

FARMER MAC II LLC

FINANCIAL REPORT

FOR THE QUARTER ENDED MARCH 31, 2013

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Financial Statements

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FARMER MAC II LLC
BALANCE SHEETS
(unaudited)

	March 31, 2013	December 31, 2012
<i>(in thousands)</i>		
Assets:		
Cash and cash equivalents	\$ 9,770	\$ 22,610
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	26,674	26,036
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,569,160	1,486,595
Trading, at fair value	87,271	104,188
Total USDA Guaranteed Securities	1,656,431	1,590,783
Interest receivable	17,421	23,226
Other assets	304	277
Total Assets	\$ 1,710,600	\$ 1,662,932
Liabilities and Members' Equity:		
Liabilities:		
Intercompany borrowings	\$ 341,000	\$ 328,000
Accounts payable and accrued expenses	182	247
Total Liabilities	341,182	328,247
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 related to available-for-sale securities	50,810	20,341
Retained earnings	56,587	52,323
Total Members' Equity	1,369,418	1,334,685
Total Liabilities and Members' Equity	\$ 1,710,600	\$ 1,662,932

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	<i>(in thousands)</i>	
Interest income:		
USDA and Farmer Mac Guaranteed Securities	\$ 12,427	\$ 13,018
Interest expense	2,536	2,091
Net interest income	9,891	10,927
Non-interest income:		
Gains on trading assets	14	961
Other income	201	80
Non-interest income	215	1,041
Non-interest expense:		
General and administrative	295	265
Non-interest expense	295	265
Net income	9,811	11,703
Preferred stock dividends	(5,547)	(5,547)
Net income attributable to common stockholders	\$ 4,264	\$ 6,156

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	<i>(in thousands)</i>	
Net income	\$ 9,811	\$ 11,703
Other comprehensive income:		
Unrealized holding gains on securities	30,469	2,194
Comprehensive income	\$ 40,280	\$ 13,897

See accompanying notes to financial statements.

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

	For the Three Months Ended			
	March 31, 2013		March 31, 2012	
	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		\$ 52,323		\$ 36,412
Net income		9,811		11,703
Preferred stock dividends		(5,547)		(5,547)
Balance, end of period		\$ 56,587		\$ 42,568
Accumulated other comprehensive income:				
Balance, beginning of period		\$ 20,341		\$ 35,951
Other comprehensive income		30,469		2,194
Balance, end of period		\$ 50,810		\$ 38,145
Total Members' Equity		\$ 1,369,418		\$ 1,342,734

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 9,811	\$ 11,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on USDA and Farmer Mac Guaranteed Securities	924	1,317
Net change in fair value of trading securities	(14)	(961)
Net change in:		
Interest receivable	5,805	6,118
Other assets	(27)	(5)
Other liabilities	(65)	(50)
Net cash provided by operating activities	<u>16,434</u>	<u>18,122</u>
Cash flows from investing activities:		
Purchases of USDA and Farmer Mac Guaranteed Securities	(122,187)	(101,725)
Proceeds from repayment of USDA and Farmer Mac Guaranteed Securities	85,460	81,842
Net cash used in investing activities	<u>(36,727)</u>	<u>(19,883)</u>
Cash flows from financing activities:		
Dividends paid on preferred stock	(5,547)	(5,547)
Proceeds from intercompany borrowings	13,000	24,000
Net cash provided by financing activities	<u>7,453</u>	<u>18,453</u>
Net (decrease)/increase in cash and cash equivalents	<u>(12,840)</u>	<u>16,692</u>
Cash and cash equivalents at beginning of period	22,610	1,267
Cash and cash equivalents at end of period	<u>\$ 9,770</u>	<u>\$ 17,959</u>

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 generally accepted accounting principles 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 USDA Guarantees program. Under the USDA Guarantees program, the Company purchases the portion of loans guaranteed by the United States Department of Agriculture (the “USDA Guaranteed 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 Guaranteed 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 Securities”), together referred to as “USDA and Farmer Mac Guaranteed Securities.”

