41 %	$21,365,929	$957,540	4.48 %	$20,128,509	$955,753	4.75 %
Other assets, less allowance for loan losses	944,746			1,225,389			991,812		
Total assets	$22,573,632			$22,591,318			$21,120,321		
Liabilities:									
Short-term debt	$3,586,509	$5,654	0.16 %	$4,282,107	$5,899	0.14 %	$3,739,450	$6,888	0.18 %
Medium-term notes	2,926,721	69,359	2.37	2,804,289	82,978	2.96	2,623,428	95,495	3.64
Collateral trust bonds	6,288,187	308,474	4.91	5,898,955	300,014	5.09	6,202,374	327,978	5.29
Subordinated deferrable debt	400,000	19,000	4.75	395,661	19,000	4.80	216,669	12,922	5.96
Subordinated certificates	1,488,059	63,604	4.27	1,663,847	79,328	4.77	1,716,065	81,920	4.77
Long-term notes payable	5,988,964	151,206	2.52	5,502,370	150,956	2.74	4,912,791	150,553	3.06
Debt issuance costs(2)	—	7,544	—	—	7,447	—	—	7,582	—
Interest-based fee expense(3)	—	10,843	—	—	9,033	—	—	8,687	—
Total interest-bearing liabilities	$20,678,440	$635,684	3.07 %	$20,547,229	$654,655	3.19 %	$19,410,777	$692,025	3.57 %
Other liabilities	954,638			1,101,475			1,147,076		

Total liabilities	21,633,078			21,648,704			20,557,853		
Total equity	940,554			942,614			562,468		
Total liabilities and equity	$22,573,632			$22,591,318			$21,120,321		
Net interest spread[4]			1.34 %			1.29 %			1.18 %
Impact of non-interest bearing funding			0.13			0.13			0.13
Net interest income/net interest yield[5]		$ 317,292	1.47 %		$ 302,885	1.42 %		$ 263,728	1.31 %
Adjusted net interest income/adjusted net interest yield:									
Interest income		$ 952,976	4.41 %		$ 957,540	4.48 %		$ 955,753	4.75 %
Interest expense		635,684	3.07		654,655	3.19		692,025	3.57
Add: Net derivative cash settlement cost[6]		82,906	0.94		73,962	0.88		56,461	0.62
Adjusted interest expense/adjusted average cost[7]		$ 718,590	3.48 %		$ 728,617	3.55 %		$ 748,486	3.86 %
Adjusted net interest spread[4]			0.93 %			0.93 %			0.89 %
Impact of non-interest bearing funding			0.15			0.14			0.14
Adjusted net interest income/adjusted net interest yield[8]		$ 234,386	1.08 %		$ 228,923	1.07 %		$ 207,267	1.03 %

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(1)Primarily related to conversion fees, which are deferred and recognized in interest income over the interest rate pricing term of the original loan 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 consists of 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)Reflects various 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.
(4)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.
(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 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 net periodic cash settlements during the period divided by the average outstanding notional amount of derivatives during the period. The average outstanding notional amount of derivatives was $8,811 million, $8,381 million and $9,148 million for fiscal years 2015, 2014 and 2013, respectively.
(7)Adjusted average cost is calculated based on adjusted interest expense for the period divided by average interest-bearing funding during the period.
(8)Adjusted net interest yield is calculated based on adjusted net interest income for the period divided by average interest-earning assets for the period.

Table 2 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 2: Rate/Volume Analysis of Changes in Interest Income/Interest Expense

	2015 vs. 2014			2014 vs. 2013		
		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	$(465)	$29,583	$(30,048)	$12,723	$58,602	$(45,879)
Long-term variable-rate loans	(204)	(962)	758	(1,296)	464	(1,760)
Line of credit loans	(4,965)	(3,900)	(1,065)	(1,002)	856	(1,858)
Restructured loans	(121)	(41)	(80)	(13,820)	(12,995)	(825)
Nonperforming loans	(236)	(189)	(47)	236	—	236
Fee income	574	—	574	4,191	—	4,191
Total loans	(5,417)	24,491	(29,908)	1,032	46,927	(45,895)
Cash, investments and time deposits	853	(1,089)	1,942	755	1,914	(1,159)
Interest income	(4,564)	23,402	(27,966)	1,787	48,841	(47,054)
Interest expense:						
Short-term debt	(245)	(958)	713	(989)	1,000	(1,989)
Medium-term notes	(13,619)	3,623	(17,242)	(12,517)	6,584	(19,101)
Collateral trust bonds	8,460	19,796	(11,336)	(27,964)	(16,045)	(11,919)
Subordinated deferrable debt	—	208	(208)	6,078	10,675	(4,597)
Subordinated certificates	(15,724)	(8,381)	(7,343)	(2,592)	(2,493)	(99)
Long-term notes payable	250	13,350	(13,100)	403	18,068	(17,665)
Debt issuance costs	97	—	97	(135)	—	(135)
Fee expense	1,810	—	1,810	346	—	346
Interest expense	(18,971)	27,638	(46,609)	(37,370)	17,789	(55,159)
Net interest income	$14,407	$(4,236)	$18,643	$39,157	$31,052	$8,105
Adjusted net interest income:						
Interest income	$(4,564)	$23,402	$(27,966)	$1,787	$48,841	$(47,054)
Interest expense	(18,971)	27,638	(46,609)	(37,370)	17,789	(55,159)
Derivative cash settlements[2]	8,944	3,797	5,147	17,501	(4,737)	22,238
Adjusted interest expense[3]	(10,027)	31,435	(41,462)	(19,869)	13,052	(32,921)
Adjusted net interest income	$5,463	$(8,033)	$13,496	$21,656	$35,789	$(14,133)

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[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 derivative cash settlements, variance due to average volume represents the change in derivative cash settlements that resulted from the change in the average notional amount of derivative contracts outstanding. Variance due to average rate represents the change in derivative cash settlements that resulted 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 the our adjusted non-GAAP measures.

Net interest income of $317 million in fiscal year 2015 increased by $14 million, or 5%, from fiscal 2014, driven by an increase in the net interest yield of 4% (5 basis points) to 1.47%, coupled with a 1% increase in average interest-earning assets.

• Net Interest Yield: The increase in the net interest yield in fiscal year 2015 was largely attributable to a reduction in our average cost of funds, which more than offset a decrease in the average yield on interest-earning assets. The reduction in our average cost of funds of 12 basis points in fiscal year 2015 to 3.07%, was primarily attributable to the call and redemption of $387 million of 7.5% member capital securities since December 2013, a portion of which we replaced

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with lower rate member capital securities and the remainder of which we replaced with lower-cost debt. Our average cost of funds also reflected the benefit from the replacement of higher-cost debt that matured during 2014, primarily medium-term notes, collateral trust bonds and long-term notes payable, with lower-cost debt as a result of the continued low interest rate environment. The decrease in the average yield on interest-earning assets of 7 basis points in fiscal year 2015 to 4.41% 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. As a cost-based lender, our fixed interest rates for loans are intended to reflect our cost of borrowing plus a spread to cover our cost of operations and provision for loan losses and to provide earnings sufficient to achieve interest coverage to meet financial objectives. As benchmark treasury rates remained low and our credit spread tightened over the past few years, there was a continued reduction in the rates we had to pay to obtain funding in the capital markets. We therefore lowered the long-term fixed rates on our new loans.

- Average Interest-Earning Assets: Average interest-earning assets increased modestly during fiscal year 2015, reflecting loan advances that exceeded loan payments as members refinanced with us loans issued by other lenders and obtained advances to fund capital investments.

Net interest income of $303 million in fiscal 2014 increased by $39 million, or 15%, from fiscal year 2013, driven by an increase in the net interest yield of 8% (11 basis points) to 1.42%, coupled with a 6% increase in average interest-earning assets.

- Net Interest Yield: The increase in the net interest yield in fiscal year 2014 was also primarily attributable to a reduction in our cost of funds from the refinancing of maturing higher-cost debt with lower-cost debt, which more than offset a decrease in the average yield on interest-earning assets.

- Average Interest-Earning Assets: The increase in average interest-earning assets was primarily due to a large amount of fixed-rate loan advances to CFC and NCSC borrowers to refinance debt from other lenders, to fund capital improvements and for other purposes.

Adjusted net interest income of $234 million in fiscal year 2015 increased by $5 million, or 2%, from the prior year, driven by an increase in the adjusted net interest yield of 1% (1 basis point) to 1.08%, coupled with the 1% increase in average interest-earning assets. Adjusted net interest income of $229 million in fiscal year 2014 increased by $22 million, or 10%, from the prior year, driven by an increase in the adjusted net interest yield of 4% (4 basis points) to 1.07% and a 6% increase in average interest-earning assets.

Our adjusted net interest income and adjusted net interest yield include the impact of net periodic derivative cash settlements during the period. We recorded net periodic derivative cash settlement expense of $83 million, $74 million and $56 million in fiscal years 2015, 2014 and 2013, respectively. The increases in the adjusted net interest yield in fiscal years 2015 and 2014 reflected the benefit from the strategic actions taken to reduce our cost of funding, which more than offset a decrease in the average yield on our interest-earning assets. 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 to cover probable loan losses inherent in our loan portfolio as of each balance sheet date.

We recorded a negative provision of $22 million in fiscal year 2015, compared with a provision of $3 million in fiscal year 2014 and a negative provision of $70 million in fiscal year 2013. The negative provision recorded in fiscal year 2015 was attributable to a reduction in our allowance for loan losses to $34 million as of May 31, 2015, from $56 million as of May 31, 2014, which resulted from changes in certain assumptions that were made in the fourth quarter of 2015 in determining the allowance. See “Critical Accounting Policies and Estimates—Allowance for Loan Losses” for a discussion of these changes in assumptions. The negative provision recorded in fiscal year 2013 also was attributable to a reduction in the allowance due to changes in assumptions in determining the allowance for loan losses.

We provide additional information on our allowance for loan losses under “Credit Risk—Allowance for Loan Losses,” “Note 1—Summary of Significant Accounting Policies” and “Note 3—Loans and Commitments” of this report.

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 $280 million and $30 million in fiscal years 2015 and 2014, respectively. In comparison, we recorded non-interest income of $122 million in fiscal year 2013. The variances in non-interest income between periods were primarily attributable to changes in the fair value of derivatives and the operations of CAH, including impairment charges. Prepayment fees received due to early loan repayments also contribute to variances in non-interest income between periods.

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, yield curves and implied interest rate volatility and the composition and balance of instrument types in our derivative portfolio. 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). We did not have any derivatives designated as accounting hedges as of May 31, 2015 and 2014.

We recorded derivative losses of $197 million and $34 million in fiscal years 2015 and 2014, respectively, and derivative gains of $85 million in fiscal year 2013. Table 3 presents the components of derivative gains (losses) recorded in our consolidated results of operations for fiscal years 2015, 2014 and 2013. The derivative gains (losses) relate to interest rate swap agreements. Derivative cash settlements represent net contractual interest expense accruals on 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 expected future interest rates over the remaining life of our derivative contracts.

Table 3: Derivative Gains (Losses)

	Year Ended May 31,		
(Dollars in thousands)	2015	2014	2013
Derivative gains (losses) attributable to:			
Derivative cash settlements	$(82,906)	$(73,962)	$(56,461)
Derivative forward value	(114,093)	39,541	141,304
Derivative gains (losses)	$(196,999)	$(34,421)	$84,843

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”). 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. The composition of our pay-fixed and receive-fixed swaps varies across the swap yield curve. As a result, the overall fair value gains and losses of our derivatives also are sensitive to flattening and steepening of the swap yield curve. See “Note 14—Fair Value of Financial Instruments” for information on how we estimate the fair value of our derivative instruments.

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 fiscal years 2015, 2014 and 2013. As indicated in Table 4, our derivative portfolio currently comprises a higher proportion of pay-fixed swaps than receive-fixed swaps, which is subject to change 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

	Year Ended May 31,					
	2015			2014		
(Dollars in thousands)	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	$5,583,647	3.25 %	0.25 %	$5,310,019	3.36 %	0.24 %
Receive-fixed swaps	3,227,288	0.83	3.45	3,070,679	0.94	3.95
Total	$8,810,935	2.36 %	1.43 %	$8,380,698	2.47 %	1.60 %

The net derivative losses of $197 million in fiscal year 2015 were primarily attributable to the flattening of the swap yield curve during the period as the overall level of interest rates on the longer end of the yield curve declined while short-term 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, which together resulted in the net derivative losses during the year.

