



FINANCIAL REPORT

For the Quarter Ended June 30, 2014

Table of Contents

Financial Statements

The following information concerning Farmer Mac II LLC's unaudited financial statements is included in this report beginning on the pages listed below:

Balance Sheets.....	3
Statements of Operations	4
Statements of Comprehensive Income.....	5
Statements of Members' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview	16
Critical Accounting Policies and Estimates	16
Results of Operations	16
Balance Sheet Analysis	17
Liquidity and Capital Resources	17

FARMER MAC II LLC
BALANCE SHEETS
(unaudited)

	As of	
	June 30, 2014	December 31, 2013
<i>(in thousands)</i>		
Assets:		
Cash and cash equivalents	\$ 5,745	\$ 9,074
Farmer Mac Guaranteed USDA Securities:		
Available-for-sale, at fair value	20,714	20,891
USDA Securities:		
Available-for-sale, at fair value	1,636,930	1,553,669
Trading, at fair value	46,099	58,344
Total USDA Securities	<u>1,683,029</u>	<u>1,612,013</u>
Interest receivable	16,739	23,225
Other assets	536	205
Total Assets	<u>\$ 1,726,763</u>	<u>\$ 1,665,408</u>
Liabilities and Members' Equity:		
Liabilities:		
Intercompany borrowings	\$ 383,000	\$ 375,000
Accounts payable and accrued expenses	208	349
Total Liabilities	<u>383,208</u>	<u>375,349</u>
Members' Equity:		
Preferred stock, par value \$1,000 per share, 250,000 shares authorized and outstanding (redemption value \$250,000,000)	241,853	241,853
Common stock, no par value	1,020,168	1,020,168
Accumulated other comprehensive income/(loss) related to available-for-sale securities	4,078	(40,680)
Retained earnings	77,456	68,718
Total Members' Equity	<u>1,343,555</u>	<u>1,290,059</u>
Total Liabilities and Members' Equity	<u>\$ 1,726,763</u>	<u>\$ 1,665,408</u>

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF OPERATIONS
(unaudited)

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
	<i>(in thousands)</i>			
Interest income:				
USDA and Farmer Mac Guaranteed USDA Securities	\$ 12,882	\$ 12,271	\$ 25,344	\$ 24,698
Interest expense	<u>2,602</u>	<u>2,472</u>	<u>5,210</u>	<u>5,008</u>
Net interest income	<u>10,280</u>	<u>9,799</u>	<u>20,134</u>	<u>19,690</u>
Non-interest (loss)/income:				
(Losses)/gains on trading assets	(158)	(448)	219	(434)
Other income	<u>9</u>	<u>257</u>	<u>34</u>	<u>458</u>
Non-interest (loss)/income	<u>(149)</u>	<u>(191)</u>	<u>253</u>	<u>24</u>
Non-interest expense:				
General and administrative	<u>267</u>	<u>280</u>	<u>555</u>	<u>575</u>
Non-interest expense	<u>267</u>	<u>280</u>	<u>555</u>	<u>575</u>
Net income	9,864	9,328	19,832	19,139
Preferred stock dividends	<u>(5,547)</u>	<u>(5,547)</u>	<u>(11,094)</u>	<u>(11,094)</u>
Net income attributable to common stockholders	<u>\$ 4,317</u>	<u>\$ 3,781</u>	<u>\$ 8,738</u>	<u>\$ 8,045</u>

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	<i>(in thousands)</i>			
Net income	\$ 9,864	\$ 9,328	\$ 19,832	\$ 19,139
Other comprehensive income/(loss):				
Unrealized holding gains/(losses) on securities	4,755	(60,818)	44,758	(30,349)
Comprehensive income/(loss)	\$ 14,619	\$ (51,490)	\$ 64,590	\$ (11,210)

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF MEMBERS' EQUITY
(unaudited)

