

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. Starting Q2 FY2025, we have refined our methodology for calculating the adjusted debt-to-equity ratio, which we explain in more detail below. For the remaining non-GAAP measures see “Item 7. MD&A—Non-GAAP Financial Measures and Reconciliations” in our 2024 Form 10-K for a discussion of each of these 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, 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)	Q2 FY2025	Q2 FY2024	YTD FY2025	YTD FY2024
Adjusted net interest income:				
Interest income	\$ 419,877	\$ 388,987	\$ 837,996	\$ 769,943
Interest expense	(354,443)	(323,845)	(710,903)	(640,126)
Include: Derivative cash settlements interest income ⁽¹⁾ ..	26,406	28,767	58,467	56,636
Adjusted interest expense	(328,037)	(295,078)	(652,436)	(583,490)
Adjusted net interest income	<u>\$ 91,840</u>	<u>\$ 93,909</u>	<u>\$ 185,560</u>	<u>\$ 186,453</u>
Adjusted net income:				
Net income (loss)	\$ 144,803	\$ 148,035	\$ (19,523)	\$ 376,319
Exclude: Derivative forward value gains (losses) ⁽²⁾	82,632	78,171	(147,754)	240,189
Adjusted net income	<u>\$ 62,171</u>	<u>\$ 69,864</u>	<u>\$ 128,231</u>	<u>\$ 136,130</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

	Q2 FY2025	Q2 FY2024	YTD FY2025	YTD FY2024
TIER ⁽¹⁾	1.41	1.46	0.97	1.59
Adjusted TIER ⁽²⁾	1.19	1.24	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.

Debt Outstanding and Equity and Adjusted Debt Outstanding and Equity

Adjusted debt-to-equity ratio is one of the key measures in managing our business and is used for: (i) establishing corporate goals; (ii) budgeting and forecasting; and (iii) monitoring our overall leverage and credit ratings. We therefore believe that this adjusted financial measure, in combination with the comparable U.S. GAAP financial measure, is useful to investors in evaluating our financial condition.

Beginning in Q2 FY2025, we have refined our methodology for calculating the adjusted debt-to-equity ratio and have adjusted our internally established adjusted threshold from 6-to-1 to 8.5-to-1. These changes aim to provide a more accurate representation of our financial condition given the continued growth in our loan portfolio, align our methodology more closely with rating agency methodologies and provide a ratio that is consistent with our business objectives. We will continue to assess the appropriateness of our non-GAAP financial measures, which could be subject to change for a variety of reasons, including changes to our strategy or business operations.

Key changes to our methodology included replacing total liabilities with total debt outstanding, which includes our interest-bearing debt and excludes non-interest bearing liabilities, and reducing equity credit for subordinated deferrable debt from 100% to 50%. Table 28 summarizes our prior methodology and revised methodology.

Table 28: Adjusted Total Debt Outstanding and Equity—Prior Versus Revised Methodology

<u>Prior Methodology</u>	<u>Revised Methodology</u>
Adjusted total liabilities:	Adjusted total debt outstanding:
Total liabilities	Total debt outstanding ⁽¹⁾
Exclude:	Exclude:
Derivative liabilities	—
Debt used to fund loans guaranteed by RUS	—
100% of Subordinated deferrable debt	50% of Subordinated deferrable debt
Members' subordinated certificates	Members' subordinated certificates
Adjusted total liabilities	Adjusted total debt outstanding
Adjusted total equity:	Adjusted total equity:
Total equity	Total equity
Exclude:	Exclude:
Period-end cumulative derivative forward value gains	Period-end cumulative derivative forward value gains
AOCI attributable to derivatives	AOCI
Include:	Include:
100% of Subordinated deferrable debt	50% of Subordinated deferrable debt
Members' subordinated certificates	Members' subordinated certificates
Adjusted total equity	Adjusted total equity

⁽¹⁾Total debt outstanding includes our interest-bearing debt and excludes non-interest bearing liabilities, such as derivative liabilities.

The most directly comparable financial measure calculated and presented in accordance with U.S. GAAP was also revised from total liabilities divided by total equity to total debt outstanding divided by total equity. Prior-period amounts have been recast to reflect the updated presentation for both adjusted debt-to-equity and debt-to-equity ratios.

Members' subordinated certificates are accounted for as debt under U.S. GAAP. These subordinated certificates are held only by our members and are subordinated to all senior and non-member subordinated indebtedness of CFC. The members' subordinated certificates have long-dated maturities and in certain cases pay no interest or pay interest that is below market. Under certain conditions we are prohibited from making interest payments to members on the subordinated certificates.