The net derivative losses of $34 million in fiscal year 2014 were largely attributable to a decrease in swap interest rates on the longer end of the yield curve, which resulted in a net decrease in the fair value of our pay-fixed swaps. The derivative gains of $85 million in fiscal year 2013 were primarily due to an increase in longer-term swap interest rates, which resulted in increases in the fair value of our pay-fixed swaps.

See “Note 9—Derivative Financial Instruments” for additional information on our derivative instruments.

Results of Operations of Foreclosed Assets

The financial operating results of CAH and DRP, entities controlled by CFC that hold foreclosed assets, are reported in our consolidated statements of operations under results of operations of foreclosed assets.

We recorded total losses from the results of operations of foreclosed assets of $120 million, $13 million and $1 million in fiscal years 2015, 2014 and 2013, respectively. The significant increase in losses during fiscal year 2015, from the prior year was due to impairment charges of $107 million related to CAH.

CAH

CAH had net losses from results of operations of $120 million and $12 million in fiscal years 2015 and 2014, respectively, compared with net income of $1 million in fiscal year 2013.

As a result of certain events and developments during fiscal year 2015, the estimated CAH fair value was reduced below the carrying value, resulting in the recognition of an impairment charge of $111 million, of which $27 million was recorded in the second quarter and $80 million was recorded in the fourth quarter, which, together with CAH’s operating losses, resulted in a reduction in CAH’s carrying value to $117 million as of May 31, 2015, from $239 million as of May 31, 2014.

When we acquired CAH through foreclosure and bankruptcy in 2010 and 2011, our intent was to make the necessary investments to allow CAH to upgrade its infrastructure and technology and increase its customer base in order to position the company for sale. By the middle of fiscal year 2015, the program to update CAH’s network infrastructure was substantially completed, enabling the company to market enhanced services and transition existing customers to the new infrastructure. However, CAH experienced less than expected subscriber growth and lower than anticipated customer migration rates to its new network and Internet services, resulting in a revision to its forecasted revenues. In addition, the economic recovery in the service area has lagged improvements in the overall U.S. recovery and is slower than previously expected. After taking these multiple factors into consideration, we concluded that a triggering event had occurred requiring us to conduct an interim impairment test to evaluate certain CAH tangible and intangible assets for impairment and assess whether the estimated fair value of CAH was less than our carrying value. As a result of the aforementioned events, CAH cash flow forecasts utilized in the interim impairment test were lowered to reflect reduced revenues. To assess goodwill impairment, we estimated the fair value of CAH based on a market approach and an income approach (discounted cash flow method), both of which require significant judgment. In applying these approaches, we relied on a number of factors, including actual operating results, an updated cash flow forecast based on the developments during the quarter and future business plans, revised economic projections and market data. We also considered recent transaction activity and market multiples for the telecommunications industry. Based on our assessment, we recognized impairment on certain tangible assets, identifiable intangible assets and goodwill of $27 million during the second quarter of fiscal year 2015.

During the third quarter of fiscal year 2015, following the completion of CAH's infrastructure upgrade, we engaged in a formal process to initiate the sale of CAH. We retained a third-party consulting firm to manage the process, including identifying potential buyers and assisting with performing due diligence on the interested parties. CAH received non-binding indicators of interest ("IOI") from multiple parties, including both strategic and financial buyers, for all or certain of CAH's businesses. The interested parties were requested to include an approximate offering price range and information about the availability of funds and sources of financing for the transaction in their IOI. Our carrying value of CAH as of February 28, 2015 fell within the range of the initial offering prices. Therefore, we concluded that there were no indicators of impairment of CAH as of the end of the third quarter. As the prospective purchasers performed further due diligence, the pool of potential buyers was narrowed, and, as indicated above in "Executive Summary," on June 26, 2015, CFC and CAH executed a non-binding letter of intent ("LOI") to dispose of the telecommunications and cable television operations held by operating subsidiaries of CAH. The terms of the LOI, which assume a debt-free, cash-free transaction, together with our estimated costs to sell, resulted in an additional impairment charge of $84 million in the fourth quarter of fiscal year 2015, which reduced our carrying value of CAH to $117 million as of May 31, 2015. The costs to sell include estimated legal and other transaction-related costs of approximately $3 million.

We provide additional information on CAH in "Note 4—Foreclosed Assets."

DRP

We dissolved DRP during fiscal year 2015, following the sale of DRP's remaining assets of an interest in bond reimbursement receivables and real estate properties totaling $7 million as of May 31, 2014. We recognized a minimal loss on the sale as the proceeds received approximated our carrying value of $7 million.

Non-Interest Expense

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

We recorded non-interest expense of $77 million, $74 million and $95 million in fiscal years 2015, 2014 and 2013, respectively. The increase in non-interest expense of $3 million in fiscal year 2015, from the prior year was due to modest increases in salaries and employee benefits and other general and administrative expenses. The decrease in non-interest expense of $21 million in fiscal year 2014, from the prior year was due to a $14 million decrease in salaries and employee benefit expenses, reflecting the absence of a voluntary contribution of $13 million to our multi-employer pension plan sponsored by NRECA in fiscal year 2013, and a $9 million decrease in losses on early extinguishment of debt.

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.

We recorded net income attributable to noncontrolling interests of less than $1 million, and approximatively $3 million and $4 million in fiscal years 2015, 2014 and 2013, respectively. The fluctuations in net income (loss) attributable to noncontrolling interests are primarily due to fluctuations in the fair value of NCSC's derivative instruments.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $22,893 million as of May 31, 2015 increased by $660 million, or 3%, from May 31, 2014, primarily due to growth in our loan portfolio. Total liabilities of $21,981 million as of May 31, 2015 increased by $719 million, or 3%, from May 31, 2014, primarily due to an increase in debt to fund the growth in our loan portfolio. Total equity decreased $59 million to $912 million as of May 31, 2015. The decrease in total equity was primarily attributable to our net loss of $19 million in fiscal year 2015 and CFC's Board of Directors July 2014 authorization of patronage capital retirement of $40 million.
Following is a discussion of changes in the major components of our assets and liabilities during in fiscal year 2015. 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 between one to 35 years. When a selected fixed interest rate term expires, the borrower may select another fixed-rate term or the variable rate.

Table 5 summarizes loans outstanding by type and by member class for the five-year period ended May 31, 2015.

Table 5: Loans Outstanding by Type and Member Class

	May 31,														
(Dollars in millions)	2015			2014			2013			2012			2011		
Loans by type: [1]	Amount	%		Amount	%		Amount	%		Amount	%		Amount	%	
Long-term loans:															
Long-term fixed-rate loans	$19,543	91	%	$18,176	88	%	$17,918	88	%	$16,743	89	%	$16,405	85	%
Long-term variable-rate loans	698	3		754	4		782	4		765	4		1,278	7	
Loans guaranteed by RUS	179	1		202	1		211	1		219	1		227	1	
Total long-term loans	20,421	95		19,132	93		18,911	93		17,727	94		17,910	93	
Line of credit loans	1,038	5		1,335	7		1,385	7		1,185	6		1,415	7	
Total loans outstanding	$21,459	100	%	$20,467	100	%	$20,296	100	%	$18,912	100	%	$19,325	100	%
Loans by member class:[1]															
CFC:															
Distribution	$16,095	75	%	$15,035	74	%	$14,941	74	%	$14,075	74	%	$13,760	71	%
Power supply	4,181	20		4,086	20		4,008	20		3,597	19		4,092	21	
Statewide and associate	65	—		68	—		71	—		74	1		90	1	
CFC total	20,342	95		19,189	94		19,020	94		17,746	94		17,942	93	
RTFC	386	2		450	2		503	2		572	3		859	4	
NCSC	732	3		828	4		773	4		594	3		524	3	
Total loans outstanding	$21,459	100	%	$20,467	100	%	$20,296	100	%	$18,912	100	%	$19,325	100	%

[1] Includes loans classified as restructured and nonperforming. Excludes deferred loan origination costs of $10 million as of May 31, 2015, 2014 and 2013, and deferred loan origination costs of $8 million and $6 million as of May 31, 2012 and 2011, respectively.

Loans outstanding increased $992 million, or 5%, in fiscal year 2015 to $21,459 million as of May 31, 2015. The increase was primarily due to an increase in CFC distribution and power supply loans of $1,060 million and $95 million, respectively, which was attributable to members refinancing with us loans issued by other lenders and member advances for capital investments. This increase was partially offset by a decrease in NCSC loans of $96 million and a decrease in RTFC loans of $64 million. We provide additional information on loans in “Note 3—Loans and Commitments.” See also “Liquidity Risk” for information on unencumbered loans.

Table 6 displays our historical retention rate for long-term fixed-rate loans that repriced during the past three years. The retention rate is calculated based on the election made by the borrower at the repricing date.

Table 6: Historical Repricing Retention

	May 31, 2015			2014			2013		
(Dollars in thousands)	Amount	%		Amount	%		Amount	%	
Loans retained:									
Select new long-term fixed rate	$991,279	81	%	$983,754	84	%	$1,449,569	82	%
Select long-term variable rate	154,946	13		68,780	6		172,912	10	
Loans sold[1]	3,904	—		21,464	2		27,300	2	
Total loans retained	1,150,129	94		1,073,998	92		1,649,781	94	
Total loans repaid	76,380	6		90,030	8		96,594	6	
Total loans repriced	$1,226,509	100	%	$1,164,028	100	%	$1,746,375	100	%

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[1] Includes loans that repriced to a new rate offered as part of our loan sales program and were sold with servicing retained by CFC.

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Debt

Table 7 displays the composition of our debt outstanding and weighted average interest rate by debt product type, interest rate type and original contractual maturity as of May 31, 2015, 2014 and 2013.

Table 7: Total Debt Outstanding and Weighted-Average Interest Rates

(Dollars in thousands)	May 31, 2015 Outstanding Amount	Weighted-Average Interest Rate		2014 Outstanding Amount	Weighted-Average Interest Rate		2013 Outstanding Amount	Weighted-Average Interest Rate	
Debt product type:									
Commercial paper sold through dealers, net of discounts	$984,954	0.15	%	$1,973,557	0.14	%	$2,009,884	0.16	%
Commercial paper sold directly to members, at par	736,162	0.15		858,389	0.13		851,439	0.15	
Select notes	671,635	0.29		548,610	0.27		358,390	0.34	
Daily liquidity fund notes	509,131	0.08		486,501	0.06		680,419	0.10	
Bank bid notes	—	—		20,000	0.60		150,000	0.53	
Collateral trust bonds	6,781,510	4.48		5,980,214	4.65		5,962,681	5.13	
Guaranteed Underwriter Program notes payable	4,406,785	3.14		4,299,000	3.15		3,674,000	3.20	
Farmer Mac notes payable	1,910,688	0.77		1,667,505	1.15		1,542,474	1.42	
Medium-term notes	3,367,358	2.29		2,726,303	2.43		3,091,512	2.74	
Other notes payable[(3)]	47,071	3.67		52,535	3.73		57,941	3.78	
Subordinated deferrable debt	400,000	4.75		400,000	4.75		400,000	4.75	
Members' subordinated certificates	645,035	4.89		644,944	4.90		644,757	4.90	
Loan and guarantee certificates	640,889	2.94		699,724	3.01		733,895	3.29	
Member capital securities	219,520	5.00		267,560	6.12		387,750	7.49	
Total debt outstanding	$21,320,738	2.93		$20,624,842	2.91		$20,545,142	3.13	
Interest rate type:									
Fixed-rate debt[(1)]	81	%		79	%		77	%	
Variable-rate debt[(2)]	19			21			23		
Total	100	%		100	%		100	%	
Original contractual maturity:									
Long-term debt	86	%		81	%		80	%	
Short-term debt	14			19			20		
Total	100	%		100	%		100	%	

(1) 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.
(2) 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.