	For the Six Months Ended			
	June 30, 2014		June 30, 2013	
	Shares	Amount	Shares	Amount
	<i>(in thousands)</i>			
Preferred stock:				
Balance, beginning of period	250	\$ 241,853	250	\$ 241,853
Balance, end of period	250	\$ 241,853	250	\$ 241,853
Common stock:				
Balance, beginning of period		\$ 1,020,168		\$ 1,020,168
Balance, end of period		\$ 1,020,168		\$ 1,020,168
Retained earnings:				
Balance, beginning of period		\$ 68,718		\$ 52,323
Net income		19,832		19,139
Preferred stock dividends		(11,094)		(11,094)
Balance, end of period		\$ 77,456		\$ 60,368
Accumulated other comprehensive income/(loss):				
Balance, beginning of period		\$ (40,680)		\$ 20,341
Other comprehensive income/(loss)		44,758		(30,349)
Balance, end of period		\$ 4,078		\$ (10,008)
Total Members' Equity		<u>\$ 1,343,555</u>		<u>\$ 1,312,381</u>

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 19,832	\$ 19,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on USDA and Farmer Mac Guaranteed USDA Securities	929	1,812
Net change in fair value of trading securities	(219)	434
Net change in:		
Interest receivable	6,486	7,518
Other assets	(123)	59
Other liabilities	(349)	(20)
Net cash provided by operating activities	26,556	28,942
Cash flows from investing activities:		
Purchases of USDA and Farmer Mac Guaranteed USDA Securities	(158,769)	(233,084)
Proceeds from repayment of USDA and Farmer Mac Guaranteed USDA Securities	131,978	174,675
Net cash used in investing activities	(26,791)	(58,409)
Cash flows from financing activities:		
Dividends paid on preferred stock	(11,094)	(11,094)
Proceeds from intercompany borrowings	8,000	24,000
Net cash (used)/provided by financing activities	(3,094)	12,906
Net decrease in cash and cash equivalents	(3,329)	(16,561)
Cash and cash equivalents at beginning of period	9,074	22,610
Cash and cash equivalents at end of period	\$ 5,745	\$ 6,049

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accounting and reporting policies of Farmer Mac II LLC (the “Company”) conform to accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”). The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. These financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac II LLC for the periods presented. Certain footnote disclosures normally included in the annual financial statements have been omitted. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

2. Description of the Business

On December 10, 2009, Farmer Mac II LLC was formed as a Delaware limited liability company. The Company was established to operate the Federal Agricultural Mortgage Corporation's (“Farmer Mac”) USDA Guarantees line of business. Under the USDA Guarantees line of business, the Company purchases the portion of loans guaranteed by the United States Department of Agriculture (“USDA Securities”) pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et. seq.). The Company's principal source of revenue is net interest income earned on the portfolios of USDA Securities and Farmer Mac Guaranteed Securities that have Farmer Mac's guarantee of timely payment of principal and interest in addition to the USDA Guarantee (“Farmer Mac Guaranteed USDA Securities”), together referred to as “USDA and Farmer Mac Guaranteed USDA Securities.”

3. Related Party Transactions

Farmer Mac II LLC is an operating subsidiary of Farmer Mac. In December 2009, the Company issued common stock to Farmer Mac, the sole Member of the Company as of December 31, 2009, in exchange for cash, as the initial transaction after formation of the Company. During second quarter 2014, Farmer Mac purchased \$6.0 million of the outstanding trust securities, called Farm Asset-Linked Capital Securities or “FALConS,” representing undivided beneficial ownership interests in shares of Farmer Mac II LLC Preferred Stock, from certain holders.

The Company has an uncommitted intercompany borrowing facility with Farmer Mac in the aggregate principal amount of up to \$500.0 million and pays an administrative fee to Farmer Mac in connection with each borrowing under the facility. As of June 30, 2014 and December 31, 2013, there were \$383.0 million and \$375.0 million, respectively, of borrowings outstanding under the facility. During the three and six months ended June 30, 2014, the Company incurred interest expense of \$2.6 million and \$5.2 million, respectively, for borrowings under this facility, compared to \$2.5 million and \$5.0 million for the same periods in 2013. Principal on loans under the facility is payable on the last business day of each calendar month but, with Farmer Mac approval, may be refinanced in whole or in part, on a month-by-month basis, provided that no event of default under the facility has occurred and is continuing. The interest rate on loans is Farmer Mac's estimated cost of funds plus a credit spread capped at 0.50 percent.