Given the subordinated certificates' equity-like characteristics, we subtract 100% of members' subordinated certificates from total debt outstanding and add them to total equity when calculating our adjusted debt-to-equity ratio.

We issue subordinated deferrable debt in the capital markets with maturities of up to 45 years including the option to defer interest payments. The characteristics of subordination, deferrable interest and long-dated maturity are all equity-like characteristics. Since the subordinated deferrable debt is issued in the capital markets and not just to members of CFC and it ranks higher in subordination compared to members' subordinated certificates, we subtract 50% of our subordinated deferrable debt from total debt outstanding and add it to total equity. This approach more closely aligns with the rating agencies' methodology for calculating the adjusted debt-to-equity ratio.

We record derivative instruments at fair value on our consolidated balance sheets. Our total equity includes the noncash impact of derivative forward value gains (losses) and foreign currency translation adjustments recorded in net income. It also includes as a component of AOCI the impact of changes in the fair value of derivatives designated as cash flow hedges as well as the unrealized losses on the defined benefit pension plan. In evaluating our adjusted debt-to-equity ratio, we make adjustments to equity similar to the adjustments made in calculating TIER. We exclude from total equity the noncash cumulative impact of changes in derivative forward value gains (losses) and foreign currency translation adjustments, and the amounts of AOCI, which reflects management's perspective on our operations and, therefore, we believe, is a useful financial measure for investors.

Table 29 provides a reconciliation between our total debt outstanding and total equity and the adjusted amounts used in the calculation of our adjusted debt-to-equity ratio as of November 30, 2024 and May 31, 2024.

Table 29: Adjusted Total Debt Outstanding and Equity

(Dollars in thousands)	November 30, 2024	May 31, 2024
Adjusted total debt outstanding:		
Total debt outstanding ⁽¹⁾	\$ 33,694,377	\$ 32,718,367
Exclude:		
50% of Subordinated deferrable debt	643,477	643,431
Members' subordinated certificates	1,195,365	1,197,651
Adjusted total debt outstanding	<u>\$ 31,855,535</u>	<u>\$ 30,877,285</u>
Adjusted total equity:		
Total equity	\$ 2,945,168	\$ 3,012,169
Exclude:		
Prior fiscal year-end cumulative derivative forward value gains ⁽²⁾	607,969	343,098
Year-to-date derivative forward value gains (losses) ⁽²⁾	(147,754)	264,871
Period-end cumulative derivative forward value gains ⁽²⁾	460,215	607,969
Accumulated other comprehensive loss	(1,342)	(1,416)
Subtotal	<u>458,873</u>	<u>606,553</u>
Include:		
50% of Subordinated deferrable debt	643,477	643,431
Members' subordinated certificates	1,195,365	1,197,651
Subtotal	<u>1,838,842</u>	<u>1,841,082</u>
Adjusted total equity	<u>\$ 4,325,137</u>	<u>\$ 4,246,698</u>

⁽¹⁾Total debt outstanding includes our interest-bearing debt and excludes non-interest bearing liabilities, such as derivative liabilities.

⁽²⁾Represents consolidated total derivative forward value gains (losses).

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

Table 30 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of November 30, 2024 and May 31, 2024.

Table 30: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	November 30, 2024	May 31, 2024
Debt-to equity ratio:		
Total debt outstanding	\$ 33,694,377	\$ 32,718,367
Total equity	2,945,168	3,012,169
Debt-to-equity ratio ⁽¹⁾	<u>11.44</u>	<u>10.86</u>
Adjusted debt-to-equity ratio:		
Adjusted total debt outstanding ⁽²⁾	\$ 31,855,535	\$ 30,877,285
Adjusted total equity ⁽²⁾	4,325,137	4,246,698
Adjusted debt-to-equity ratio ⁽³⁾	<u>7.37</u>	<u>7.27</u>

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

⁽²⁾See Table 29 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 debt outstanding 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 31 provides a reconciliation of members' equity to total CFC equity as of November 30, 2024 and May 31, 2024. We present the components of AOCI in "Note 10—Equity."

Table 31: Members' Equity

(Dollars in thousands)	November 30, 2024	May 31, 2024
Members' equity:		
Total CFC equity	\$ 2,924,581	\$ 2,991,462
Exclude:		
Accumulated other comprehensive loss	(1,342)	(1,416)
Period-end cumulative derivative forward value gains attributable to CFC ⁽¹⁾	<u>458,944</u>	<u>606,215</u>
Subtotal	<u>457,602</u>	<u>604,799</u>
Members' equity	<u>\$ 2,466,979</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 November 30, 2024 and May 31, 2024 are presented above in Table 29.