(3) Other notes payable included unsecured and secured Clean Renewable Energy Bonds as of May 31, 2015. 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. The remaining other notes payable relate to unsecured notes payable issued by NCSC.

Total debt outstanding increased $696 million, or 3%, in fiscal year 2015 to $21,321 million as of May 31, 2015. The increase was attributable to the issuance of $1,200 million aggregate principal amount of collateral trust bonds and a net increase of $641 million in medium-term notes, which was partially offset by the redemption of $400 million aggregate principal amount of collateral trust bonds coupled with a $989 million reduction in our dealer commercial paper. We decreased dealer commercial paper as part of our strategy to reduce our short-term wholesale funding risk. We discuss other significant funding-related developments during fiscal year 2015 above in "Executive Summary."

Table 8 provides additional information regarding our outstanding debt instruments and revolving credit agreements as of May 31, 2015.

Table 8: Debt Instruments and Revolving Credit Agreements

Debt Product Type	Maturity Range	Market	Secured/Unsecured
Commercial paper	1 to 270 days	Capital markets, members and affiliates	Unsecured
Select notes	30 to 270 days	Members and affiliates	Unsecured
Daily liquidity fund notes	Demand note	Members and affiliates	Unsecured
Revolving credit agreements	3 to 5 years	Bank institutions	Unsecured
Collateral trust bonds	Up to 30 years	Capital markets	Secured (1)
FFB notes payable	Up to 20 years	Government	Unsecured (2)
Farmer Mac notes payable	Up to 16 years	Private placement	Secured (3)
Medium-term notes	9 months to 30 years	Capital markets, members and affiliates	Unsecured
Other notes payable	Up to 30 years	Private placement	Both
Subordinated deferrable debt	Up to 30 years (4)	Capital markets	Unsecured (5)
Members' subordinated certificates	Up to 100 years (6)	Members	Unsecured (7)

(1) Secured by the pledge of permitted investments and eligible mortgage notes from distribution system borrowers in an amount at least equal to the outstanding principal amount of collateral trust bonds.
(2) Represents notes payable issued to the FFB with a guarantee of repayment by RUS under the Guaranteed Underwriter Program of the USDA, which supports the Rural Economic Development Loan and Grant program. We are required to maintain collateral on deposit equal to at least 100% of the outstanding balance of debt.
(3) 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 note purchase agreements with Farmer Mac.
(4) We have the right at any time and from time to time during the term of the subordinated deferrable debt to suspend interest payments for a period not exceeding 20 consecutive quarters. We have the right to call the subordinated deferrable debt at par any time after 10 years. To date, we have not exercised our option to suspend interest payments.
(5) Subordinated deferrable debt is subordinate and junior to senior debt and debt obligations we guarantee, but senior to subordinated certificates.
(6) Members' subordinated certificates generally mature 100 years subsequent to issuance. Loan and guarantee subordinated certificates have the same maturity as the related long-term loan. Some certificates also may amortize annually based on the outstanding loan balance. Member capital securities generally mature 30 years or 35 years subsequent to issuance. Member capital securities are callable at par beginning five or ten years subsequent to the date of issuance and anytime thereafter.
(7) Members' subordinated certificates are subordinate and junior to senior debt, subordinated debt and debt obligations we guarantee.

Table 9 provides information on our short-term borrowings in fiscal years 2015, 2014 and 2013.

Table 9: Short-Term Borrowings

	May 31, 2015				
(Dollars in thousands)	Amount Outstanding	Weighted-Average Interest Rate	Weighted-Average Maturity	Maximum Month-End Outstanding Amount	Average Outstanding Amount
Short-term borrowings:					
Commercial paper	$1,721,116	0.15 %	19 days	$3,184,166	$2,493,040
Select notes	671,635	0.29	41 days	671,635	587,971
Daily liquidity fund notes	509,131	0.08	1 day	588,872	505,060
Bank bid notes	—	—	—	—	438
Medium-term notes sold to dealers	—	—	—	—	—
Medium-term notes sold to members	225,872	0.65	160 days	229,160	216,335
Total short-term borrowings	$3,127,754	0.20	31 days		$3,802,844

	May 31, 2014				
(Dollars in thousands)	Amount Outstanding	Weighted-Average Interest Rate	Weighted-Average Maturity	Maximum Month-End Outstanding Amount	Average Outstanding Amount
Short-term borrowings:					
Commercial paper	$2,831,946	0.14 %	17 days	$3,723,948	$3,083,849
Select notes	548,610	0.27	41 days	605,536	485,839
Daily liquidity fund notes	486,501	0.06	1 day	715,539	585,104
Bank bid notes	20,000	0.60	9 days	150,000	127,315
Medium-term notes sold to dealers	—	—	—	325,000	54,167
Medium-term notes sold to members	212,274	0.63	135 days	218,535	200,833
Total short-term borrowings	$4,099,331	0.17	25 days		$4,537,107

	May 31, 2013				
(Dollars in thousands)	Amount Outstanding	Weighted-Average Interest Rate	Weighted-Average Maturity	Maximum Month-End Outstanding Amount	Average Outstanding Amount
Short-term borrowings:					
Commercial paper	$2,861,323	0.16 %	18 days	$3,514,679	$2,791,781
Select notes	358,390	0.34	50 days	376,858	142,742
Daily liquidity fund notes	680,419	0.10	1 day	680,419	579,091
Bank bid notes	150,000	0.53	20 days	295,000	225,836
Medium-term notes sold to dealers	325,000	0.28	153 days	325,000	270,833
Medium-term notes sold to members	182,302	0.93	70 days	226,171	194,408
Total short-term borrowings	$4,557,434	0.21	30 days		$4,204,691

We provide additional information on our borrowings in “Note 5—Short-Term Debt and Credit Arrangements,” “Note 6—Long-Term Debt” and “Note 7—Subordinated Deferrable Debt.”

Equity

Table 10 summarizes the components of equity as of May 31, 2015 and 2014.

Table 10: Equity

	May 31,		
(Dollars in thousands)	2015	2014	Change
Membership fees	$976	$973	$3
Educational fund	1,767	1,778	(11)
Total membership fees and educational fund	2,743	2,751	(8)
Patronage capital allocated	668,980	630,340	38,640
Members' capital reserve	501,731	485,447	16,284
Unallocated net income (loss)[1]	(6,135)	(6,238)	103
Total members' equity[1]	1,167,319	1,112,300	55,019
Prior year cumulative derivative forward value and foreign currency adjustments	(172,412)	(207,025)	34,613
Current year derivative forward value gain (loss)[2]	(114,665)	34,613	(149,278)
Cumulative derivative forward value and foreign currency adjustments	(287,077)	(172,412)	(114,665)
CFC retained equity	880,242	939,888	(59,646)
Accumulated other comprehensive income	4,080	3,649	431
Total CFC equity	884,322	943,537	(59,215)
Noncontrolling interests	27,464	26,837	627
Total equity	$911,786	$970,374	$(58,588)

[1] Excludes the derivative forward value gain (loss).
[2] Represents the derivative forward value gain (loss) recorded during the fiscal year.

The decrease in total equity of $59 million to $912 million as of May 31, 2015 was primarily attributable to our net loss of $19 million in fiscal year 2015 and CFC's Board of Directors July 2014 authorization of patronage capital retirement of $40 million.

In May 2014, the CFC Board of Directors authorized the allocation of $1 million of fiscal year 2014 adjusted net income to the Cooperative Educational Fund. In July 2014, the CFC Board of Directors authorized additional allocations of $75 million to the members' capital reserve and $79 million to members in the form of patronage capital for fiscal year 2014. In July 2014, the CFC Board of Directors also authorized the retirement of allocated patronage capital of $40 million, which represented 50% of the fiscal year 2014 allocation. The $40 million was distributed in cash to members in September 2014.

In December 2014, the RTFC Board of Directors authorized the allocation of 99% of fiscal year 2014 earnings to members, which totaled $1.2 million, and 1% to the Cooperative Educational Fund. Of the $1.2 million allocated to members, $1 million was distributed in the form of qualified written notices that may be redeemed at a later date and $0.2 million was distributed in cash. RTFC may retire additional amounts as determined by the board of directors with due regard for RTFC's financial condition.

In July 2015, the CFC Board of Directors authorized the allocation of fiscal year 2015 adjusted net income 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 capital. In July 2015, the CFC Board of Directors authorized the retirement of allocated adjusted net income totaling $39 million, which represented 50% of the fiscal year 2015 allocation. We expect to return this amount to members in cash in the second quarter of fiscal year 2016. Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors taking into consideration 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.

The NCSC Board of Directors has the authority to determine if and when net earnings will be allocated and retired.

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.

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 as of May 31, 2015 was 25.19-to-1, an increase from 23.01-to-1 as of May 31, 2014. The increase in the leverage ratio is due to the increase of $719 million in total liabilities and the decrease of $59 million in total equity, partially offset by the decrease of $78 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 6.58-to-1 and 6.24-to-1 as of May 31, 2015 and 2014, respectively. The increase in the adjusted leverage ratio was due to the increase of $828 million in adjusted liabilities and the decrease of $50 million in adjusted equity, partially offset by the decrease of $78 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 as of May 31, 2015 was 24.11-to-1, an increase from 21.91-to-1 as of May 31, 2014. The increase in the debt-to-equity ratio is due to the increase of $719 million in total liabilities and the decrease of $59 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 6.26-to-1 and 5.90-to-1 as of May 31, 2015 and 2014, respectively. The increase in the adjusted debt-to-equity ratio is due to the increase of $828 million in adjusted liabilities and the decrease of $50 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 recorded on our consolidated balance sheets, or may be recorded on our 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 which are 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 May 31, 2015 and 2014.

Table 11: Guarantees Outstanding

(Dollars in thousands)	2015	2014	Change
Guarantee type:			
Long-term tax-exempt bonds	$489,520	$518,360	$(28,840)
Letters of credit	382,233	431,064	(48,831)
Other guarantees	114,747	115,398	(651)
Total	$986,500	$1,064,822	$(78,322)
Company:			
CFC	$952,875	$997,187	$(44,312)
RTFC	1,574	2,304	(730)
NCSC	32,051	65,331	(33,280)
Total	$986,500	$1,064,822	$(78,322)

In addition to the letters of credit displayed in the above table, we had master letter of credit facilities in place as of May 31, 2015, under which we may be required to issue up to an additional $105 million in letters of credit to third parties for the benefit of our members. All of our master letter of credit facilities were subject to material adverse change clauses at the time of issuance as of May 31, 2015. Also, we had hybrid letter of credit facilities,which represent commitments that may be used at a borrower's option for the issuance of letters of credit or line of credit loan advances totaling $1,659 million as of May 31, 2015. This amount is included in the unadvanced loan commitments for line of credit loans total reported in “Note 3—Loans and Commitments.” Hybrid letter of credit facilities subject to material adverse change clauses at the time of issuance totaled $360 million as of May 31, 2015. 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. The remaining commitment under hybrid letter of credit facilities of $1,299 million may be used for the issuance of letters of credit as long as the borrower is in compliance with the terms and conditions of the facility.

We were the liquidity provider for variable-rate, tax-exempt bonds, issued for our member cooperatives, totaling $494 million as of May 31, 2015. 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 year ended May 31, 2015. In addition to being a liquidity provider, we also provided a guarantee for payment of all principal and interest amounts on $418 million of these bonds as of May 31, 2015, which is included in long-term tax-exempt bond guarantees in Table 11.

Of our total guarantee amounts, 56% and 61% as of May 31, 2015 and 2014, respectively, were secured by a mortgage lien on substantially all of the system’s assets and future revenue of the borrowers.

The decrease in total guarantees during the year ended May 31, 2015 was primarily due to a decrease in the total amount of letters of credit outstanding. We recorded a guarantee liability of $20 million and $22 million, respectively, as of May 31, 2015 and 2014, related to the contingent and non-contingent exposures for guarantee and liquidity obligations associated with our members’ debt.

Table 12 summarizes our off-balance sheet obligations as of May 31, 2015, and maturity of amounts during each of the next five fiscal years and thereafter.