Pursuant to a Secondment Agreement and a Management and Administrative Services Agreement, Farmer Mac provides various services to the Company, including management of the day-to-day business and marketing, administrative, accounting and reporting, risk management and other activities of the Company, including access to and use of office space within Farmer Mac's corporate offices and information technology services. During the three and six months ended June 30, 2014 and 2013, the costs of these services were \$0.2 million and \$0.4 million, respectively.

The Company has agreed to reimburse Farmer Mac for all expenses reasonably incurred by or on its behalf by Farmer Mac in the course of the performance by Farmer Mac employees under the Secondment and Management and Administrative Services Agreements, subject to certain caps. The Company has agreed to indemnify Farmer Mac and its respective officers, directors, and employees against any and all out-of-pocket liabilities, losses, damages, costs, and expenses incurred by them arising out of a claim against any of them to the extent that it directly results from the provision under the Secondment or Management and Administrative Services Agreements.

The Company has an Administrator Agreement with Zions First National Bank ("Zions"). Zions is the largest holder of Farmer Mac's outstanding Class A voting stock and a large holder of Farmer Mac's outstanding Class C non-voting common stock as of June 30, 2014 and 2013. Farmer Mac II LLC from time to time enters into or engages in various business transactions with Zions. During the three and six months ended June 30, 2014, Zions retained fees of \$66,000 and \$136,000, respectively, netted out of interest income, in connection with the Administrator Agreement, compared to \$71,000 and \$143,000 for the same periods in 2013.

Transactions between Farmer Mac II LLC and Farmer Mac are conducted on an arms-length basis.

4. Significant Accounting Policies

Cash and Cash Equivalents and Statement of Cash Flows

The Company considers highly liquid investment securities with original maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the statement of cash flows. There was no material non-cash activity for the three and six months ended June 30, 2014 and 2013.

Income Taxes

The Company is a multi-member LLC and is treated as a partnership for federal and state income tax purposes. As such, the taxable income that results from the Company's operations is passed through to its members who are responsible for paying the taxes on that income. Accordingly, the Company makes no tax payments and has no accrual for income taxes. The Company, by virtue of its relationship with Farmer Mac, is exempt from state and local income taxes.

Fair Value Measurements

The Company accounts for all USDA and Farmer Mac Guaranteed Securities at fair value on a recurring basis. The Company categorizes these securities into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest

level input that is significant to the fair value measurement of the security. The three levels used to classify fair value measurements are described as follows:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require unobservable inputs that are significant to the fair value measurement.

The Company estimates the fair value of its USDA and Farmer Mac Guaranteed USDA Securities by discounting the projected cash flows of these instruments. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. As of June 30, 2014 and December 31, 2013, the Company classified all of its assets measured at fair value as Level 3. On a sample basis, the Company corroborates the fair value of its securities by obtaining a secondary valuation from an independent third-party pricing service.

5. USDA and Farmer Mac Guaranteed USDA Securities

The following table sets forth information about USDA and Farmer Mac Guaranteed USDA Securities as of June 30, 2014 and 2013:

