

NON-GAAP FINANCIAL MEASURES

As discussed above in the section “Summary of Selected Financial Data,” 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. Below we provide a reconciliation of our adjusted measures presented in this Report to the most comparable GAAP measures. See “Item 7. MD&A—Non-GAAP Measures” in our 2020 Form 10-K for a discussion of each of our non-GAAP measures and an explanation of the adjustments to derive these measures.

Adjusted Operational Financial Measures

Table 35 provides a reconciliation of adjusted interest expense, adjusted net interest income, adjusted total revenue and adjusted net income to the comparable GAAP measures for the three and nine months ended February 28, 2021 and February 29, 2020. These adjusted measures are used in the calculation of our adjusted net interest yield and adjusted TIER.

Table 35: Adjusted Financial Measures—Income Statement

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Adjusted interest expense:				
Interest expense	\$ (173,040)	\$ (203,040)	\$ (527,438)	\$ (624,182)
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted interest expense	<u>\$ (202,775)</u>	<u>\$ (217,394)</u>	<u>\$ (613,945)</u>	<u>\$ (663,729)</u>
Adjusted net interest income:				
Net interest income	\$ 105,132	\$ 84,155	\$ 306,817	\$ 240,065
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted net interest income	<u>\$ 75,397</u>	<u>\$ 69,801</u>	<u>\$ 220,310</u>	<u>\$ 200,518</u>
Adjusted total revenue:				
Total revenue	\$ 108,951	\$ 87,802	\$ 320,484	\$ 258,495
Include: Derivative cash settlements interest expense ⁽¹⁾	(29,735)	(14,354)	(86,507)	(39,547)
Adjusted total revenue	<u>\$ 79,216</u>	<u>\$ 73,448</u>	<u>\$ 233,977</u>	<u>\$ 218,948</u>
Adjusted net income:				
Net income (loss)	\$ 378,947	\$ (276,969)	\$ 684,055	\$ (359,448)
Exclude: Derivative forward value gains (losses) ⁽²⁾	359,931	(323,582)	558,266	(510,664)
Adjusted net income	<u>\$ 19,016</u>	<u>\$ 46,613</u>	<u>\$ 125,789</u>	<u>\$ 151,216</u>

⁽¹⁾Represents the net periodic contractual interest 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 funding cost in addition to the interest expense on our debt. As such, we add derivative cash settlements interest expense to our reported interest expense to derive our adjusted interest expense and adjusted net interest income. We exclude the unrealized derivative forward value gains and losses from our adjusted total revenue and adjusted net income.

TIER and Adjusted TIER

Table 36 displays the calculation of our TIER and adjusted TIER for the three and nine months ended February 28, 2021 and February 29, 2020.

Table 36: TIER and Adjusted TIER

	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
TIER ⁽¹⁾	3.19	—	2.30	0.42
Adjusted TIER ⁽²⁾	1.09	1.21	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-to-Equity and Adjusted Debt-to-Equity

Table 37 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, 2021 and May 31, 2020. As indicated in Table 37, subordinated debt is treated in the same manner as equity in calculating our adjusted-debt-to-equity ratio.

Table 37: Adjusted Financial Measures—Balance Sheet

(Dollars in thousands)	February 28, 2021	May 31, 2020
Total liabilities	\$ 28,146,399	\$ 27,508,783
Exclude:		
Derivative liabilities	655,749	1,258,459
Debt used to fund loans guaranteed by RUS	141,077	146,764
Subordinated deferrable debt	986,265	986,119
Subordinated certificates	1,257,024	1,339,618
Adjusted total liabilities	\$ 25,106,284	\$ 23,777,823
Total equity	\$ 1,268,589	\$ 648,822
Exclude:		
Prior fiscal year-end cumulative derivative forward value losses ⁽¹⁾	(1,088,982)	(354,704)
Year-to-date derivative forward value gains (losses) ⁽¹⁾	558,266	(734,278)
Period-end cumulative derivative forward value losses ⁽¹⁾	(530,716)	(1,088,982)
Accumulated other comprehensive income attributable to derivatives ⁽²⁾	1,817	2,130
Subtotal	(528,899)	(1,086,852)
Include:		
Subordinated deferrable debt	986,265	986,119
Subordinated certificates	1,257,024	1,339,618
Subtotal	2,243,289	2,325,737
Adjusted total equity	\$ 4,040,777	\$ 4,061,411

⁽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.

Table 38 displays the calculations of our debt-to-equity and adjusted debt-to-equity ratios as of February 28, 2021 and May 31, 2020.

Table 38: Debt-to-Equity Ratio and Adjusted Debt-to-Equity Ratio

(Dollars in thousands)	February 28, 2021	May 31, 2020
Debt-to equity ratio:		
Total liabilities	\$ 28,146,399	\$ 27,508,783
Total equity	1,268,589	648,822
Debt-to-equity ratio ⁽¹⁾	22.19	42.40
Adjusted debt-to-equity ratio:		
Adjusted total liabilities ⁽²⁾	\$ 25,106,284	\$ 23,777,823
Adjusted total equity ⁽²⁾	4,040,777	4,061,411
Adjusted debt-to-equity ratio ⁽³⁾	6.21	5.85

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

⁽²⁾ See Table 37 above for details on the calculation of these non-GAAP adjusted measures and the reconciliation to the most comparable GAAP measures.

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

Members' Equity

Members' equity represents equity attributable to CFC members. Table 39 provides a reconciliation of members' equity to total CFC equity as of February 28, 2021 and May 31, 2020.

Table 39: Members' Equity

(Dollars in thousands)	February 28, 2021	May 31, 2020
Members' equity:		
Total CFC equity	\$ 1,244,067	\$ 626,121
Exclude:		
Accumulated other comprehensive loss	(1,659)	(1,910)
Period-end cumulative derivative forward value losses attributable to CFC ⁽¹⁾	(524,434)	(1,079,739)
Subtotal	(526,093)	(1,081,649)
Members' equity	\$ 1,770,160	\$ 1,707,770

⁽¹⁾ Represents period-end cumulative derivative forward value losses 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 loss amounts as of February 28, 2021 and May 31, 2020 are presented above in Table 37.