Table 12: Maturities of Guarantee Obligations

	Outstanding	Maturities of Guaranteed Obligations					
(Dollars in thousands)	Balance	2016	2017	2018	2019	2020	Thereafter
Guarantees	$986,500	$207,330	$35,198	$209,711	$18,087	$63,345	$452,829

See "Note 12—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 May 31, 2015 and 2014. 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)	2015	% of Total		2014	% of Total	
Line of credit commitments:						
Not conditional[(1)]	$2,764,968	20	%	$2,274,388	16	%
Conditional[(2)]	6,529,159	46		6,927,417	50	
Total line of credit unadvanced commitments	9,294,127	66		9,201,805	66	
Total long-term loan unadvanced commitments	4,835,623	34		4,710,273	34	
Total	$14,129,750	100	%	$13,912,078	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 $2,765 million and $2,274 million as of May 31, 2015 and 2014, respectively. We record a liability for credit losses on our 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 May 31, 2015, and the maturity of amounts during each of the next five fiscal years.

Table 14: Notional Maturities of Unconditional Committed Lines of Credit

	Available	Notional Maturities of Unconditional Committed Lines of Credit				
(Dollars in thousands)	Balance	2016	2017	2018	2019	2020
Committed lines of credit	$2,764,968	$78,885	$288,752	$800,250	$965,968	$631,113

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. We do not record a reserve for credit losses on our consolidated balance sheets for these commitments, nor do we include them in our off-balance sheet guarantee amounts in Table 11 above because we consider them to be conditional.

Table 15 summarizes the available balance under unadvanced commitments as of May 31, 2015 and the related maturities by fiscal year and thereafter by loan type:

Table 15: Notional Maturities of Unadvanced Loan Commitments

	Available	Notional Maturities of Unadvanced Commitments					
(Dollars in thousands)	Balance	2016	2017	2018	2019	2020	Thereafter
Line of credit loans	$9,294,127	$5,370,133	$641,592	$1,194,842	$1,108,097	$802,063	$177,400
Long-term loans	4,835,623	862,311	1,046,660	851,338	1,046,234	985,439	43,641
Total	$14,129,750	$6,232,444	$1,688,252	$2,046,180	$2,154,331	$1,787,502	$221,041

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.

Unadvanced commitments related to line of credit loans are generally revolving facilities for periods not to exceed five years. It is our experience that unadvanced commitments related to line of credit loans are usually not fully drawn. We believe these conditions will continue for the following reasons:

- electric cooperatives generate a significant amount of cash from the collection of revenue from their customers, so they usually do not need to draw down on loan commitments to supplement operating cash flow;
- the majority of the line of credit unadvanced commitments provide backup liquidity to our borrowers; and
- 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 at the time of advance.

In our experience, unadvanced commitments related to term loans may not be fully drawn and borrowings occur in multiple transactions over an extended period of time. We believe these conditions will continue for the following reasons:

- electric cooperatives generally execute loan contracts to cover multi-year work plans and, as such, it is expected that advances on such loans will occur over a multi-year period;
- electric cooperatives generate a significant amount of cash from the collection of revenue from their customers, thus operating cash flow is available to reduce the amount of additional funding needed for capital expenditures and maintenance;
- we generally do not charge our borrowers a fee on long-term unadvanced commitments; and
- long-term unadvanced commitments generally expire five years from the date of the loan agreement.

RISK MANAGEMENT

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.”

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, accounts 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.

Credit Risk Profile—Loan and Guarantee Portfolio

Below we provide information on the credit risk profile of our loan and guarantee portfolio, including security provisions, loan concentration, nonperforming and restructured loans, and 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. Guarantee reimbursement obligations are generally secured on parity with other secured creditors by substantially all assets and revenue of the borrower or by the underlying financed asset. 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. Table 16 summarizes our secured and unsecured loans outstanding by loan type and by company as of May 31, 2015 and 2014.

Table 16 : Loan Security

	May 31, 2015						
(Dollars in thousands)	Secured	%		Unsecured	%		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)	$19,441,205	91		$2,018,015	9		$21,459,220
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)	$19,441,205	91		$2,018,015	9		$21,459,220

	May 31, 2014						
(Dollars in thousands)	Secured	%		Unsecured	%		Total
Loan type:							
Long-term fixed-rate loans	$17,185,456	95	%	$990,200	5	%	$18,175,656
Long-term variable-rate loans	650,211	86		103,707	14		753,918
Loans guaranteed by RUS	201,863	100		—	—		201,863
Line of credit loans	311,103	23		1,024,385	77		1,335,488
Total loans outstanding [1]	$18,348,633	90		$2,118,292	10		$20,466,925
Company:							
CFC	$17,313,990	90	%	$1,875,440	10	%	$19,189,430
RTFC	429,626	96		19,920	4		449,546
NCSC	605,017	73		222,932	27		827,949
Total loans outstanding [1]	$18,348,633	90		$2,118,292	10		$20,466,925

[1]Excludes deferred loan origination costs of $10 million as of May 31, 2015 and 2014.

Loan Concentration

Table 17 presents the total number of CFC, RTFC and NCSC borrowers by state or U.S. territory and the percentage of total loans outstanding as of May 31, 2015 and 2014. The percentage of total loans is based on the aggregate principal balance of the loans outstanding.

Table 17: Loan Concentration

State/Territory	May 31, 2015 Number of Borrowers	Loan Balance %		2014 Number of Borrowers	Loan Balance %	
Texas	73	14.92	%	73	15.43	%
Georgia	46	5.79		45	6.40	
Colorado	27	5.37		27	4.33	
Missouri	52	5.14		52	5.19	
Kansas	34	4.29		35	4.18	
Alaska	19	4.18		19	4.28	
Illinois	28	3.65		30	3.70	
Minnesota	57	3.43		56	3.33	
South Carolina	23	3.06		25	2.38	
Kentucky	25	2.97		25	3.34	
Oklahoma	27	2.96		28	2.98	
Florida	16	2.94		16	2.96	
Indiana	45	2.77		45	2.82	
North Carolina	29	2.46		30	2.69	
Arkansas	21	2.44		20	2.42	
Alabama	25	2.36		26	1.88	
Ohio	32	2.28		34	2.20	
North Dakota	14	2.26		12	2.09	
Pennsylvania	18	2.24		20	2.57	
Mississippi	19	2.09		20	1.78	
Iowa	40	2.03		41	2.15	
Utah	6	2.02		6	2.37	
Wisconsin	25	1.86		27	1.93	
Maryland	3	1.72		3	0.91	
Oregon	25	1.60		23	1.62	
Washington	11	1.52		11	1.65	
Nevada	5	1.49		5	1.54	
Louisiana	10	1.38		10	1.45	
Virginia	19	1.18		18	1.66	
Wyoming	15	1.17		13	1.27	
South Dakota	32	0.93		32	0.96	
Montana	25	0.75		26	0.76	
Arizona	12	0.70		12	0.97	
Idaho	13	0.64		13	0.70	
Delaware	2	0.56		1	0.11	
Michigan	15	0.55		16	0.61	
New Hampshire	2	0.44		2	0.52	
New Mexico	16	0.32		16	0.36	
Hawaii	2	0.32		2	0.22	
Tennessee	19	0.31		18	0.26	
Vermont	6	0.22		6	0.25	
Nebraska	19	0.16		20	0.21	
California	4	0.15		4	0.17	
New York	6	0.15		7	0.16	

New Jersey	3	0.10		3	0.10	
West Virginia	2	0.08		2	0.08	
Maine	4	0.05		4	0.06	
District of Columbia	—	—		1	—	
Total	971	100	%	980	100	%

The service territories of our electric and telecommunications members are located throughout the United States and its territories, including 49 states, the District of Columbia, American Samoa and Guam.

As of May 31, 2015 and 2014, the largest concentration of loans to borrowers in any one state was in Texas, which had approximately 15% of total loans outstanding. Two primary factors contributed to Texas having the largest percentage of total loans outstanding compared with other states as of May 31, 2015:

- Texas has the largest number of total borrowers compared with other states (see table above); and
- Texas has the largest number of power supply systems (10 of our 72 power supply system borrowers), which require significantly more capital than distribution systems and telecommunications systems.

The largest total outstanding exposure to a single borrower or controlled group represented approximately 2% of total loans and guarantees outstanding as of both May 31, 2015 and 2014. The 20 largest borrowers as of May 31, 2015 consisted of 12 distribution systems and 8 power supply systems. The 20 largest borrowers as of May 31, 2014 consisted of 11 distribution systems and 9 power supply systems. Table 18 displays the outstanding exposure of the 20 largest borrowers, by exposure type and by company, as of May 31, 2015 and 2014.

Table 18: Credit Exposure to 20 Largest Borrowers

(Dollars in thousands)	May 31, 2015 Amount	% of Total		2014 Amount	% of Total		Change	
By exposure type:								
Loans	$5,478,977	24	%	$5,070,799	24	%	$408,178	
Guarantees	374,189	2		555,818	2		(181,629	)
Total exposure to 20 largest borrowers	$5,853,166	26	%	$5,626,617	26	%	$226,549	
By company:								
CFC	$5,837,463	26	%	$5,328,333	25	%	$509,130	
NCSC	15,703	—		298,284	1		(282,581	)
Total exposure to 20 largest borrowers	$5,853,166	26	%	$5,626,617	26	%	$226,549	

Nonperforming and Restructured Loans

Table 19 summarizes nonperforming and restructured loans as a percentage of total loans and total loans and guarantees outstanding as of May 31, 2015, 2014, 2013, 2012 and 2011.

Table 19: Nonperforming and Restructured Loans

(Dollars in thousands)	2015		2014		2013		2012		2011	
Nonperforming loans [1]	$—		$2,095		$15,497		$41,213		$31,344	
Percent of loans outstanding	—	%	0.01	%	0.08	%	0.22	%	0.16	%
Percent of loans and guarantees outstanding	—		0.01		0.07		0.20		0.15	
Restructured loans	$11,736		$7,584		$46,953		$455,689		$474,381	
Percent of loans outstanding	0.05	%	0.04	%	0.23	%	2.41	%	2.45	%
Percent of loans and guarantees outstanding	0.05		0.04		0.22		2.26		2.32	
Total nonperforming and restructured loans	$11,736		$9,679		$62,450		$496,902		$505,725	
Percent of loans outstanding	0.05	%	0.05	%	0.31	%	2.63	%	2.61	%
Percent of loans and guarantees outstanding	0.05		0.05		0.29		2.46		2.47	
Total nonaccrual loans	$11,736		$9,679		$23,081		$41,213		$465,312	
Percent of loans outstanding	0.05	%	0.05	%	0.11	%	0.22	%	2.41	%
Percent of loans and guarantees outstanding	0.05		0.05		0.11		0.20		2.28	

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[1] All loans classified as nonperforming were on nonaccrual status.

A borrower is classified as nonperforming when any one of the following criteria is met:

- principal or interest payments on any loan to the borrower are past due 90 days or more;
- as a result of court proceedings, repayment on the original terms is not anticipated; or
- for some other reason, management does not expect the timely repayment of principal and interest.

Once a borrower is classified as nonperforming, we generally place the loan on nonaccrual status and reverse all accrued and unpaid interest back to the date of the last payment. Foregone interest on nonperforming and restructured loans totaled $1 million for the years ended May 31, 2015 and 2014.

There were no loans classified as nonperforming as of May 31, 2015. Nonperforming loans totaled $2 million or 0.01%, of loans outstanding as of May 31, 2014.

Restructured loans totaled $12 million, or 0.05%, of loans outstanding and $8 million, or 0.04%, of loans outstanding as of May 31, 2015 and 2014, respectively. All of our restructured loans are troubled debt restructurings. Each of our restructured loans were performing in accordance with the restructured terms as of May 31, 2015 and 2014. Interest income recognized on restructured loans was less than $1 million during the years ended May 31, 2015 and 2014.

We believe our allowance for loan losses related to nonperforming and restructured loans was adequate to cover our estimated loss exposure as of May 31, 2015 and 2014.

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 and a comparison of the allowance by company as of and for the years ended May 31, 2015, 2014, 2013, 2012 and 2011.