	As of June 30, 2014			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
<i>(in thousands)</i>				
Available-for-sale:				
USDA Securities	\$ 1,633,691	\$ 5,716	\$ (2,477)	\$ 1,636,930
Farmer Mac Guaranteed USDA Securities	19,874	840	—	20,714
Total available-for-sale	<u>\$ 1,653,565</u>	<u>\$ 6,556</u>	<u>\$ (2,477)</u>	<u>\$ 1,657,644</u>
Trading:				
USDA Securities	47,881	147	(1,929)	46,099
Total USDA and Farmer Mac Guaranteed USDA Securities	<u>\$ 1,701,446</u>	<u>\$ 6,703</u>	<u>\$ (4,406)</u>	<u>\$ 1,703,743</u>
As of December 31, 2013				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(in thousands)</i>				
Available-for-sale:				
USDA Securities	\$ 1,595,018	\$ 2,753	\$ (44,102)	\$ 1,553,669
Farmer Mac Guaranteed USDA Securities	20,222	669	—	20,891
Total available-for-sale	<u>\$ 1,615,240</u>	<u>\$ 3,422</u>	<u>\$ (44,102)</u>	<u>\$ 1,574,560</u>
Trading:				
USDA Securities	60,345	193	(2,194)	58,344
Total USDA and Farmer Mac Guaranteed USDA Securities	<u>\$ 1,675,585</u>	<u>\$ 3,615</u>	<u>\$ (46,296)</u>	<u>\$ 1,632,904</u>

The USDA Securities classified as trading relate to securities for which the fair value option was elected by Farmer Mac prior to transfer of the securities to the Company. Farmer Mac II LLC maintained the fair value option election for these securities.

The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to June 30, 2014 and December 31, 2013, as applicable. The USDA and Farmer Mac Guaranteed USDA Securities are backed by the full faith and credit of the United States. Therefore, Farmer Mac II LLC has concluded that none of the unrealized losses on its available-for-sale securities represents other-than-temporary impairment as of June 30, 2014 and December 31, 2013. Farmer Mac II LLC does not intend to sell these securities and it is not more likely than not that Farmer Mac II LLC will be required to sell the securities before recovery of the amortized cost basis. Farmer Mac II LLC did not sell any USDA and Farmer Mac Guaranteed USDA Securities during the three and six months ended June 30, 2014 and 2013.

The amortized cost, fair value, and weighted average yield of available-for-sale USDA and Farmer Mac Guaranteed USDA Securities by remaining contractual maturity as of June 30, 2014 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

USDA and Farmer Mac Guaranteed USDA Securities Available-for-Sale as of June 30, 2014			
	Amortized Cost	Fair Value	Weighted- Average Yield
	<i>(dollars in thousands)</i>		
Due within one year	\$ 11,272	\$ 11,301	1.78%
Due after one year through five years	59,855	59,832	2.91%
Due after five years through ten years	119,580	120,151	2.59%
Due after ten years	1,462,858	1,466,360	3.21%
Total	\$ 1,653,565	\$ 1,657,644	3.14%

Farmer Mac II LLC did not own any held-to-maturity USDA and Farmer Mac Guaranteed Securities as of June 30, 2014 and December 31, 2013. As of June 30, 2014, the Company owned trading USDA Securities with an amortized cost of \$47.9 million, a fair value of \$46.1 million and a weighted average yield of 5.54 percent. As of December 31, 2013, the Company owned trading USDA Securities with an amortized cost of \$60.3 million, a fair value of \$58.3 million, and a weighted average yield of 5.60 percent.

6. Fair Value Disclosures

The following tables present information about the Company's securities measured at fair value on a recurring basis.

Level 3 Assets Measured at Fair Value for the Three Months Ended June 30, 2014

	Beginning Balance	Purchases	Settlements	Unrealized Losses included in Income	Unrealized (Losses)/Gains included in Other Comprehensive Income	Ending Balance
<i>(in thousands)</i>						
Recurring:						
Assets:						
Farmer Mac Guaranteed USDA Securities:						
Available-for-sale	\$ 21,267	\$ —	\$ (182)	\$ —	\$ (371)	\$ 20,714
Total Farmer Mac Guaranteed USDA Securities	21,267	—	(182)	—	(371)	20,714
USDA Securities:						
Available-for-sale	1,600,659	90,785	(59,640)	—	5,126	1,636,930
Trading (1)	51,102	—	(4,843)	(160)	—	46,099
Total USDA Securities	1,651,761	90,785	(64,483)	(160)	5,126	1,683,029
Total Assets at fair value	<u>\$ 1,673,028</u>	<u>\$ 90,785</u>	<u>\$ (64,665)</u>	<u>\$ (160)</u>	<u>\$ 4,755</u>	<u>\$ 1,703,743</u>

(1) Includes immaterial unrealized gains attributable to assets still held as of June 30, 2014 that are recorded in "(Losses)/gains on trading assets."

