

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-Q
April 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2014

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-7102

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The Registrant does not issue capital stock because it is a tax-exempt cooperative.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****ASSETS**

(Dollars in thousands)	February 28, 2014	May 31, 2013
Cash and cash equivalents	\$842,915	\$ 177,062
Restricted cash	7,256	7,696
Investments	28,702	31,632
Time deposits	700,000	700,000
Loans to members	20,645,064	20,305,874
Less: Allowance for loan losses	(56,040)	(54,325)
Loans to members, net	20,589,024	20,251,549
Accrued interest and other receivables	207,894	175,183
Fixed assets, net	106,267	104,508
Debt service reserve funds	39,353	39,803
Debt issuance costs, net	43,325	38,949
Foreclosed assets, net	255,150	261,472
Derivative assets	261,598	257,878
Other assets	25,845	25,919
Total assets	\$23,107,329	\$22,071,651

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS**(UNAUDITED)****LIABILITIES AND EQUITY**

(Dollars in thousands)	February 28, 2014	May 31, 2013
Short-term debt	\$6,541,987	\$7,719,483
Accrued interest payable	203,085	144,945
Long-term debt	12,902,920	10,696,433
Deferred income	79,670	25,717
Derivative liabilities	380,518	475,278
Subordinated deferrable debt	400,000	400,000
Members' subordinated certificates:		
Membership subordinated certificates	644,757	644,757
Loan and guarantee subordinated certificates	668,918	696,719
Member capital securities	173,290	387,750
Total members' subordinated certificates	1,486,965	1,729,226
Other liabilities	121,894	69,308
Commitments and contingencies		
Total liabilities	22,117,039	21,260,390
CFC equity:		
Retained equity	958,620	791,090
Accumulated other comprehensive income	4,723	8,381
Total CFC equity	963,343	799,471
Noncontrolling interest	26,947	11,790
Total equity	990,290	811,261
Total liabilities and equity	\$23,107,329	\$22,071,651

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**(UNAUDITED)**

(Dollars in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Interest income	\$238,732	\$234,021	\$719,057	\$715,736
Interest expense	(163,534)	(171,899)	(496,464)	(522,796)
Net interest income	75,198	62,122	222,593	192,940
(Provision for) recovery of loan losses	(787)	378	(3,161)	(4,927)
Net interest income after (provision for) recovery of loan losses	74,411	62,500	219,432	188,013
Non-interest income:				
Fee and other income	5,702	6,337	14,983	29,102
Derivative (losses) gains, net	(31,623)	46,626	43,981	18,268
Results of operations of foreclosed assets	(1,164)	6,478	(8,482)	804
Total non-interest income	(27,085)	59,441	50,482	48,174
Non-interest expense:				
Salaries and employee benefits	(8,013)	(23,627)	(27,359)	(44,180)
Other general and administrative expenses	(9,170)	(6,652)	(27,012)	(22,720)
(Provision for) recovery of guarantee liability	(117)	46	(159)	147
Losses on early extinguishment of debt	(1,452)	-	(1,452)	-
Other	210	(554)	(88)	(5,101)
Total non-interest expense	(18,542)	(30,787)	(56,070)	(71,854)
Income prior to income taxes	28,784	91,154	213,844	164,333
Income tax expense	(243)	(1,067)	(2,045)	(1,519)
Net income	28,541	90,087	211,799	162,814
Less: Net income attributable to noncontrolling interest	(239)	(1,664)	(3,024)	(2,368)
Net income attributable to CFC	\$28,302	\$88,423	\$208,775	\$160,446

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**(UNAUDITED)**

(Dollars in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Net income	\$28,541	\$90,087	\$211,799	\$162,814
Other comprehensive income (loss):				
Add: Unrealized gains (losses) on available-for-sale securities	2,313	(479)	(2,931)	408
Less: Net derivative gains reclassified into earnings	(245)	(251)	(740)	(756)
Other comprehensive income (loss)	2,068	(730)	(3,671)	(348)
Total comprehensive income	30,609	89,357	208,128	162,466
Less: Total comprehensive income attributable to noncontrolling interest	(235)	(1,659)	(3,011)	(2,352)
Total comprehensive income attributable to CFC	\$30,374	\$87,698	\$205,117	\$160,114

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

Membership					Accumulated	
Fees and	Patronage	Members'	Unallocated	CFC	Other	Total
Education	Capital	Capital	Net Income	Retained		