
NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

As discussed above in the section “Introduction—Non-GAAP Financial Measures,” in addition to financial measures determined in accordance with U.S. GAAP, management evaluates performance based on certain non-GAAP financial measures, which we refer to as “adjusted” financial measures. Below we provide a reconciliation of our adjusted financial measures presented in this Report to the most comparable U.S. GAAP financial measures. See “Item 7. MD&A—Non-GAAP Financial Measures and Reconciliations” in our 2024 Form 10-K for a discussion of each of our non-GAAP financial measures and an explanation of the adjustments to derive these measures.

Net Income and Adjusted Net Income

Table 26 provides a reconciliation of adjusted interest expense, adjusted net interest income, adjusted total revenue and adjusted net income to the comparable U.S. GAAP financial measures. These adjusted financial measures are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 26: Adjusted Net Income

(Dollars in thousands)	Q1 FY2025	Q1 FY2024
Adjusted net interest income:		
Interest income.....	\$ 418,119	\$ 380,956
Interest expense.....	(356,460)	(316,281)
Include: Derivative cash settlements interest income ⁽¹⁾	32,061	27,869
Adjusted interest expense.....	<u>(324,399)</u>	<u>(288,412)</u>
Adjusted net interest income.....	<u>\$ 93,720</u>	<u>\$ 92,544</u>
Adjusted net income:		
Net income (loss).....	\$ (164,326)	\$ 228,284
Exclude: Derivative forward value gains (losses) ⁽²⁾	<u>(230,386)</u>	<u>162,018</u>
Adjusted net income.....	<u>\$ 66,060</u>	<u>\$ 66,266</u>

⁽¹⁾Represents the net periodic contractual interest income (expense) amount on our interest-rate swaps during the reporting period.

⁽²⁾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.

We primarily fund our loan portfolio through the issuance of debt. However, we use derivatives as economic hedges as part of our strategy to manage the interest rate risk associated with funding our loan portfolio. We therefore consider the interest income and expense incurred on our derivatives to be part of our funding cost in addition to the interest expense on our debt. As such, we add net periodic derivative cash settlements interest income and expense amounts to our reported interest expense to derive our adjusted interest expense and adjusted net interest income. We exclude unrealized derivative forward value gains and losses from our adjusted net income.

TIER and Adjusted TIER

Table 27 displays the calculation of our TIER and adjusted TIER.

Table 27: TIER and Adjusted TIER

	<u>Q1 FY2025</u>	<u>Q1 FY2024</u>
TIER ⁽¹⁾	0.54	1.72
Adjusted TIER ⁽²⁾	1.20	1.23

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

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

Liabilities and Equity and Adjusted Liabilities and Equity

Table 28 provides a reconciliation between our total liabilities and total equity and the adjusted amounts used in the calculation of our adjusted debt-to-equity ratio as of August 31, 2024 and May 31, 2024. As indicated in Table 28, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

Table 28: Adjusted Liabilities and Equity

(Dollars in thousands)	<u>August 31, 2024</u>	<u>May 31, 2024</u>
Adjusted total liabilities:		
Total liabilities	\$ 33,687,077	\$ 33,165,645
Exclude:		
Derivative liabilities	74,824	80,988
Debt used to fund loans guaranteed by RUS	111,861	113,890
Subordinated deferrable debt.....	1,286,907	1,286,861
Subordinated certificates	1,196,801	1,197,651
Adjusted total liabilities	<u>\$ 31,016,684</u>	<u>\$ 30,486,255</u>
Adjusted total equity:		
Total equity	\$ 2,801,264	\$ 3,012,169
Exclude:		
Prior fiscal year-end cumulative derivative forward value gains ⁽¹⁾	607,969	343,098
Year-to-date derivative forward value gains (losses) ⁽¹⁾	(230,386)	264,871
Period-end cumulative derivative forward value gains ⁽¹⁾	377,583	607,969
AOCI attributable to derivatives ⁽²⁾	636	703
Subtotal	<u>378,219</u>	<u>608,672</u>
Include:		
Subordinated deferrable debt.....	1,286,907	1,286,861
Subordinated certificates	1,196,801	1,197,651
Subtotal	<u>2,483,708</u>	<u>2,484,512</u>
Adjusted total equity	<u>\$ 4,906,753</u>	<u>\$ 4,888,009</u>

⁽¹⁾ Represents consolidated total derivative forward value gains (losses).

⁽²⁾ Represents the AOCI amount related to derivatives. See “Note 10—Equity” in this Report for the additional components of AOCI.

Debt-to-Equity and Adjusted Debt-to-Equity Ratios

Table 29 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of August 31, 2024 and May 31, 2024.

Table 29: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	August 31, 2024	May 31, 2024
Debt-to equity ratio:		
Total liabilities	\$ 33,687,077	\$ 33,165,645
Total equity	<u>2,801,264</u>	<u>3,012,169</u>
Debt-to-equity ratio ⁽¹⁾	<u>12.03</u>	<u>11.01</u>
Adjusted debt-to-equity ratio:		
Adjusted total liabilities ⁽²⁾	\$ 31,016,684	\$ 30,486,255
Adjusted total equity ⁽²⁾	<u>4,906,753</u>	<u>4,888,009</u>
Adjusted debt-to-equity ratio ⁽³⁾	<u>6.32</u>	<u>6.24</u>

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

⁽²⁾ See Table 28 above for details on the calculation of these non-GAAP financial measures and the reconciliation to the most comparable U.S. GAAP financial measures.

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

Total CFC Equity and Members' Equity

Members' equity excludes the noncash impact of derivative forward value gains (losses) and foreign currency adjustments recorded in net income and amounts recorded in AOCI. Because these amounts generally have not been realized, they are not available to members and are excluded by the CFC Board of Directors in determining the annual allocation of adjusted net income to patronage capital, to the members' capital reserve and to other member funds. Table 30 provides a reconciliation of members' equity to total CFC equity as of August 31, 2024 and May 31, 2024. We present the components of AOCI in "Note 10—Equity."

Table 30: Members' Equity

(Dollars in thousands)	August 31, 2024	May 31, 2024
Members' equity:		
Total CFC equity	\$ 2,781,039	\$ 2,991,462
Exclude:		
Accumulated other comprehensive loss	(684)	(1,416)
Period-end cumulative derivative forward value gains attributable to CFC ⁽¹⁾	<u>376,768</u>	<u>606,215</u>
Subtotal	<u>376,084</u>	<u>604,799</u>
Members' equity	<u>\$ 2,404,955</u>	<u>\$ 2,386,663</u>

⁽¹⁾ Represents period-end cumulative derivative forward value gains for CFC only, as total CFC equity does not include the noncontrolling interest of the variable interest entity, which we are required to consolidate. We report the separate results of operations for CFC in "Note 14—Business Segments." The period-end cumulative derivative forward value total gain amounts as of August 31, 2024 and May 31, 2024 are presented above in Table 28.