Level 3 Assets Measured at Fair Value for the Three Months Ended June 30, 2013

	Beginning Balance	Purchases	Settlements	Unrealized Losses included in Income	Unrealized Losses included in Other Comprehensive Income	Ending Balance
<i>(in thousands)</i>						
Recurring:						
Assets:						
Farmer Mac Guaranteed USDA Securities:						
Available-for-sale	\$ 26,674	\$ —	\$ (508)	\$ —	\$ (889)	\$ 25,277
Total Farmer Mac Guaranteed USDA Securities	26,674	—	(508)	—	(889)	25,277
USDA Securities:						
Available-for-sale	1,569,160	110,897	(76,364)	—	(59,929)	1,543,764
Trading (1)	87,271	—	(13,231)	(448)	—	73,592
Total USDA Securities	1,656,431	110,897	(89,595)	(448)	(59,929)	1,617,356
Total Assets at fair value	<u>\$ 1,683,105</u>	<u>\$ 110,897</u>	<u>\$ (90,103)</u>	<u>\$ (448)</u>	<u>\$ (60,818)</u>	<u>\$ 1,642,633</u>

(1) Includes unrealized losses of \$0.3 million attributable to assets still held as of June 30, 2013 that are recorded in "(Losses)/gains on trading assets."

Level 3 Assets Measured at Fair Value for the Six Months Ended June 30, 2014

	Beginning Balance	Purchases	Settlements	Unrealized Gains included in Income	Unrealized Gains included in Other Comprehensive Income	Ending Balance
	<i>(in thousands)</i>					
Recurring:						
Assets:						
Farmer Mac Guaranteed USDA Securities:						
Available-for-sale	\$ 20,891	\$ —	\$ (348)	\$ —	\$ 171	\$ 20,714
Total Farmer Mac Guaranteed USDA Securities	20,891	—	(348)	—	171	20,714
USDA Securities:						
Available-for-sale	1,553,669	158,769	(120,095)	—	44,587	1,636,930
Trading (1)	58,344	—	(12,462)	217	—	46,099
Total USDA Securities	1,612,013	158,769	(132,557)	217	44,587	1,683,029
Total Assets at fair value	\$ 1,632,904	\$ 158,769	\$ (132,905)	\$ 217	\$ 44,758	\$ 1,703,743

(1) Includes unrealized gains of \$0.7 million attributable to assets still held as of June 30, 2014 that are recorded in "(Losses)/gains on trading assets."

Level 3 Assets Measured at Fair Value for the Six Months Ended June 30, 2013

	Beginning Balance	Purchases	Settlements	Unrealized Losses included in Income	Unrealized Losses included in Other Comprehensive Income	Ending Balance
	<i>(in thousands)</i>					
Recurring:						
Assets:						
Farmer Mac Guaranteed USDA Securities:						
Available-for-sale	\$ 26,036	\$ —	\$ (759)	\$ —	\$ —	\$ 25,277
Total Farmer Mac Guaranteed USDA Securities	26,036	—	(759)	—	—	25,277
USDA Securities:						
Available-for-sale	1,486,595	233,084	(145,566)	—	(30,349)	1,543,764
Trading (1)	104,188	—	(30,162)	(434)	—	73,592
Total USDA Securities	1,590,783	233,084	(175,728)	(434)	(30,349)	1,617,356
Total Assets at fair value	\$ 1,616,819	\$ 233,084	\$ (176,487)	\$ (434)	\$ (30,349)	\$ 1,642,633

(1) Includes unrealized losses of \$1.6 million attributable to assets still held as of June 30, 2013 that are recorded in "(Losses)/gains on trading assets."

