1st Farm Credit Services, ACA

Quarterly Report
June 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of 1st Farm Credit Services, ACA and its subsidiaries. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our 2011 Annual Report for the year ended December 31, 2011.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect members' investment in 1st Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100, or website www.1stfarmcredit.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loans totaled $3.5 billion at June 30, 2012, a $76.6 million increase from December 31, 2011. The net increase in loans is due to the continued strong demand for farm real estate loans. The profitable 2011 crop year resulted in less borrowing by our grain producer clients for operating lines of credit.

Agricultural and Economic Conditions

Weather patterns turned hot and dry throughout the state in late spring and into summer. Rainfall statewide has averaged well below the historic average. Crops in most areas are showing ongoing signs of moisture stress. Topsoil moisture continues to be a major concern for the entire state. It is currently rated at 52 percent very short, 37 percent short and only 11 percent adequate. Corn conditions were rated at 12 percent very poor, 21 percent poor, 41 percent fair, 23 percent good and 3 percent excellent. Soybean conditions were rated at 11 percent very poor, 20 percent poor, 41 percent fair, 26 percent good and 2 percent excellent. Central Illinois corn prices at quarter-end were $6.675 per bushel and soybean prices were $15.00 per bushel. As compared to one year ago, corn prices have increased about a nickel per bushel and soybeans have increased nearly $2.00 per bushel.

The number of hogs and pigs on Illinois farms on June 1 was 4.65 million head, down 1% for the quarter, but up 1% compared to one year ago. Farrowing intentions for the June – August quarter are 255 thousand, equal to the actual farrowings during this quarter one year ago. Nationally, the inventory of all hogs and pigs on June 1 was 65.8 million head, up 1% for the quarter and also up 1% compared to one year ago. Sows farrowed during this quarter represented 50 percent of the breeding herd, totaling 2.92 million head, up slightly from 2011. United States hog producers intend to have 2.90 million sows farrow during the June-August 2012 quarter, down 1% from the actual farrowings during the same period in 2011, and down 1% from 2010.

At the date of shareholder report release, hot, dry weather continued to prevail over much of the state with a few areas receiving spotty showers. Soil moisture continued to worsen and the corn and soybean conditions continued to decline. Pasture conditions were rated at 48 percent very poor, 35 percent poor, 15 percent fair and 2 percent good. There were many reports of cattle producers feeding hay in order to make up for the low growth of pastures.

Crop insurance claims are expected to be significant this season, and farms that did not purchase crop insurance will likely face losses. Grain farm income is normally adversely impacted by a short crop as higher prices do not fully offset the lower yields.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2011. Adversely classified loans have decreased to 1.6% of the portfolio at June 30, 2012, from 1.9% of the portfolio at December 31, 2011. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At June 30, 2012, $184.5 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of:	**June 30 2012**	December 31 2011
Loans:		
Accruing restructured	**$588**	$580
Accruing loans 90 days or more past due	**489**	--
Nonaccrual	**22,042**	31,409
Total risk loans	**23,119**	31,989
Other property owned	**--**	48
Total risk assets	**$23,119**	$32,037
Risk loans as a percentage of total loans	**0.7%**	0.9%
Total delinquencies as a percentage of total loans	**0.6%**	0.6%

Our risk assets have decreased from December 31, 2011 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in nonaccrual loans was primarily due to charge-offs in our horticultural portfolio and the complete payoff of one loan. Nonaccrual loans remained at an acceptable level at June 30, 2012 and represented 0.6% of our total portfolio. At June 30, 2012, 26.9% of our nonaccrual loans were current.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, probability of default, estimated severity of loss given default, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

Allowance as a percentage of:	**June 30 2012**	December 31 2011
Loans	**0.2%**	0.3%
Nonaccrual loans	**34.0%**	34.9%
Total risk loans	**32.4%**	34.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2012.

