
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 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” in our 2023 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 25 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 for the three months ended August 31, 2023 and 2022. These adjusted financial measures are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 25: Adjusted Net Income

(Dollars in thousands)	Three Months Ended August 31,	
	2023	2022
Adjusted net interest income:		
Interest income	\$ 380,956	\$ 306,978
Interest expense	(316,281)	(209,468)
Include: Derivative cash settlements interest income (expense) ⁽¹⁾	27,869	(10,785)
Adjusted interest expense	(288,412)	(220,253)
Adjusted net interest income	<u>\$ 92,544</u>	<u>\$ 86,725</u>
Adjusted total revenue:		
Net interest income	\$ 64,675	\$ 97,510
Fee and other income	4,537	4,056
Total revenue	69,212	101,566
Include: Derivative cash settlements interest income (expense) ⁽¹⁾	27,869	(10,785)
Adjusted total revenue	<u>\$ 97,081</u>	<u>\$ 90,781</u>
Adjusted net income:		
Net income	\$ 228,284	\$ 161,874
Exclude: Derivative forward value gains ⁽²⁾	162,018	104,372
Adjusted net income	<u>\$ 66,266</u>	<u>\$ 57,502</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 26 displays the calculation of our TIER and adjusted TIER for the three months ended August 31, 2023 and 2022.

Table 26: TIER and Adjusted TIER

	Three Months Ended August 31,	
	2023	2022
TIER ⁽¹⁾	1.72	1.77
Adjusted TIER ⁽²⁾	1.23	1.26

⁽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 27 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, 2023 and May 31, 2023. As indicated in Table 27, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

Table 27: Adjusted Liabilities and Equity

(Dollars in thousands)	August 31, 2023	May 31, 2023
Adjusted total liabilities:		
Total liabilities	\$ 31,946,236	\$ 31,422,811
Exclude:		
Derivative liabilities	108,239	115,074
Debt used to fund loans guaranteed by RUS	120,553	122,873
Subordinated deferrable debt	1,184,197	1,283,436
Subordinated certificates	1,222,026	1,223,126
Adjusted total liabilities	<u>\$ 29,311,221</u>	<u>\$ 28,678,302</u>
Adjusted total equity:		
Total equity	\$ 2,747,927	\$ 2,589,249
Exclude:		
Prior fiscal year-end cumulative derivative forward value gains ⁽¹⁾	343,098	90,831
Year-to-date derivative forward value gains ⁽¹⁾	162,018	252,267
Period-end cumulative derivative forward value gains ⁽¹⁾	505,116	343,098
AOCI attributable to derivatives ⁽²⁾	923	1,001
Subtotal	<u>506,039</u>	<u>344,099</u>
Include:		
Subordinated deferrable debt	1,184,197	1,283,436
Subordinated certificates	1,222,026	1,223,126
Subtotal	<u>2,406,223</u>	<u>2,506,562</u>
Adjusted total equity	<u>\$ 4,648,111</u>	<u>\$ 4,751,712</u>

⁽¹⁾ Represents consolidated total derivative forward value gains.

⁽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 28 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of August 31, 2023 and May 31, 2023.

Table 28: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	August 31, 2023	May 31, 2023
Debt-to equity ratio:		
Total liabilities	\$ 31,946,236	\$ 31,422,811
Total equity	2,747,927	2,589,249
Debt-to-equity ratio ⁽¹⁾	<u>11.63</u>	<u>12.14</u>
Adjusted debt-to-equity ratio:		
Adjusted total liabilities ⁽²⁾	\$ 29,311,221	\$ 28,678,302
Adjusted total equity ⁽²⁾	4,648,111	4,751,712
Adjusted debt-to-equity ratio ⁽³⁾	<u>6.31</u>	<u>6.04</u>

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

⁽²⁾ See Table 27 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 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 29 provides a reconciliation of members' equity to total CFC equity as of August 31, 2023 and May 31, 2023. We present the components of accumulated other comprehensive income in "Note 10—Equity."

Table 29: Members' Equity

(Dollars in thousands)	August 31, 2023	May 31, 2023
Members' equity:		
Total CFC equity	\$ 2,717,385	\$ 2,562,059
Exclude:		
Accumulated other comprehensive income	8,241	8,343
Period-end cumulative derivative forward value gains attributable to CFC ⁽¹⁾	<u>503,878</u>	<u>342,624</u>
Subtotal	<u>512,119</u>	<u>350,967</u>
Members' equity	<u>\$ 2,205,266</u>	<u>\$ 2,211,092</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 gain amounts as of August 31, 2023 and May 31, 2023 are presented above in Table 27.