The following tables present additional information about the Company's securities measured at fair value.

Financial Instruments	Fair Value as of June 30, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
	<i>(in thousands)</i>			
Farmer Mac Guaranteed USDA Securities	\$ 20,714	Discounted cash flow	Discount rate	0.8% - 3.3% (1.9%)
			Constant prepayment rate	8% - 17% (14%)
USDA Securities	\$ 1,683,029	Discounted cash flow	Discount rate	1.1% - 5.2% (3.2%)
			Constant prepayment rate	0% - 18% (7%)

Financial Instruments	Fair Value as of December 31, 2013 <i>(in thousands)</i>	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
Farmer Mac Guaranteed USDA Securities	\$ 20,891	Discounted cash flow	Discount rate	0.9% - 3.2% (1.9%)
			Constant prepayment rate	8% - 14% (11%)
USDA Securities	\$ 1,612,013	Discounted cash flow	Discount rate	1.2% - 5.3% (3.4%)
			Constant prepayment rate	0% - 23% (5%)

The significant unobservable inputs used in the fair value measurements of USDA and Farmer Mac Guaranteed USDA Securities are prepayment rates and discount rates commensurate with the risks involved. Typically, significant increases (decreases) in any of these inputs in isolation may result in materially lower (higher) fair value measurements. Generally, in a rising interest rate environment, Farmer Mac II LLC would expect average discount rates to increase and would likely expect a corresponding decrease in forecasted prepayment rates. Conversely, in a declining interest rate environment, Farmer Mac II LLC would expect average discount rates to decrease and would likely expect a corresponding increase in forecasted prepayment rates.

The following table sets forth the estimated fair values and the carrying amounts for financial assets and liabilities as of June 30, 2014 and December 31, 2013:

	As of June 30, 2014		As of December 31, 2013	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
<i>(in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 5,745	\$ 5,745	\$ 9,074	\$ 9,074
Farmer Mac Guaranteed USDA Securities	20,714	20,714	20,891	20,891
USDA Securities	1,683,029	1,683,029	1,612,013	1,612,013
Financial liabilities:				
Intercompany Borrowings	383,000	383,000	375,000	375,000

7. Members' Equity

As of June 30, 2014 and December 31, 2013, there were 250,000 shares of preferred stock issued and outstanding. The preferred stock is non-cumulative perpetual preferred stock. The dividend rate is 8.875% per annum up to but excluding the payment in first quarter 2015, adjusts at that time to 10.875% up to but excluding the payment in first quarter 2020, then adjusts to its perpetual rate of three-month LIBOR plus 8.211%.

The following table presents the dividends declared on the preferred stock during 2013 and the first half of 2014:

<u>Date Dividend Declared</u>	<u>Per Share Amount</u>	<u>For Period Beginning</u>	<u>For Period Ending</u>	<u>Date Paid</u>
February 6, 2013	\$ 22.1875	December 30, 2012	March 29, 2013	April 1, 2013
June 5, 2013	22.1875	March 30, 2013	June 29, 2013	July 1, 2013
July 31, 2013	22.1875	June 30, 2013	September 29, 2013	September 30, 2013
December 4, 2013	22.1875	September 30, 2013	December 29, 2013	December 30, 2013
February 6, 2014	22.1875	December 30, 2013	March 29, 2014	March 31, 2014
June 4, 2014	22.1875	March 30, 2014	June 29, 2013	June 30, 2014
August 8, 2014	22.1875	June 30, 2014	September 29, 2013	(1)

(1) This amount is payable on September 30, 2014.

The holders of the preferred stock generally have no voting rights; however, under certain circumstances, including non-payment of dividends for four quarterly periods, the holders of the preferred stock are entitled to elect a total of two of the five directors of Farmer Mac II LLC. There was \$1.0 billion of no-par value common stock outstanding as of June 30, 2014 and December 31, 2013. To date, no common stock dividends have been declared.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(unaudited)

This discussion and analysis of financial condition and results of operations should be read together with the financial statements and related notes to the financial statements that appear elsewhere in this report. The discussion below is not necessarily indicative of future results.