Results of Operations

Net income for the six months ended June 30, 2012 totaled $44.5 million compared to $37.6 million for the same period in 2011. The following table illustrates profitability information:

As of June 30	**2012**	2011
Return on average assets	**2.3%**	2.0%
Return on average members' equity	**13.0%**	12.4%

The following table summarizes the changes in components of net income for the six months ended June 30, 2012 compared to the same period in 2011 (in thousands):

Increase (decrease) in net income	**2012 vs 2011**
Net interest income	**$286**
Provision for loan losses	**945**
Patronage income	**2,344**
Other income	**2,798**
Operating expenses	**(1,514)**
Provision for income taxes	**2,103**
Total change in net income	**$6,962**

Net interest income was $49.5 million for the six months ended June 30, 2012. The following table quantifies changes in net interest income for the six months ended June 30, 2012 compared to the same period in 2011 (in thousands):

Change in net interest income	**2012 vs 2011**
Changes in volume	**$1,710**
Changes in rates	**(1,967)**
Changes in nonaccrual income and other	**543**
Net change	**$286**

The change in the provision for loan losses was due to reduced risk assets.

The change in patronage income was related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year. Additionally, patronage income on our sale of a participation interest in certain real estate loans to AgriBank increased due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling $689 thousand related to the participations sold to AgriBank. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2011.

The change in other income was primarily due to our share of distributions from AIRA of $3.5 million, partially offset by a decrease in multi-peril crop insurance income and other insurance refunds.

The change in operating expenses was primarily related to increases in salaries and employee benefits expenses.

The change in provision for income taxes was primarily related to decreases in net interest income on the taxable entity.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section.

Funding, Liquidity and Capital

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on January 31, 2012 and was renewed for $3.75 billion with a maturity date of January 31, 2013. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased $40.6 million from December 31, 2011 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2011 Annual Report for a more complete description of these ratios. As of June 30, 2012, the ratios were as follows:

- The permanent capital ratio was 15.2%.
- The total surplus ratio was 14.9%.
- The core surplus ratio was 14.9%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

Initiatives Update

ProPartners Financial

We currently have an alliance with eight other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name, ProPartners Financial (ProPartners). In May 2012, ProPartners announced Northwest Farm Credit Services (Northwest FCS) will join this alliance effective September 1, 2012. ProPartners is directed by representatives from participating associations. The income, expense and loss sharing arrangements are based on each association's participation interest in ProPartners' volume. Each association's allocation is established according to a prescribed formula which includes risk funds of the associations. The addition of Northwest FCS will allow us to increase our financial strength, processing capacity, technology, expertise and geographic diversity to support our clients' growth. While our proportionate ownership share will decline, the total volume will increase and as a result is not expected to have a material impact on our financial statements.

Certification

The undersigned certify they have reviewed 1st Farm Credit Services, ACA's June 30, 2012, Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Stephen Cowser
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

August 2, 2012

CONSOLIDATED STATEMENTS OF CONDITION

1 st Farm Credit Services, ACA
(Dollars in thousands)
(Unaudited)

	June 30 2012	December 31 2011
ASSETS		
Loans	**$3,457,712**	$3,381,073
Allowance for loan losses	**7,494**	10,949
Net loans	**3,450,218**	3,370,124
Investment in AgriBank, FCB	**122,197**	121,828
Investment securities	**292,476**	274,513
Accrued interest receivable	**33,772**	34,659
Premises and equipment, net	**17,021**	15,827
Other property owned	**--**	48
Assets held for lease, net	**12,240**	12,160
Other assets	**10,340**	17,039
Total assets	**$3,938,264**	$3,846,198
LIABILITIES		
Note payable to AgriBank, FCB	**$3,203,342**	$3,146,145
Accrued interest payable	**11,426**	11,576
Patronage distribution payable	**4,205**	8,200
Other liabilities	**12,920**	14,495
Total liabilities	**3,231,893**	3,180,416
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**12**	16
Capital stock and participation certificates	**9,456**	9,189
Unallocated surplus	**696,903**	656,577
Total members' equity	**706,371**	665,782
Total liabilities and members' equity	**$3,938,264**	$3,846,198