Table 20: Allowance for Loan Losses

	Year Ended May 31,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Beginning balance	$56,429	$54,325	$143,326	$161,177	$592,764
Provision for loan losses	(21,954)	3,498	(70,091)	(18,108)	(83,010)
Net (charge-offs) recoveries	(785)	(1,394)	(18,910)	257	(348,577)
Ending balance	$33,690	$56,429	$54,325	$143,326	$161,177
`					
Allowance for loan losses by company:					
CFC	$23,716	$45,600	$41,246	$126,941	$143,706
RTFC	4,533	4,282	9,158	8,562	8,389
NCSC	5,441	6,547	3,921	7,823	9,082
Total	$33,690	$56,429	$54,325	$143,326	$161,177
Allowance coverage ratios:					
As a percentage of total loans outstanding	0.16%	0.28%	0.27%	0.76%	0.84%
As a percentage of total nonperforming loans outstanding	—	2,693.51	350.55	347.77	514.22
As a percentage of total restructured loans outstanding	287.07	744.05	115.70	31.45	33.98
As a percentage of total loans on nonaccrual	287.07	583.00	235.37	347.77	34.64

Our allowance for loan losses decreased by $23 million during the year ended May 31, 2015 due primarily to a change to the estimated recovery rates used to determine the allowance for loan losses for the general portfolio. Our allowance for loan losses increased by $2 million during the year ended May 31, 2014 due primarily to an overall increase in loans outstanding.
See "Results of Operations—Provision for Loan Losses" and "Note 3—Loans and Commitments" for additional information. For information on our allowance methodology, see "Note 1—Summary of Significant Accounting Policies."

On a quarterly basis, we review all nonperforming and restructured borrowers, as well as certain additional borrowers selected based on known facts and circumstances, to determine if the loans to the borrowers are impaired and/or to determine if there are changes to a previously impaired loan. We calculate a borrower's impairment based on the expected future cash flows or the fair value of the collateral securing our loans to the borrower if cash flow cannot be estimated. As events related to the borrower take place and economic conditions and our assumptions change, the impairment calculations will change. At both May 31, 2015 and 2014, there was a total specific allowance for loan losses balance of $0.4 million related to impaired loans totaling $12 million and $10 million, respectively.

Counterparty 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.

Our derivative counterparties must be participants in one of our revolving credit agreements. We manage our derivate credit exposure through master netting arrangements and by diversifying our derivative transactions with multiple counterparties.
Our largest single counterparty exposure, based on the outstanding notional amount, represented approximately 19% and 21% of our total outstanding notional amount of derivatives as of May 31, 2015 and 2014, respectively. Our derivative counterparties had credit ratings ranging from Aa1 to Baa1 by Moody's and from AA- to BBB+ by S&P.

Rating Triggers for Derivatives

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 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.

Table 21 displays the notional amounts of our derivative contracts with rating triggers as of May 31, 2015 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 to or below Baa1/BBB+, Baa3/BBB- or Ba3/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	Payment Required by CFC		Payment Due to CFC	Net (Payable) Due	
Mutual rating trigger if ratings:						
fall to Baa1/BBB+	$5,122,355	$(180,384	)	$1,114	$(179,270	)
falls to Baa3/BBB-	1,789,236	(15,981	)	—	(15,981	)
falls below Baa3/BBB-	586,715	(24,333	)	—	(24,333	)
falls to or below Ba3/BB[1]	50,000	(6	)	—	(6	)
Total	$7,548,306	$(220,704	)	$1,114	$(219,590	)

[1] Rating trigger for counterparty falls to or below Ba3/BB, while rating trigger for CFC falls to or below Baa2/BBB 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 $218 million as of May 31, 2015. The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net asset position was $1 million as of May 31, 2015. There were no counterparties below the rating trigger level in the interest swap contracts with these counterparties as of May 31, 2015. If any counterparty would have a rating below the rating trigger level per the interest swap contact, we have the option to terminate all interest rate swaps with the respective counterparty. Because we use our interest rate swaps as part of our matched funding strategy, we generally do not terminate such agreements early. We will continue to evaluate the overall credit worthiness of these counterparties and monitor our overall matched funding position.

For additional information about the risks related to our business, see "Item 1A. Risk Factors."

LIQUIDITY RISK

We face liquidity risk in funding our loan portfolio and refinancing our maturing obligations. Our Asset Liability Committee monitors liquidity risk by establishing and monitoring liquidity targets, as well as strategies and tactics to meet those targets, and ensuring that sufficient liquidity is available for unanticipated contingencies. We manage our rollover risk by maintaining liquidity reserves. We had liquidity reserve access totaling $7,492 million as of May 31, 2015. Our liquidity reserve access consisted of cash and time deposits of $734 million, committed revolving credit agreements of $3,419 million, committed loan facilities from the FFB of $750 million, and, subject to market conditions, a revolving note purchase agreement with Farmer Mac of up to $2,589 million.

As of May 31, 2015, we had commercial paper, select notes and daily liquidity fund notes, including member investments, of $2,902 million scheduled to mature during the next 12 months. We expect to continue to maintain member investments in commercial paper, select notes and daily liquidity fund notes at recent levels of approximately $1,917 million. Dealer commercial paper and bank bid notes decreased to $985 million as of May 31, 2015, from $1,994 million as of May 31, 2014. In order to manage our short-term wholesale funding risk, we reduced our non-member outstanding short-term debt, which consists of dealer commercial paper, to an approximate range between $1,000 million and $1,250 million in the third quarter of fiscal year 2015. We intend to maintain our dealer commercial paper within that range for the foreseeable future. In order to access the commercial paper markets at attractive rates, we believe we need to maintain our current commercial paper credit ratings of F1 by Fitch, P-1 by Moody’s and A-1 by S&P.

We use our bank lines of credit primarily as backup liquidity for dealer and member commercial paper. We had $3,419 million in available lines of credit with various financial institutions as of May 31, 2015. 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.

Long-term debt maturing in the next 12 months and medium-term notes with an original maturity of one year or less totaled $1,939 million as of May 31, 2015. 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 under “Off-Balance Sheet Arrangements,” as of May 31, 2015, we were the liquidity provider for a total of $494 million of variable-rate tax-exempt bonds issued for our member cooperatives. During the year ended May 31, 2015, we were not required to perform as liquidity provider pursuant to these obligations.

As of May 31, 2015, we had a total of $382 million of letters of credit outstanding for the benefit of our members. That total includes $76 million for the purpose of providing liquidity for pollution control bonds. The remaining $306 million represents obligations for which we may be required to advance funds based on various trigger events included in the letters of credit. If we are required to advance funds, the member is obligated to pay such amounts to CFC.

We expect that our current sources of liquidity, coupled with our cash on hand of $249 million and time deposits of $485 million as of May 31, 2015, will allow us to meet our obligations and to fund our operations over the next 12 to 18 months.

Liquidity and Capital Resources Profile

The following section discusses our expected sources and uses of liquidity.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short- and long-term liquidity and capital resource needs. Table 22 summarizes, by remaining contractual maturity, our significant contractual cash obligations based on the undiscounted future cash payments as of May 31, 2015. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 22 excludes certain obligations where the obligation is subject to valuation based on market factors, such as derivatives. Contractual obligations related to entities included in foreclosed assets are also excluded from the table.

Table 22: Contractual Obligations

(Dollars in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Short-term debt	$3,128	$—	$—	$—	$—	$—	$3,128
Long-term debt	1,690	2,060	981	1,823	937	8,797	16,288
Subordinated deferrable debt	—	—	—	—	—	400	400
Members' subordinated certificates[1]	23	11	11	11	11	1,322	1,389
Contractual interest on long-term debt[2]	610	581	531	430	368	4,670	7,190
Total contractual obligations	$5,451	$2,652	$1,523	$2,264	$1,316	$15,189	$28,395

(1) Excludes loan subordinated certificates totaling $116 million that amortize annually based on the outstanding balance of the related loan and $0.2 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.
(2) Represents the interest obligation on our long-term debt based on terms and conditions as of May 31, 2015.

Projected Near-Term Sources and Uses of Liquidity

Table 23 shows the projected sources and uses of cash by quarter through the quarter ending November 30, 2016. In analyzing our projected liquidity position, we track key items identified in the table below. 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 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 May 31, 2015, 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 $2,979 million will exceed expected long-term loan repayments of $1,685 million by $1,294 million.

Table 23: Projected Sources and Uses of Liquidity [1]

	Projected Sources of Liquidity				Projected Uses of Liquidity				
(Dollars in millions)	Long-term Loan Amortization and Repayments	Other Loan Repayments	Debt Issuance Long-term Debt	Total Sources of Liquidity	Long-term Debt Maturities[3]	Other Loan Advances	Long-term Loan Advances	Total Uses of Liquidity	Cumulative Excess Sources over Uses of Liquidity [2]
4Q15									$734
1Q16	$404	$ 65	$ 570	$1,039	$162	$176	$ 777	$1,115	658
2Q16	256	40	1,560	1,856	843	17	1,005	1,865	649
3Q16	261	—	275	536	286	—	249	535	650
4Q16	235	—	580	815	648	—	169	817	648

1Q17	269	—	200	469	76	—	392	468	649
2Q17	260	—	420	680	294	—	387	681	648
Totals	$1,685	$ 105	$ 3,605	$5,395	$2,309	$193	$ 2,979	$5,481	

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[1]The dates presented are intended to reflect the end of each quarterly period through the quarter ending November 30, 2016.
[2]Cumulative excess sources over uses of liquidity includes cash and time deposits.
[3]Long-term debt maturities includes medium-term notes with an original maturity of less than one year.

The information presented in Table 23 represents our best estimate of our funding requirements and how we expect to manage those requirements through November 30, 2016. Our estimates assume that the balance of our time deposit investments will remain consistent with current levels over the next six quarters. We expect that these estimates will change quarterly based on the factors described above.

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 April 2016.

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.

Our bank lines of credit may be used for general corporate purposes; however, we use them primarily as backup liquidity for dealer and member commercial paper. Commercial paper issued through dealers totaled $985 million and represented 5% of total debt outstanding as of May 31, 2015.

Private Debt Issuance

We have access to liquidity from private debt issuances through a note purchase agreement 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. 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 a 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. During the year ended May 31, 2015, we borrowed a total of $480 million under the note purchase agreement with Farmer Mac. As of May 31, 2015, we had $1,911 million in debt outstanding under the Farmer Mac note purchase agreement and we had up to $2,589 million available under this agreement, subject to market conditions for debt issued by Farmer Mac. On July 7, 2015, we borrowed $180 million under the note purchase agreement with Farmer Mac and on July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac for an additional $300 million.

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. On November 18, 2014, we closed on a commitment from RUS to guarantee a loan from the FFB for additional funding of $250 million as part of the Guaranteed Underwriter Program with a 20-year maturity repayment period for advances made through October 15,

2017. During the year ended May 31, 2015, we borrowed $124 million under the Guaranteed Underwriter Program. As of May 31, 2015, we had up to $750 million available under committed loan facilities from the FFB as part of this program, of which a total of $500 million is available for advance through October 15, 2016 and a total of $250 million is available for advance through October 15, 2017. On July 31, 2015, we borrowed $250 million under the Guaranteed Underwriter Program.

Member Loan Repayments

Table 24 summarizes scheduled principal amortization of long-term loans in each of the five fiscal years following May 31, 2015 and thereafter.

Table 24: Member Loan Repayments

(Dollars in thousands)	Amortization [1]
2016	$1,142,236
2017	1,155,773
2018	1,013,021
2019	998,643
2020	997,081
Thereafter	15,114,256
Total	$20,421,010

[1] Represents scheduled amortization based on current rates without consideration for loans that reprice.

Member Loan Interest Payments

During the year ended May 31, 2015, interest income on the loan portfolio was $945 million, representing an average rate of 4.54% compared with 4.66% and 4.89% for the years ended May 31, 2014 and 2013, respectively. For the past three fiscal years, interest income on the loan portfolio has averaged $948 million. As of May 31, 2015, 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

As of May 31, 2015 and 2014, we had $3,420 million and $3,226 million, respectively, of commitments under revolving credit agreements. We had the ability to request up to $150 million of letters of credit under each agreement in place as of May 31, 2015, which would then reduce the amount available under the facility. Our bank lines of credit may be used for general corporate purposes; however, we use them primarily as backup liquidity for dealer and member commercial paper.