Overview

Farmer Mac II LLC purchases USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities loans and other portions of loans that are fully guaranteed as to principal and interest by the United States Department of Agriculture (“USDA Securities”). Farmer Mac II LLC also holds USDA Securities that have Farmer Mac's guarantee of timely payment of principal and interest in addition to the USDA guarantee (“Farmer Mac Guaranteed USDA Securities”). During the first half of 2014, the Company purchased \$158.8 million of USDA Securities, compared to \$233.1 million during the same period in 2013. As of June 30, 2014, the Farmer Mac II LLC portfolio consisted of \$20.7 million in Farmer Mac Guaranteed USDA Securities and \$1.7 billion of USDA Securities, compared to \$20.9 million and \$1.6 billion, respectively, as of December 31, 2013.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac II LLC's financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the amounts reported in the financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policy that is both important to the portrayal of Farmer Mac II LLC's financial condition and results of operations and requires complex, subjective judgments is the accounting policy for fair value measurement. For a discussion of Farmer Mac II LLC's accounting policy on fair value measurement, see Note 4 to the financial statements.

Results of Operations

Net interest income was \$10.3 million and \$20.1 million for the three and six months ended June 30, 2014, respectively, compared to \$9.8 million and \$19.7 million for the same periods in 2013. As of June 30, 2014, Farmer Mac II LLC had outstanding borrowings of \$383.0 million under the uncommitted Farmer Mac borrowing facility, compared to \$375.0 million as of December 31, 2013. Interest expense for the three and six months ended June 30, 2014 was \$2.6 million and \$5.2 million, respectively, compared to \$2.5 million and \$5.0 million for the same periods in 2013.

Farmer Mac II LLC had non-interest losses of \$0.1 million and income of \$0.3 million for the three and six months ended June 30, 2014, compared to losses of \$0.2 million and income of \$24,000 for the same periods in 2013. The fluctuation in non-interest income for these periods was primarily due to changes in the fair value of USDA Securities classified as trading.

Non-interest expense was \$0.3 million and \$0.6 million for the three and six months ended June 30, 2014 and 2013. This expense primarily related to legal fees, independent accountant fees and contract services provided by Farmer Mac under Secondment and Management and Administrative Services Agreements.

Balance Sheet Analysis

The primary assets related to the USDA Guarantee line of business are the USDA Securities and Farmer Mac Guaranteed USDA Securities. During the first half of 2014, these assets increased by \$70.8 million due to the purchase of \$158.8 million of USDA Securities, partially offset by principal pay downs of \$132.0 million on USDA Securities and Farmer Mac Guaranteed USDA Securities, and net of adjustments for premium amortization and changes in fair value.

Liquidity and Capital Resources

The funding and liquidity needs of the USDA Guarantees line of business are driven by the purchase and retention of Farmer Mac Guaranteed USDA Securities. The primary sources of funds to meet these needs are principal and interest payments received on those securities and net interest income earned from holding these securities on balance sheet. Farmer Mac II LLC also has access to a \$500.0 million uncommitted borrowing facility from Farmer Mac, against which the Company had \$383.0 million in outstanding borrowings as of June 30, 2014, compared to \$375.0 million as of December 31, 2013. Principal on loans under the facility is payable on the last business day of each calendar month but, with Farmer Mac approval, may be refinanced in whole or in part, on a month-by-month basis, provided that no event of default under the facility has occurred and is continuing. The interest rate on loans is Farmer Mac's estimated cost of funds plus a credit spread capped at 0.50 percent.

Farmer Mac II LLC had \$5.7 million in cash and cash equivalents as of June 30, 2014, compared to \$9.1 million as of December 31, 2013.

As of June 30, 2014 and December 31, 2013, Farmer Mac II LLC had members' equity of \$1.3 billion comprised primarily of \$241.9 million of preferred stock and \$1.0 billion of common stock.