3. Related Party Transactions

Farmer Mac II LLC is an operating subsidiary of the Federal Agricultural Mortgage Corporation (“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. On January 25, 2010, Farmer Mac transferred substantially all of the USDA Guarantees program business, including \$1.2 billion of USDA and Farmer Mac Guaranteed Securities and \$19.1 million in accrued interest receivable and other assets, to Farmer Mac II LLC in exchange for all of the preferred stock and \$1.0 billion of additional common stock in the Company. Farmer Mac simultaneously sold the preferred stock to third party investors.

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 March 31, 2013 and

December 31, 2012, there were \$341.0 million and \$328.0 million, respectively, of borrowings outstanding under the facility. During first quarter 2013, the Company incurred interest expense of \$2.5 million for borrowings under this facility, compared to \$2.1 million for the same period in 2012. 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 first three months ended March 31, 2013 and 2012, the cost of these services was \$0.2 million.

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 March 31, 2013 and 2012. Farmer Mac II LLC from time to time enters into or engages in various business transactions with Zions. Zions retained fees of \$0.1 million, netted out of interest income, in connection with the Administrator Agreement during the three months ended March 31, 2013 and 2012.

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 months ended March 31, 2013 and 2012. Interest paid during the three months ended March 31, 2013 and 2012 totaled \$2.5 million and \$2.1 million, respectively.

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 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 March 31, 2013 and December 31, 2012, the Company classified all its assets measured at fair value as Level 3 because there is limited market activity and therefore little or no price transparency. 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.

New Accounting Standards

Offsetting Assets and Liabilities

On December 16, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which provided new guidance requiring entities to disclose net and gross information for certain derivative instruments and financial instruments and information about the impact of collateral on offsetting arrangements and other amounts subject to a master netting agreement that are not offset on the balance sheet. On January 31, 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, addressing the implementation of

ASU 2011-11. The amendment clarifies that the scope of ASU 2011-11 applies to recognized derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in the financial statements or are subject to enforceable master netting arrangements or similar agreements. ASU 2011-11 and ASU 2013-01 were effective for interim and annual periods beginning on or after January 1, 2013. The adoption of ASU 2011-11 and ASU 2013-01 during first quarter 2013 did not have a material effect on Farmer Mac II LLC's financial position, results of operations, or cash flows.

Comprehensive Income

On February 5, 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (“AOCI”). The new guidance requires entities to disclose additional information about reclassification adjustments, including changes in AOCI balances by component and significant items reclassified out of AOCI. An entity would disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. ASU 2013-02 also requires significant items reclassified out of AOCI to be presented either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. The income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustment must be presented in the financial statement or notes to the financial statements. The amendments in ASU 2013-02 did not change the current requirement for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 was effective for all reporting periods beginning on or after December 15, 2012. The adoption of the new guidance during first quarter 2013 did not have a material effect on Farmer Mac II LLC's financial position, results of operations, or cash flows.

5. USDA and Farmer Mac Guaranteed Securities

The following table sets forth information about USDA and Farmer Mac Guaranteed Securities as of March 31, 2013 and December 31, 2012:

	March 31, 2013			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
<i>(in thousands)</i>				
Available-for-sale:				
USDA Guaranteed Securities	\$ 1,520,143	\$ 49,084	\$ (67)	\$ 1,569,160
Farmer Mac Guaranteed Securities	24,880	1,794	-	26,674
Total available-for-sale	<u>\$ 1,545,023</u>	<u>\$ 50,878</u>	<u>\$ (67)</u>	<u>\$ 1,595,834</u>
Trading:				
USDA Guaranteed Securities	87,983	573	(1,285)	87,271
Total USDA and Farmer Mac Guaranteed Securities	<u>\$ 1,633,006</u>	<u>\$ 51,451</u>	<u>\$ (1,352)</u>	<u>\$ 1,683,105</u>
December 31, 2012				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(in thousands)</i>				
Available-for-sale:				
USDA Guaranteed Securities	\$ 1,467,159	\$ 19,605	\$ (169)	\$ 1,486,595
Farmer Mac Guaranteed Securities	25,131	909	(4)	26,036
Total available-for-sale	<u>\$ 1,492,290</u>	<u>\$ 20,514</u>	<u>\$ (173)</u>	<u>\$ 1,512,631</u>
Trading:				
USDA Guaranteed Securities	104,914	624	(1,350)	104,188
Total USDA and Farmer Mac Guaranteed Securities	<u>\$ 1,597,204</u>	<u>\$ 21,138</u>	<u>\$ (1,523)</u>	<u>\$ 1,616,819</u>