Table 25 presents the total available and the outstanding letters of credit under our revolving credit agreements as of May 31, 2015 and 2014.

Table 25: Revolving Credit Agreements

	Total Available		Letters of Credit Outstanding			
(Dollars in thousands)	2015	2014	2015	2014	Maturity	Annual Facility Fee [1]
Three-year agreement	$1,719,855	$—	$145	$—	October 28, 2017	7.5 basis points
Five-year agreement	1,699,000	—	1,000	—	October 28, 2019	10 basis points
Three-year agreement	—	1,036,000	—	—	October 28, 2016	10 basis points
Four-year agreement	—	1,122,500	—	—	October 28, 2017	10 basis points
Five-year agreement	—	1,065,609	—	1,891	October 28, 2018	10 basis points
Total	$3,418,855	$3,224,109	$1,145	$1,891		

[1] 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.

On October 28, 2014, we amended the $1,123 million four-year and $1,068 million five-year revolving credit agreements to increase the total aggregate amount of commitments under the four-year and five-year agreements to $1,720 million and

$1,700 million, respectively, and to extend the commitment termination date for the five-year agreement to October 28, 2019. Also, on October 28, 2014, we terminated the existing $1,036 million three-year revolving credit agreement that was scheduled to mature on October 28, 2016.

The facility fee and applicable margin under each agreement are determined by the pricing matrices in the agreements based on our senior unsecured credit ratings. With respect to the borrowings, we have the right to choose between a (i) Eurodollar rate plus an applicable margin or (ii) base rate calculated based on the greater of prime rate, the federal funds effective rate plus 0.50% or the one-month LIBOR rate plus 1%, plus an applicable margin. Our ability to borrow or obtain a letter of credit under all of the agreements is not conditioned on the absence of material adverse changes with regard to CFC. We also have the right, subject to certain terms and conditions, to increase the aggregate amount of the commitments under each of the three-year credit facility and the five-year credit facility to a maximum of $2,200 million.

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 27, we were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures as of May 31, 2015.

Member Investments

Table 26 shows the components of our member investments included in total debt outstanding as of May 31, 2015 and 2014.

Table 26: Member Investments

	2015			2014			Increase/
(Dollars in thousands)	Amount	% of Total [1]		Amount	% of Total [1]		(Decrease)
Commercial paper	$736,162	43	%	$858,389	30	%	$(122,227)
Select notes	671,635	100		548,610	100		123,025
Daily liquidity fund notes	509,131	100		486,501	100		22,630
Medium-term notes	618,170	18		498,262	18		119,908
Members' subordinated certificates	1,505,444	100		1,612,227	100		(106,783)
Total	$4,040,542			$4,003,989			$36,553
Percentage of total debt outstanding	19	%		19	%		

[1] Represents the percentage of each line item outstanding to our members.

Member investments averaged $4,212 million outstanding over the last three fiscal years. We view member investments as a more stable source of funding than capital market issuances.

Cash, Investments and Time Deposits

As of May 31, 2015, cash and time deposits totaled $734 million. The interest rate earned on the time deposits provides an overall benefit to our net interest yield. The total represents an additional source of liquidity that is available to support our operations.

Cash Flows from Operations

For the year ended May 31, 2015, cash flows provided by operating activities were $219 million compared with $190 million for the prior year. 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.

Compliance with Debt Covenants

As of May 31, 2015, we were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures.

For calculating the required financial covenants in our revolving credit agreements, we adjust net income, senior debt and total equity to exclude the non-cash adjustments from the accounting for derivative financial instruments and foreign currency translation. Additionally, the TIER and senior debt-to-total equity ratio include the following adjustments:

- The adjusted TIER, as defined by the agreements, represents the interest expense adjusted to include the derivative cash settlements plus net income prior to the cumulative effect of change in accounting principle and dividing that total by the interest expense adjusted to include the derivative cash settlements.
- The senior debt-to-total equity ratio includes adjustments to senior debt to exclude RUS-guaranteed loans, subordinated deferrable debt and members' subordinated certificates. Total equity is adjusted to include subordinated deferrable debt and members' subordinated certificates. Senior debt includes guarantees; however, it excludes:
guarantees for members where the long-term unsecured debt of the member is rated at least BBB+ by S&P or Baa1 by Moody's; and
the payment of principal and interest by the member on the guaranteed indebtedness if covered by insurance or reinsurance provided by an insurer having an insurance financial strength rating of AAA by S&P or Aaa by Moody's.
- The CAH results of operations, including impairment, and other comprehensive income are eliminated from the CFC financial results used to calculate both the adjusted TIER ratio and the senior debt-to-total equity ratio.

Table 27 represents our required and actual financial ratios under the revolving credit agreements at or for the years ended May 31, 2015 and 2014.

Table 27: Financial Ratios under Revolving Credit Agreements

	Requirement	Actual 2015	2014
Minimum average adjusted TIER over the six most recent fiscal quarters [1]	1.025	1.28	1.28
Minimum adjusted TIER for the most recent fiscal year [1] [2]	1.05	1.30	1.23
Maximum ratio of adjusted senior debt-to-total equity [1]	10.00	5.93	5.79

[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 $7,500 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 $10,000 million. As of May 31, 2015, the amount of our secured indebtedness for purposes of this provision of all three revolving credit agreements was $6,334 million.

The revolving credit agreements limit total investments in foreclosed assets held by CAH to $275 million without consent by the required banks. These investments as of May 31, 2015 did not exceed this limit.

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Table 28 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 May 31, 2015 and 2014.

Table 28: Financial Ratios under Indentures

		Actual	
	Requirement	2015	2014
Maximum ratio of adjusted senior debt to total equity (1)	20.00	7.41	6.74

(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.

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

Although not required, we typically maintain pledged collateral and collateral on deposit in excess of the required 100% of the outstanding balance of debt issued. However, our revolving credit agreements limit pledged collateral to 150% of the outstanding balance of debt issued. The excess collateral ensures that required collateral levels are maintained and, when an opportunity exists, facilitates timely execution of debt issuances by reducing or eliminating the lead time required to pledge collateral. Collateral levels fluctuate because:

- distribution and power supply loans typically amortize, while the debt issued under secured indentures and agreements typically has bullet maturities;
- individual loans may become ineligible for various reasons, some of which may be temporary; and
- distribution and power supply borrowers have the ability to prepay their loans.

We may request the return of collateral pledged or held on deposit in excess of the 100% of the principal balance requirement or may move the collateral from one program to another to facilitate a new debt issuance, provided that all conditions of eligibility under the different programs are satisfied.

The $4,407 million and $4,299 million, respectively, of notes payable to the FFB as of May 31, 2015 and 2014 contain a rating trigger related to our senior secured credit ratings from S&P, Moody's and Fitch. A rating trigger event occurs if our senior secured debt does not have at least two of the following ratings: (i) A- or higher from S&P, (ii) A3 or higher from Moody's, (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 $4,944 million as of May 31, 2015, would be pledged as collateral rather than held on deposit. 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. As of May 31, 2015, our senior secured debt ratings from S&P, Moody's and Fitch were A, A1 and A+, respectively. As of May 31, 2015, all three companies had our ratings on stable outlook. Subsequent to May 31, 2015, on July 6, 2015, S&P revised its outlook of CFC to negative.

The $4,407 million and $4,299 million of the notes payable to the FFB as of May 31, 2015 and 2014, respectively, have a second trigger requiring that a director on the CFC Board of Directors satisfies the requirements of a financial expert as defined by Section 407 of the Sarbanes-Oxley Act of 2002. A financial expert triggering event will occur if the financial expert position remains vacant for more than 90 consecutive days. If CFC does not satisfy the financial expert requirement, the mortgage notes on deposit at that time, which totaled $4,944 million as of May 31, 2015, would be pledged as collateral rather than held on deposit. The financial expert position on the CFC Board of Directors has been filled since March 2007.

Table 29 summarizes our secured debt or debt requiring collateral on deposit, the excess collateral pledged and our unencumbered loans as of May 31, 2015 and 2014.

Table 29: Unencumbered Loans

(Dollars in thousands)	May 31, 2015	2014
Total loans outstanding [(1)]	$21,459,220	$20,466,925
Less: Total secured debt or debt requiring collateral on deposit	(13,386,713)	(12,242,446)
Excess collateral pledged or on deposit [(2)]	(1,351,255)	(1,917,184)
Unencumbered loans	$6,721,252	$6,307,295
Unencumbered loans as a percentage of total loans	31%	31%

(1)Excludes deferred loan origination costs of $10 million as of May 31, 2015 and 2014.
(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 of equal value.

Table 30 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 May 31, 2015 and 2014.

Table 30: Collateral Pledged or on Deposit

	Requirement		Actual	
Debt Agreement	Debt Indenture Minimum	Revolving Credit Agreements Maximum	2015	2014
Collateral trust bonds 1994 indenture	100%	150%	106%	117%
Collateral trust bonds 2007 indenture	100	150	108	114
Farmer Mac	100	150	113	114
Clean Renewable Energy Bonds Series 2009A	100	150	117	117
FFB Series [(1) (2)]	100	150	112	118

(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.

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. As of May 31, 2015, unadvanced loan commitments totaled $14,130 million. Of that total, $2,765 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 19% of these 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 81% 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 $11,365 million of unadvanced loan commitments as of May 31, 2015 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 May 31, 2015.

We currently expect to make long-term loan advances totaling approximately $2,200 million to our members over the next 12 months.

Interest Expense on Debt

For the year ended May 31, 2015, interest expense on debt was $636 million, representing an average cost of 3.07% compared with 3.19% and 3.57% for the years ended May 31, 2014 and 2013, respectively. For the past three fiscal years, interest expense on debt has averaged $661 million. As of May 31, 2015, 81% of outstanding debt had a fixed interest rate and 19% had a variable interest rate.

Principal Repayments on Long-Term Debt

Table 31 summarizes the principal amount of long-term debt, subordinated deferrable debt and members' subordinated certificates maturing by fiscal year and thereafter as of May 31, 2015.

Table 31: Principal Maturity of Long-term Debt

(Dollars in thousands)	Amount Maturing [1]	Weighted-Average Interest Rate	
May 31, 2016	$1,712,830	2.13	%
May 31, 2017	2,071,649	2.20	
May 31, 2018	991,636	4.18	
May 31, 2019	1,832,114	6.89	
May 31, 2020	948,586	2.16	
Thereafter	10,519,830	3.31	
Total	$18,076,645	3.42	

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[1] Excludes loan subordinated certificates totaling $116 million that amortize annually based on the outstanding balance of the related loan and $0.2 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.

Patronage Capital Retirements

CFC has made annual retirements of allocated net earnings in 35 of the last 36 fiscal years. In July 2014, the CFC Board of Directors approved the allocation of $79 million from fiscal year 2014 net earnings to CFC's members. CFC made a cash payment of $40 million to its members in September 2014 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. 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 will make a cash payment of $39 million to its members in the second quarter of fiscal year 2016 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.

MARKET RISK

Market risk is the potential for adverse changes in the value of our assets and liabilities resulting from changes in market variables such as interest rates, volatilities or credit spreads. Interest rate risk represents our primary market risk.

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 32 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 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% and 10% of our total loan portfolio as of May 31, 2015 and 2014, respectively.

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 32 shows the scheduled amortization and repricing of fixed-rate assets and liabilities outstanding as of May 31, 2015.

Table 32: 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
Assets amortization and repricing	$2,144	$3,704	$2,662	$4,564	$4,741	$1,907	$19,722
Liabilities and members' equity:							
Long-term debt	$1,832	$3,464	$2,889	$3,610	$2,914	$696	$15,405
Subordinated certificates	44	75	61	746	210	718	1,854
Members' equity[1]	—	—	—	—	621	492	1,113
Total liabilities and members' equity	$1,876	$3,539	$2,950	$4,356	$3,745	$1,906	$18,372
Gap [2]	$268	$165	$(288)	$208	$996	$1	$1,350
Cumulative gap	268	433	145	353	1,349	1,350	
Cumulative gap as a % of total assets	1.17 %	1.89 %	0.63 %	1.54 %	5.89 %	5.90 %	
Cumulative gap as a % of adjusted total assets [3]	1.18	1.90	0.64	1.55	5.92	5.93	

[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 32.
[3] Adjusted total assets represents total assets reported in our condensed consolidated balance sheets less derivative assets.

