

NON-GAAP FINANCIAL MEASURES

As discussed above in the section “Summary of Selected Financial Data,” in addition to financial measures determined in accordance with U.S. GAAP, management evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Below we provide a reconciliation of our adjusted measures presented in this Report to the most comparable U.S. GAAP measures. See “Item 7. MD&A—Non-GAAP Measures” in our 2022 Form 10-K for a discussion of each of our non-GAAP measures and an explanation of the adjustments to derive these measures.

Net Income and Adjusted Net Income

Table 28 provides a reconciliation of adjusted interest expense, adjusted net interest income, adjusted total revenue and adjusted net income to the comparable U.S. GAAP measures for the three and nine months ended February 28, 2023 and 2022. These adjusted measures are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 28: Adjusted Net Income

(Dollars in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2023	2022	2023	2022
Adjusted net interest income:				
Interest income	\$ 353,292	\$ 285,206	\$ 984,464	\$ 851,626
Interest expense	(281,709)	(173,654)	(736,621)	(522,027)
Include: Derivative cash settlements interest income (expense) ⁽¹⁾	18,634	(26,212)	12,650	(79,727)
Adjusted interest expense	(263,075)	(199,866)	(723,971)	(601,754)
Adjusted net interest income	<u>\$ 90,217</u>	<u>\$ 85,340</u>	<u>\$ 260,493</u>	<u>\$ 249,872</u>
Adjusted total revenue:				
Net interest income	\$ 71,583	\$ 111,552	\$ 247,843	\$ 329,599
Fee and other income	5,326	4,270	13,548	13,042
Total revenue	76,909	115,822	261,391	342,641
Include: Derivative cash settlements interest income (expense) ⁽¹⁾	18,634	(26,212)	12,650	(79,727)
Adjusted total revenue	<u>\$ 95,543</u>	<u>\$ 89,610</u>	<u>\$ 274,041</u>	<u>\$ 262,914</u>
Adjusted net income:				
Net income	\$ 163,217	\$ 261,965	\$ 514,855	\$ 307,362
Exclude: Derivative forward value gains ⁽²⁾	83,674	195,492	330,035	122,930
Adjusted net income	<u>\$ 79,543</u>	<u>\$ 66,473</u>	<u>\$ 184,820</u>	<u>\$ 184,432</u>

⁽¹⁾Represents the net periodic contractual interest 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 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 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 total revenue and adjusted net income.

TIER and Adjusted TIER

Table 29 displays the calculation of our TIER and adjusted TIER for the three and nine months ended February 28, 2023 and 2022.

Table 29: TIER and Adjusted TIER

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2023	2022	2023	2022
TIER ⁽¹⁾	1.58	2.51	1.70	1.59
Adjusted TIER ⁽²⁾	1.30	1.33	1.26	1.31

⁽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 30 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 February 28, 2023 and May 31, 2022. As indicated in Table 30, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

Table 30: Adjusted Liabilities and Equity

(Dollars in thousands)	February 28, 2023	May 31, 2022
Adjusted total liabilities:		
Total liabilities	\$ 31,398,086	\$ 29,109,413
Exclude:		
Derivative liabilities	131,075	128,282
Debt used to fund loans guaranteed by RUS	124,861	131,128
Subordinated deferrable debt	986,678	986,518
Subordinated certificates	1,223,415	1,234,161
Adjusted total liabilities	<u>\$ 28,932,057</u>	<u>\$ 26,629,324</u>
Adjusted total equity:		
Total equity	\$ 2,603,426	\$ 2,141,969
Exclude:		
Prior fiscal year-end cumulative derivative forward value gains (losses) ⁽¹⁾	90,831	(467,036)
Year-to-date derivative forward value gains ⁽¹⁾	330,035	557,867
Period-end cumulative derivative forward value gains ⁽¹⁾	420,866	90,831
AOCI attributable to derivatives ⁽²⁾	1,081	1,341
Subtotal	<u>421,947</u>	<u>92,172</u>
Include:		
Subordinated deferrable debt	986,678	986,518
Subordinated certificates	1,223,415	1,234,161
Subtotal	<u>2,210,093</u>	<u>2,220,679</u>
Adjusted total equity	<u>\$ 4,391,572</u>	<u>\$ 4,270,476</u>

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

⁽²⁾ Represents the AOCI amount related to derivatives. See "Note 10—Equity" for the additional components of AOCI.

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

Table 31 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of February 28, 2023 and May 31, 2022.

Table 31: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	February 28, 2023	May 31, 2022
Debt-to equity ratio:		
Total liabilities	\$ 31,398,086	\$ 29,109,413
Total equity	2,603,426	2,141,969
Debt-to-equity ratio ⁽¹⁾	<u>12.06</u>	<u>13.59</u>
Adjusted debt-to-equity ratio:		
Adjusted total liabilities ⁽²⁾	\$ 28,932,057	\$ 26,629,324
Adjusted total equity ⁽²⁾	4,391,572	4,270,476
Adjusted debt-to-equity ratio ⁽³⁾	<u>6.59</u>	<u>6.24</u>

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

⁽²⁾ See Table 30 above for details on the calculation of these non-GAAP adjusted measures and the reconciliation to the most comparable U.S. GAAP 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 accumulated other comprehensive income. 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 32 provides a reconciliation of members' equity to total CFC equity as of February 28, 2023 and May 31, 2022. We present the components of accumulated other comprehensive income in "Note 10—Equity."

Table 32: Members' Equity

(Dollars in thousands)	February 28, 2023	May 31, 2022
Members' equity:		
Total CFC equity	\$ 2,575,793	\$ 2,114,573
Exclude:		
Accumulated other comprehensive income	8,694	2,258
Period-end cumulative derivative forward value gains attributable to CFC ⁽¹⁾	<u>419,895</u>	<u>92,363</u>
Subtotal	<u>428,589</u>	<u>94,621</u>
Members' equity	<u>\$ 2,147,204</u>	<u>\$ 2,019,952</u>

⁽¹⁾ Represents period-end cumulative derivative forward value gains for CFC only, as total CFC equity does not include the noncontrolling interests of the variable interest entities NCSC and RTFC, 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 gains amounts as of February 28, 2023 and May 31, 2022 are presented above in Table 30.