The USDA Guaranteed 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 March 31, 2013 and December 31, 2012, as applicable. The USDA and Farmer Mac Guaranteed 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 March 31, 2013 and December 31, 2012. 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 Securities during the three months ended March 31, 2013 and 2012.

The amortized cost, fair value and weighted average yield of available-for-sale USDA and Farmer Mac Guaranteed Securities by remaining contractual maturity as of March 31, 2013 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 Securities Available-for-Sale as of March 31, 2013			
	Amortized Cost	Fair Value <i>(dollars in thousands)</i>	Weighted- Average Yield
Due within one year	\$ 11,534	\$ 11,605	1.75 %
Due after one year through five years	76,056	78,220	3.33 %
Due after five years through ten years	109,503	112,935	2.53 %
Due after ten years	1,347,930	1,393,074	3.28 %
Total	\$ 1,545,023	\$ 1,595,834	3.22 %

Farmer Mac II LLC did not own any held-to-maturity USDA and Farmer Mac Guaranteed Securities as of March 31, 2013 and December 31, 2012. As of March 31, 2013, the Company owned trading USDA Guaranteed Securities with an amortized cost of \$88.0 million, a fair value of \$87.3 million and a weighted average yield of 5.73 percent. As of December 31, 2012, the Company owned trading USDA Guaranteed Securities with an amortized cost of \$104.9 million, a fair value of \$104.2 million and a weighted average yield of 5.77 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 March 31, 2013

	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 Securities:						
Available-for-sale	\$ 26,036	\$ -	\$ (251)	\$ -	\$ 889	\$ 26,674
Total Farmer Mac Guaranteed Securities	26,036	-	(251)	-	889	26,674
USDA Guaranteed Securities:						
Available-for-sale	1,486,595	122,187	(69,202)	-	29,580	1,569,160
Trading (1)	104,188	-	(16,931)	14	-	87,271
Total USDA Guaranteed Securities	1,590,783	122,187	(86,133)	14	29,580	1,656,431
Total Assets at fair value	\$ 1,616,819	\$ 122,187	\$ (86,384)	\$ 14	\$ 30,469	\$ 1,683,105

(1) Includes unrealized losses of \$0.1 million attributable to assets still held as of March 31, 2013 that are recorded in Gains on trading assets.

Level 3 Assets Measured at Fair Value for the Three Months Ended March 31, 2012

	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 Securities:						
Available-for-sale	\$ 34,890	\$ -	\$ (218)	\$ -	\$ 745	\$ 35,417
Total Farmer Mac Guaranteed Securities	34,890	-	(218)	-	745	35,417
USDA Guaranteed Securities:						
Available-for-sale	1,279,546	101,725	(54,018)	-	1,449	1,328,702
Trading (1)	212,359	-	(28,923)	961	-	184,397
Total USDA Guaranteed Securities	1,491,905	101,725	(82,941)	961	1,449	1,513,099
Total Assets at fair value	\$ 1,526,795	\$ 101,725	\$ (83,159)	\$ 961	\$ 2,194	\$ 1,548,516

(1) Includes unrealized gains of \$0.8 million attributable to assets still held as of March 31, 2012 that are recorded in Gains on trading assets.