We had $19,722 million of fixed-rate assets amortizing or repricing as of May 31, 2015. These assets were funded by $15,405 million of fixed-rate liabilities maturing during the next 30 years and $2,967 million of members' equity and members' subordinated certificates. A portion of members' equity does not have a scheduled maturity. The difference, or gap, of $1,350 million reflects the amount of fixed-rate assets that are funded with short-term debt as of May 31, 2015. The gap of $1,350 million represented 5.90% of total assets and 5.93% of total assets excluding derivative assets, or adjusted total assets, as of May 31, 2015.

Our Asset Liability Committee believes it is necessary to maintain an unmatched position on our fixed-rate assets within a limited percentage of adjusted total assets. Our limited unmatched position is intended to provide the 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. 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 manage interest rate risk through the use of derivatives and by 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. We discuss how we manage our liquidity risk above under "Liquidity Risk."

Financial Instruments

Table 33 provides information about our financial instruments other than derivatives that are sensitive to changes in interest rates. We provide additional information on our use of derivatives and exposure in "Note 1—Summary of

Significant Accounting Policies—Derivative Financial Instruments" and "Note 9—Derivative Financial Instruments". All of our financial instruments as of May 31, 2015 were entered into or contracted for purposes other than trading. For debt obligations, the table presents principal cash flows and related average interest rates by expected maturity dates as of May 31, 2015.

Table 33: Financial Instruments

			Principal Amortization and Maturities					
(Dollars in millions)	Outstanding Balance	Fair Value	2016	2017	2018	2019	2020	Remaining Years
Instruments:								
Assets:								
Investments in time deposits	$485	$485	$485	$—	$—	$—	$—	$—
Investments in equity securities	$84	$84	$—	$—	$—	$—	$—	$84
Long-term fixed-rate loans (1)	$19,722	$20,258	$1,085	$1,105	$966	$937	$948	$14,682
Average rate	4.82 %		4.40 %	4.24 %	4.54 %	4.59 %	4.68 %	4.94 %
Long-term variable-rate loans (2)	$699	$699	$58	$51	$47	$61	$49	$433
Average rate	2.83 %		—	—	—	—	—	—
Line of credit loans(3)	$1,038	$1,038	$1,038	$—	$—	$—	$—	$—
Average rate	2.42 %		2.42 %	—	—	—	—	—
Liabilities and equity:								
Short-term debt (4)	$3,128	$3,128	$3,128	$—	$—	$—	$—	$—
Average rate	0.20 %		0.20 %	—	—	—	—	—
Long-term debt	$16,288	$17,356	$1,690	$2,060	$981	$1,823	$937	$8,797
Average rate	3.30 %		2.12 %	2.19 %	4.20 %	6.91 %	2.12 %	3.07 %
Subordinated deferrable debt	$400	$406	$—	$—	$—	$—	$—	$400
Average rate	4.75 %		—	—	—	—	—	4.75 %
Membership sub certificates (5)	$1,389	$1,389	$23	$11	$11	$11	$11	$1,322
Average rate	4.42 %		2.62 %	4.10 %	2.90 %	3.60 %	5.39 %	4.46 %

(1) The principal amount of fixed-rate loans is the total of scheduled principal amortizations without consideration for loans that reprice. Includes $179 million of loans guaranteed by RUS and $7 million in restructured loans that were on nonaccrual status as of May 31, 2015.

(2) Long-term variable-rate loans include $0.2 million of loans guaranteed by RUS and $4 million in restructured loans that were on nonaccrual status as of May 31, 2015.

(3) Includes $0.3 million in restructured loans that were on nonaccrual status as of May 31, 2015.

(4) Short-term debt includes commercial paper, select notes, daily liquidity fund notes, bank bid notes and medium-term notes issued with an original maturity of one year or less..

(5) Carrying value and fair value exclude loan subordinated certificates totaling $116 million. These certificates amortize annually based on the outstanding balance of the related loan and $0.2 million in payments not received on certificates subscribed and unissued. 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.

Loan Repricing

Table 34 shows long-term fixed-rate loans outstanding as of May 31, 2015, which will be subject to interest rate repricing during the next five fiscal years and thereafter (due to principal repayments, amounts subject to interest rate repricing may be lower at the actual time of interest rate repricing).

Table 34: Loan Repricing

(Dollars in thousands)	Amount Repricing	Weighted-Average Interest Rate	
2016	$1,109,534	4.33	%
2017	959,394	4.27	
2018	908,432	4.59	
2019	703,827	4.87	
2020	443,321	5.17	
Thereafter	1,886,068	5.14	

OPERATIONAL RISK

Operational risk is inherent in all business activities and the management of such risk is important to the achievement of our objectives. Operational risk represents the risk of loss resulting from conducting our operations, including the execution of unauthorized transactions by employees; errors relating to loan documentation, transaction processing and technology; the inability to perfect liens on collateral; breaches of internal control and information systems; and the risk of fraud by employees or persons outside the Company. This risk of loss also includes potential legal actions that could arise as a result of operational deficiencies, noncompliance with covenants in our revolving credit agreements and indentures, employee misconduct or adverse business decisions. In the event of a breakdown in the internal control system, improper access to or operation of systems or improper employee actions, we could incur financial loss. Operational/business risk may also include breaches of our technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber-attacks.

We maintain business policies and procedures, employee training, an internal control framework and a comprehensive business continuity and disaster recovery plan that are intended to provide a sound operational environment. Our business policies and controls have been designed to manage operational risk at appropriate levels given our financial strength, the business environment and markets in which we operate, the nature of our businesses, and considering factors such as competition and regulation. Our Corporate Compliance group monitors compliance with established procedures that are designed to ensure adherence to generally accepted conduct, ethics and business practices defined in our corporate policies. We provide employee compliance training programs, such as for our “Code of Conduct” and those regarding information protection, suspicious activity reporting and operational risk. Our Internal Audit group examines the design and operating effectiveness of our internal controls and operational and financial reporting systems on an ongoing basis.

Our business continuity and disaster recovery plan establishes the basic principles and framework necessary to ensure emergency response, resumption, restoration and permanent recovery of CFC’s operations and business activities during a business interruption event. This plan includes a duplication of our production information systems at an off-site facility coupled with an extensive business continuity and recovery process to leverage those remote systems. Each of our departments are required to develop, exercise, test and maintain business resumption plans for the resumption and recovery of business functions and processing resources to minimize disruption for our members and other parties with whom we do business. We conduct disaster recovery exercises periodically that include both the information technology group and business areas. The business resumption plans are based on a risk assessment that considers potential losses due to unavailability of service versus the cost of resumption. These plans anticipate a variety of probable scenarios ranging from local to regional crises.

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 TIER

Our primary performance measure is TIER. TIER is calculated by adding the interest expense to net income prior to the cumulative effect of change in accounting principle and dividing that total by the interest expense. TIER is a measure of our ability to cover interest expense requirements on our debt. We adjust the TIER calculation to add the derivative cash settlements to the interest expense and to remove the derivative forward value and foreign currency adjustments from total net income. Adding the cash settlements back to the interest expense also has a corresponding effect on our adjusted net interest income. We make these adjustments to our TIER calculation for covenant compliance on our revolving credit agreements.

We use derivatives to manage interest rate risk on our funding of the loan portfolio. The derivative cash settlements represent the amount that we receive from or pay to our counterparties based on the interest rate indexes in our derivatives that do not qualify for hedge accounting. We adjust the reported interest expense to include the derivative cash settlements. We use the adjusted cost of funding to set interest rates on loans to our members and believe that the interest expense adjusted to include derivative cash settlements represents our total cost of funding for the period. For computing compliance with our revolving credit agreement covenants, we are required to adjust our interest expense to include the derivative cash settlements. TIER calculated by adding the derivative cash settlements to the interest expense reflects management’s perspective on our operations and, therefore, we believe that it represents a useful financial measure for investors.

The derivative forward value and foreign currency adjustments do not represent our cash inflows or outflows during the current period and, therefore, do not affect our current ability to cover our debt service obligations. The derivative forward value included in the derivative gains (losses) line of the statement of operations represents a present value estimate of the future cash inflows or outflows that will be recognized as net cash settlements for all periods through the maturity of our derivatives that do not qualify for hedge accounting. We have not issued foreign-denominated debt since 2007, and as of May 31, 2015 and 2014, there were no foreign currency derivative instruments outstanding.

For making operating decisions, we subtract the derivative forward value and foreign currency adjustments from our net income when calculating TIER and for other net income presentation purposes. The covenants in our revolving credit agreements also exclude the effects of derivative forward value and foreign currency adjustments. In addition, since the derivative forward value and foreign currency adjustments do not represent current period cash flows, we do not allocate such funds to our members and, therefore, exclude the derivative forward value and foreign currency adjustments from net income in calculating the amount of net income to be allocated to our members. TIER calculated by excluding the derivative forward value and foreign currency adjustments from net income reflects management’s perspective on our operations and, therefore, we believe that it represents a useful financial measure for investors.

Our total equity includes the non-cash impact of changes in derivative forward values and foreign currency adjustments that are recorded in net income. In addition, the accumulated other comprehensive income component of total equity includes the impact of changes in the fair value of derivatives designated as cash flow hedges as well as the remaining transition adjustment recorded when we adopted the accounting guidance requiring that all derivatives be recorded on the balance sheet at fair value. In evaluating our leverage and debt-to-equity ratios discussed further below, we make adjustments to equity similar to the adjustments made in calculating TIER. We exclude from total equity the cumulative impact of changes in derivative forward values and foreign currency adjustments and amounts included in accumulated other comprehensive income related to derivatives designated for cash flow hedge accounting and the remaining derivative transition adjustment to derive non-GAAP adjusted equity.

Table 35 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 for fiscal years 2015, 2014, 2013, 2012 and 2011.

Table 35: Adjusted Financial Measures - Income Statement

	Year Ended May 31,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Interest expense	$(635,684)	$(654,655)	$(692,025)	$(761,778)	$(841,080)
Plus: Derivative cash settlements	(82,906)	(73,962)	(56,461)	(12,846)	(6,848)
Adjusted interest expense	$(718,590)	$(728,617)	$(748,486)	$(774,624)	$(847,928)
Net interest income	$317,292	$302,885	$263,728	$199,183	$167,831
Less: Derivative cash settlements	(82,906)	(73,962)	(56,461)	(12,846)	(6,848)
Adjusted net interest income	$234,386	$228,923	$207,267	$186,337	$160,983
Net income	$(18,927)	$192,926	$358,087	$(148,797)	$151,215
Less: Derivative forward value	114,093	(39,541)	(141,304)	223,774	23,388
Adjusted net income	$95,166	$153,385	$216,783	$74,977	$174,603

TIER Calculation

Table 36 presents our TIER and adjusted TIER for the years ended May 2015, 2014, 2013, 2012 and 2011.

Table 36: TIER and Adjusted TIER

	Year Ended May 31,				
	2015	2014	2013	2012	2011
TIER [1] [2]	—	1.29	1.52	—	1.18
Adjusted TIER [3]	1.13	1.21	1.29	1.10	1.21

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

[2] For the years ended May 31, 2015 and May 31, 2012, we reported a net loss of $19 million and $149 million, respectively; therefore, the TIER for this period results in a value below 1.00.

[3] 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

Our adjusted leverage and debt-to-equity ratios include adjustments to:

- subtract debt used to fund loans that are guaranteed by RUS from total liabilities;
- subtract from total liabilities, and add to total equity, debt with equity characteristics issued to our members and in the capital markets; and
- exclude the non-cash impact of derivative financial instruments and foreign currency adjustments from total liabilities and total equity.

