

## NON-GAAP FINANCIAL MEASURES

In addition to financial measures determined in accordance with GAAP, management evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. We provide a discussion of each of these non-GAAP measures in our 2017 Form 10-K under “Item 7. MD&A—Non-GAAP Measures.” Below we provide a reconciliation of our adjusted measures to the most comparable GAAP measures in this section. We believe our non-GAAP adjusted 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 management uses these metrics to compare operating results across financial reporting periods, for internal budgeting and forecasting purposes, for compensation decisions and for short- and long-term strategic planning decisions. In addition, certain of the financial covenants in our committed bank revolving line of credit agreements and debt indentures are based on our adjusted measures.

### Statements of Operations Non-GAAP Adjustments

Table 33 provides a reconciliation of adjusted interest expense, adjusted net interest income and adjusted net income to the comparable GAAP measures three and nine months ended February 28, 2018 and 2017. The adjusted amounts are used in the calculation of our adjusted net interest yield and adjusted TIER.

**Table 33: Adjusted Financial Measures — Income Statement**

(Dollars in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2018	2017	2018	2017
Interest expense .....	\$ (198,071)	\$ (186,740)	\$ (585,972)	\$ (551,474)
Include: Derivative cash settlements .....	(18,924)	(19,354)	(58,781)	(64,331)
Adjusted interest expense .....	<u>\$ (216,995)</u>	<u>\$ (206,094)</u>	<u>\$ (644,753)</u>	<u>\$ (615,805)</u>
Net interest income .....	\$ 73,397	\$ 73,180	\$ 217,234	\$ 222,437
Include: Derivative cash settlements .....	(18,924)	(19,354)	(58,781)	(64,331)
Adjusted net interest income .....	<u>\$ 54,473</u>	<u>\$ 53,826</u>	<u>\$ 158,453</u>	<u>\$ 158,106</u>
Net income .....	\$ 221,029	\$ 97,962	\$ 408,767	\$ 361,005
Exclude: Derivative forward value gains .....	186,972	61,809	306,224	259,153
Adjusted net income .....	<u>\$ 34,057</u>	<u>\$ 36,153</u>	<u>\$ 102,543</u>	<u>\$ 101,852</u>

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

### TIER and Adjusted TIER

Table 34 presents our TIER and adjusted TIER for the three and nine months ended February 28, 2018 and 2017.

**Table 34: TIER and Adjusted TIER**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2018	2017	2018	2017
TIER <sup>(1)</sup> .....	<u>2.12</u>	<u>1.52</u>	<u>1.70</u>	<u>1.65</u>
Adjusted TIER <sup>(2)</sup> .....	<u>1.16</u>	<u>1.18</u>	<u>1.16</u>	<u>1.17</u>

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

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

## Debt-to-Equity and Adjusted Debt-to-Equity

Table 35 provides a reconciliation between the liabilities and equity used to calculate the debt-to-equity and the adjusted debt-to-equity ratios as of February 28, 2018 and May 31, 2017. As indicated in the table below, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

**Table 35: Adjusted Financial Measures — Balance Sheet**

<b>(Dollars in thousands)</b>	<b>February 28, 2018</b>	<b>May 31, 2017</b>
Total liabilities .....	<b>\$ 25,017,303</b>	\$ 24,106,887
Exclude:		
Derivative liabilities .....	<b>282,892</b>	385,337
Debt used to fund loans guaranteed by RUS .....	<b>162,531</b>	167,395
Subordinated deferrable debt .....	<b>742,375</b>	742,274
Subordinated certificates .....	<b>1,379,693</b>	1,419,025
Adjusted total liabilities .....	<b>\$ 22,449,812</b>	\$ 21,392,856
Total equity .....	<b>\$ 1,459,104</b>	\$ 1,098,805
Include:		
Subordinated deferrable debt .....	<b>742,375</b>	742,274
Subordinated certificates .....	<b>1,379,693</b>	1,419,025
Total subordinated debt and certificates .....	<b>2,122,068</b>	2,161,299
Exclude:		
Prior year-end cumulative derivative forward value losses ....	<b>(340,976)</b>	(520,357)
Current year derivative forward value gains .....	<b>306,224</b>	179,381
Total cumulative derivative forward value losses .....	<b>(34,752)</b>	(340,976)
Accumulated other comprehensive income <sup>(1)</sup> .....	<b>3,159</b>	3,702
Adjusted total equity .....	<b>\$ 3,612,765</b>	\$ 3,597,378

(1) Represents the AOCI related to derivatives. See “Note 9—Equity” for a breakout of our AOCI components.

Table 36 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of February 28, 2018 and May 31, 2017.

**Table 36: Debt-to-Equity Ratio**

	<b>February 28, 2018</b>	<b>May 31, 2017</b>
Debt-to-equity ratio <sup>(1)</sup> .....	<b>17.15</b>	21.94
Adjusted debt-to-equity ratio <sup>(2)</sup> .....	<b>6.21</b>	5.95

(1) Calculated based on total liabilities as of the end of the period divided by total equity as of the end of the period.

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