The following table presents additional information about the significant unobservable inputs used in the fair value measurements categorized in level 3 of the fair value hierarchy:

Financial Instruments	Fair Value as of March 31, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
<i>(in thousands)</i>				
Farmer Mac Guaranteed Securities	\$ 26,674	Discounted cash flow	Discount rate	0.8% - 3.2% (1.9%)
			Constant prepayment rate	8% - 18% (15%)
USDA Guaranteed Securities	\$ 1,656,431	Discounted cash flow	Discount rate	1.2% - 5.3% (3.1%)
			Constant prepayment rate	0% - 27% (9%)

The significant unobservable inputs used in the fair value measurements of USDA and Farmer Mac Guaranteed 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 March 31, 2013 and December 31, 2012:

	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
<i>(in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 9,770	\$ 9,770	\$ 22,610	\$ 22,610
Farmer Mac Guaranteed Securities	26,674	26,674	26,036	26,036
USDA Guaranteed Securities	1,656,431	1,646,431	1,590,783	1,590,783
Financial liabilities:				
Intercompany Borrowings	341,000	341,000	328,000	328,000

The carrying amount of cash and cash equivalents is a reasonable estimate of their approximate fair value and is categorized as Level 1 in the fair value hierarchy. The Company believes that the carrying amount of the intercompany borrowings also is a reasonable estimate of their approximate fair value due to their thirty day maturity. This line item is categorized as Level 2 within the fair value hierarchy.

7. Members' Equity

As of March 31, 2013 and December 31, 2012, 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 2012 and the first quarter of 2013:

<u>Declared</u>	<u>Amount</u>	<u>Beginning</u>	<u>Ending</u>	<u>Paid</u>
February 2, 2012	\$ 22.1875	December 30, 2011	March 29, 2012	March 30, 2012
June 7, 2012	22.1875	March 30, 2012	June 29, 2012	June 30, 2012
August 3, 2012	22.1875	June 30, 2012	September 29, 2012	October 1, 2012
December 6, 2012	22.1875	September 30, 2012	December 29, 2012	December 31, 2012
February 6, 2013	22.1875	December 30, 2012	March 29, 2013	March 29, 2013

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 March 31, 2013 and December 31, 2012. To date, no common stock dividends have been declared.

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

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 USDA ("USDA Guaranteed Securities"). Farmer Mac II LLC also holds USDA Guaranteed Securities that have Farmer Mac's guarantee of timely payment of principal and interest in addition to the USDA guarantee ("Farmer Mac Guaranteed Securities"). During first quarter 2013, the Company purchased \$122.2 million of USDA Guaranteed Securities, compared to \$101.7 million during first quarter 2012. As of March 31, 2013, the Farmer Mac II LLC portfolio consisted of \$26.7 million in Farmer Mac Guaranteed Securities and \$1.7 billion of USDA Guaranteed Securities, compared to \$26.0 million and \$1.6 billion, respectively, as of December 31, 2012.

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 \$9.9 million for the three months ended March 31, 2013, compared to \$10.9 million for the same period in 2012. The decrease in net interest income was due to lower rates on new and refinanced USDA Guaranteed Securities. As of March 31, 2013, Farmer Mac II LLC had outstanding borrowings of \$341.0 million under the uncommitted Farmer Mac borrowing facility, compared to \$328.0 million as of December 31, 2012. Interest expense for the three months ended March 31, 2013 was \$2.5 million, compared to \$2.1 for the same period in 2012.

Non-interest income was \$0.2 million for the three months ended March 31, 2013, compared to \$1.0 million for the same period in 2012. The fluctuation in non-interest income for these periods was primarily due to changes in the fair value of USDA Guaranteed Securities classified as trading.

Non-interest expense was \$0.3 million for the three months ended March 31, 2013 and 2012. 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 Guarantees program are the USDA Guaranteed Securities and Farmer Mac Guaranteed Securities. During first quarter 2013, these assets increased by \$66.3 million due to the purchase of \$122.2 million of USDA Guaranteed Securities, partially offset by principal pay downs of \$85.5 million on USDA and Farmer Mac Guaranteed 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 USDA Guaranteed 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 \$341.0 million in outstanding borrowings as of March 31, 2013, compared to \$328.0 million as of December 31, 2012. 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 \$9.8 million in cash and cash equivalents as of March 31, 2013, compared to \$22.6 million as of December 31, 2012.

As of March 31, 2013 and December 31, 2012, Farmer Mac II LLC had members' equity of \$1.4 billion comprised primarily of \$241.9 million of preferred stock and \$1.0 billion of common stock.