For computing compliance with our revolving credit agreement covenants, we are required to make these adjustments to our leverage ratio calculation. The revolving credit agreements prohibit us from incurring senior debt in an amount in excess of 10 times the sum of equity, members' subordinated certificates and subordinated deferrable debt, as defined by the agreements. In addition to the adjustments we make to calculate the adjusted leverage ratio, guarantees to our member systems that have an investment-grade rating from Moody's and S&P are excluded from the calculation of the leverage ratio under the terms of the revolving credit agreements.

We are an eligible lender under the RUS loan guarantee program. Loans issued under this program carry the U.S. government's guarantee of all interest and principal payments. We have little or no risk associated with the collection of principal and interest payments on these loans. Therefore, we believe there is little or no risk related to the repayment of the liabilities used to fund RUS-guaranteed loans and we subtract such liabilities from total liabilities to calculate our leverage and debt-to-equity ratios. For computing compliance with our revolving credit agreement covenants, we are required to adjust our leverage ratio by subtracting liabilities used to fund RUS-guaranteed loans from total liabilities. The leverage and debt-to-equity ratios adjusted to subtract debt used to fund RUS-guaranteed loans from total liabilities reflect management's perspective on our operations and, therefore, we believe that these are useful financial measures for investors.

Members may be required to purchase subordinated certificates as a condition of membership and as a condition to obtaining a loan or guarantee. The subordinated certificates are accounted for as debt under GAAP. The subordinated certificates have long-dated maturities and pay no interest or pay interest that is below market, and under certain conditions we are prohibited from making interest payments to members on the subordinated certificates. For computing compliance with our revolving credit agreement covenants, we are required to adjust our leverage ratio by subtracting members' subordinated certificates from total liabilities and adding members' subordinated certificates to total equity. The leverage and debt-to-equity ratios adjusted to treat members' subordinated certificates as equity rather than debt reflect management's perspective on our operations and, therefore, we believe these are useful financial measures for investors.

We also sell subordinated deferrable debt in the capital markets with maturities of up to 30 years and the option to defer interest payments. The characteristics of subordination, deferrable interest and long-dated maturity are all equity characteristics. For computing compliance with our revolving credit agreement covenants, we are required to adjust our leverage ratio by subtracting subordinated deferrable debt from total liabilities and adding it to total equity. The leverage and debt-to-equity ratios adjusted to treat subordinated deferrable debt as equity rather than debt reflect management's perspective on our operations and, therefore, we believe these are useful financial measures for investors.

We record derivative instruments at fair value on our consolidated balance sheets. For computing compliance with our revolving credit agreement covenants, we are required to adjust our leverage ratio by excluding the non-cash impact of our derivative accounting from liabilities and equity. The leverage and debt-to-equity ratios adjusted to exclude the impact of our derivative accounting from liabilities and equity reflect management's perspective on our operations and, therefore, we believe these are useful financial measures for investors. For computing compliance with our revolving credit agreement covenants, we are also required to adjust our leverage ratio by excluding the impact of foreign currency valuation adjustments from liabilities and equity. The leverage and debt-to-equity ratios adjusted to exclude the effect of foreign currency translation reflect management's perspective on our operations and, therefore, we believe these are useful financial measures for investors.

Table 37 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 and foreign currency 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 as of the years ended May 31, 2015, 2014, 2013, 2012 and 2011.

Table 37: Adjusted Financial Measures - Balance Sheet

(Dollars in thousands)	2015	2014	2013	2012	2011
Liabilities	$21,981,344	$21,262,369	$21,260,390	$19,460,580	$19,874,313
Less:					
Derivative liabilities	(408,382)	(388,208)	(475,278)	(654,125)	(477,433)
Debt used to fund loans guaranteed by RUS	(179,241)	(201,863)	(210,815)	(219,084)	(226,695)
Subordinated deferrable debt	(400,000)	(400,000)	(400,000)	(186,440)	(186,440)
Subordinated certificates	(1,505,444)	(1,612,227)	(1,766,402)	(1,739,454)	(1,813,652)
Adjusted liabilities	$19,488,277	$18,660,071	$18,407,895	$16,661,477	$17,170,093
Total equity	$911,786	$970,374	$811,261	$490,755	$687,309
Less:					
Prior year cumulative derivative forward value and foreign currency adjustments	185,181	224,722	366,026	142,252	118,864
Year-to-date derivative forward value (gains) losses, net	114,093	(39,541)	(141,304)	223,774	23,388
Accumulated other comprehensive income [(1)]	(5,371)	(6,320)	(7,287)	(8,270)	(9,273)
Plus:					
Subordinated certificates	1,505,444	1,612,227	1,766,402	1,739,454	1,813,652
Subordinated deferrable debt	400,000	400,000	400,000	186,440	186,440
Adjusted equity	$3,111,133	$3,161,462	$3,195,098	$2,774,405	$2,820,380
Guarantees [(2)]	$986,500	$1,064,822	$1,112,771	$1,249,330	$1,104,988

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(1) Represents the accumulated other comprehensive income related to derivatives. Excludes $4 million of accumulated other comprehensive income as of May 31, 2015, $0.4 million of accumulated other comprehensive loss as of May 31, 2014, and $1 million of accumulated other comprehensive income as of May 31, 2013 and 2012, related to the unrecognized gains on our investments. It also excludes $4 million and $2 million of accumulated other comprehensive loss related to foreclosed assets as of May 31, 2015 and 2014, respectively, and $1 million of accumulated other comprehensive loss related to a defined benefit pension plan as of May 31, 2015.
(2) Guarantees are used in the calculation of leverage and adjusted leverage ratios below.

Table 38 presents the calculations of our leverage and debt-to-equity ratios and our adjusted leverage and debt-to-equity ratios as of the years ended May 31, 2015, 2014, 2013, 2012 and 2011.

Table 38: Leverage and Debt-to-Equity and Adjusted Leverage and Adjusted Debt-to-Equity Ratios

	2015	2014	2013	2012	2011
Leverage ratio [(1)]	25.19	23.01	27.58	42.20	30.52
Adjusted leverage ratio [(2)]	6.58	6.24	6.11	6.46	6.48
Debt-to-equity ratio [(3)]	24.11	21.91	26.21	39.65	28.92
Adjusted debt-to-equity ratio [(4)]	6.26	5.90	5.76	6.01	6.09

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(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 37 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 37 above.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see “Item 7. MD&A—Market Risk” and “Note 9—Derivative Financial Instruments.”

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members of
National Rural Utilities Cooperative Finance Corporation
Dulles, Virginia

We have audited the accompanying consolidated balance sheets of National Rural Utilities Cooperative Finance Corporation and subsidiaries (the "Company") as of May 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the years in the two-year period ended May 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Rural Utilities Cooperative Finance Corporation and subsidiaries as of May 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

McLean, Virginia
August 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members of
National Rural Utilities Cooperative Finance Corporation
Dulles, Virginia

We have audited the consolidated balance sheet of National Rural Utilities Cooperative Finance Corporation and subsidiaries (the "Company") as of May 31, 2013, and the accompanying related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year ended May 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Rural Utilities Cooperative Finance Corporation and subsidiaries as of May 31, 2013, and the results of their operations and their cash flows for the year ended May 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
August 28, 2013

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended May 31,		
(Dollars in thousands)	2015	2014	2013
Interest income	$952,976	$957,540	$955,753
Interest expense	(635,684)	(654,655)	(692,025)
Net interest income	317,292	302,885	263,728
Provision for loan losses	21,954	(3,498)	70,091
Net interest income after provision for loan losses	339,246	299,387	333,819
Non-interest income:			
Fee and other income	36,783	17,762	38,181
Derivative gains (losses)	(196,999)	(34,421)	84,843
Results of operations of foreclosed assets	(120,148)	(13,494)	(897)
Total non-interest income	(280,364)	(30,153)	122,127
Non-interest expense:			
Salaries and employee benefits	(43,845)	(41,176)	(55,536)
Other general and administrative expenses	(32,685)	(31,390)	(28,646)
Provision for guarantee liability	520	(217)	4,772
Losses on early extinguishment of debt	(703)	(1,452)	(10,636)
Other	(687)	(69)	(5,064)
Total non-interest expense	(77,400)	(74,304)	(95,110)
Income (loss) before income taxes	(18,518)	194,930	360,836
Income tax expense	(409)	(2,004)	(2,749)
Net income (loss)	(18,927)	192,926	358,087
Less: Net income attributable to noncontrolling interests	(105)	(2,859)	(4,328)
Net income (loss) attributable to CFC	$(19,032)	$190,067	$353,759

See accompanying notes to consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended May 31,		
(Dollars in thousands)	2015	2014	2013
Net income (loss)	$(18,927)	$192,926	$358,087
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale investment securities	4,295	(1,455)	165
Unrealized losses on foreclosed assets	(1,938)	(2,310)	—
Reclassification of derivative losses to net income	(959)	(983)	(1,004)
Defined benefit plan adjustments	(977)	—	—
Other comprehensive income (loss)	421	(4,748)	(839)
Total comprehensive income (loss)	(18,506)	188,178	357,248
Less: Total comprehensive income attributable to noncontrolling interest	(95)	(2,843)	(4,307)
Total comprehensive income (loss) attributable to CFC	$(18,601)	$185,335	$352,941

See accompanying notes to consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

	May 31,	
(Dollars in thousands)	2015	2014
Assets:		
Cash and cash equivalents	$248,836	$338,715
Restricted cash	485	520
Time deposits	485,000	550,000
Investment securities	84,472	55,177
Loans to members	21,469,017	20,476,642
Less: Allowance for loan losses	(33,690)	(56,429)
Loans to members, net	21,435,327	20,420,213
Accrued interest and other receivables	197,828	200,656
Fixed assets, net	110,540	107,070
Debt service reserve funds	25,602	39,353
Debt issuance costs, net	47,071	42,058
Foreclosed assets, net	116,507	245,651
Derivative assets	115,276	209,759
Other assets	26,186	23,571
Total assets	$22,893,130	$22,232,743
Liabilities:		
Accrued interest payable	$123,697	$118,381
Debt outstanding:		
Short-term debt	3,127,754	4,099,331
Long-term debt	16,287,540	14,513,284
Subordinated deferrable debt	400,000	400,000
Members' subordinated certificates:		
Membership subordinated certificates	645,035	644,944
Loan and guarantee subordinated certificates	640,889	699,723
Member capital securities	219,520	267,560
Total members' subordinated certificates	1,505,444	1,612,227
Total debt outstanding	21,320,738	20,624,842
Deferred income	75,579	78,040
Derivative liabilities	408,382	388,208
Other liabilities	52,948	52,898
Total liabilities	21,981,344	21,262,369
Commitments and contingencies		
Equity:		
CFC equity:		
Retained equity	880,242	939,888
Accumulated other comprehensive income	4,080	3,649
Total CFC equity	884,322	943,537
Noncontrolling interest	27,464	26,837
Total equity	911,786	970,374
Total liabilities and equity	$22,893,130	$22,232,743

See accompanying notes to consolidated financial statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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, 2012	$2,413	$546,366	$272,126	$(346,941)	$473,964	$9,199	$483,163	$ 7,592	$490,755
Net income	920	81,449	138,133	133,257	353,759	—	353,759	4,328	358,087
Other comprehensive loss	—	—	—	—	—	(818)	(818)	(21)	(839)
Patronage capital retirement	—	(36,234)	—	429	(35,805)	—	(35,805)	(794)	(36,599)
Other	(828)	—	—	—	(828)	—	(828)	685	(143)
Balance as of May 31, 2013	$2,505	$591,581	$410,259	$(213,255)	$791,090	$8,381	$799,471	$ 11,790	$811,261
Net income	950	79,324	75,188	34,605	190,067	—	190,067	2,859	192,926
Other comprehensive loss	—	—	—	—	—	(4,732)	(4,732)	(16)	(4,748)
Patronage capital retirement	—	(40,565)	—	—	(40,565)	—	(40,565)	(400)	(40,965)
Other	(704)	—	—	—	(704)	—	(704)	12,604	11,900
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 income	927	78,420	16,283	(114,662)	(19,032)	—	(19,032)	105	