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

1 st Farm Credit Services, ACA
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
Period ended June 30	**2012**	2011	**2012**	2011
Interest income	**$36,296**	$36,998	**$72,565**	$73,820
Interest expense	**11,426**	12,391	**23,033**	24,574
Net interest income	**24,870**	24,607	**49,532**	49,246
(Reversal of) provision for loan losses	**(386)**	559	**(377)**	568
Net interest income after (reversal of) provision for loan losses	**25,256**	24,048	**49,909**	48,678
Other income				
Patronage income	**6,259**	4,678	**11,802**	9,458
Financially related services income	**403**	1,574	**762**	1,865
Fee income	**1,031**	1,192	**2,168**	1,964
Allocated insurance reserve account distribution	**3,464**	--	**3,464**	--
Miscellaneous income, net	**383**	212	**800**	567
Total other income	**11,540**	7,656	**18,996**	13,854
Operating expenses				
Salaries and employee benefits	**7,847**	7,913	**15,312**	14,357
Other operating	**3,924**	3,737	**7,755**	7,196
Total operating expenses	**11,771**	11,650	**23,067**	21,553
Income before income taxes	**25,025**	20,054	**45,838**	40,979
Provision for income taxes	**927**	1,096	**1,295**	3,398
Net income	**$24,098**	$18,958	**$44,543**	$37,581

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1 st Farm Credit Services, ACA
(Dollars in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2010	$17	$8,665	$579,334	$588,016
Net income	--	--	37,581	37,581
Unallocated surplus designated for patronage distributions	--	--	(2,195)	(2,195)
Capital stock/participation certificates issued	--	546	--	546
Capital stock/participation certificates retired	--	(327)	--	(327)
Balance at June 30, 2011	$17	$8,884	$614,720	$623,621
Balance at December 31, 2011	**$16**	**$9,189**	**$656,577**	**$665,782**
Net income	**--**	**--**	**44,543**	**44,543**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(4,217)**	**(4,217)**
Capital stock/participation certificates issued	**--**	**603**	**--**	**603**
Capital stock/participation certificates retired	**(4)**	**(336)**	**--**	**(340)**
Balance at June 30, 2012	**$12**	**$9,456**	**$696,903**	**$706,371**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ended December 31, 2012. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2011 Annual Report for the year ended December 31, 2011.

The consolidated financial statements present the consolidated financial results of 1st Farm Credit Services, ACA (the parent) and 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Compensation – Retirement Benefits – Multiemployer Plans.” The guidance is intended to provide more information about an employer’s financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In June 2011, the FASB issued guidance entitled, “Presentation of Comprehensive Income.” The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts — net income and other comprehensive income, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The guidance is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in changes to our financial statement presentation.

In May 2011, FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).” The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS as more fully outlined in the 2011 Annual Report. The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled, “A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

NOTE 2: Loans and Allowance for Loan Losses

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2012**		December 31, 2011	
	Amount	**%**	Amount	%
Real estate	**$1,841,894**	**53.3%**	$1,723,090	50.9%
Commercial/agribusiness	**1,446,178**	**41.8%**	1,537,488	45.5%
Other	**169,640**	**4.9%**	120,495	3.6%
Total	**$3,457,712**	**100.0%**	$3,381,073	100.0%

Delinquency

The following table provides an aging analysis of past due loans by loan type and accrued interest receivable (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of June 30, 2012						
Real estate	**$1,028**	**$4,120**	**$5,148**	**$1,854,256**	**$1,859,404**	**$15**
Commercial/agribusiness	**974**	**11,334**	**12,308**	**1,447,601**	**1,459,909**	**474**
Other	**2,366**	**1**	**2,367**	**168,012**	**170,379**	**--**
Total	**$4,368**	**$15,455**	**$19,823**	**$3,469,869**	**$3,489,692**	**$489**
As of December 31, 2011						
Real estate	$381	$6,400	$6,781	$1,731,164	$1,737,945	$ --
Commercial/agribusiness	380	9,653	10,033	1,545,125	1,555,158	--
Other	4,249	--	4,249	116,735	120,984	--
Total	$5,010	$16,053	$21,063	$3,393,024	$3,414,087	$ --

Risk Loans

The following table presents information concerning risk loans (in thousands):

As of:	**June 30 2012**	December 31 2011
Volume with specific reserves	**$7,741**	$16,653
Volume without specific reserves	**15,378**	15,336
Total risk loans	**$23,119**	$31,989
Total specific reserves	**$2,971**	$6,102
Six months ended June 30	**2012**	2011
Income on accrual risk loans	**$16**	$20
Income on nonaccrual loans	**1,062**	519
Total income on risk loans	**$1,078**	$539
Average risk loans	**$28,528**	$35,684

The decrease in total risk loans is primarily due to charge-offs in our horticultural portfolio and the complete payoff of one risk loan.

Troubled Debt Restructurings

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and borrower. Concessions may include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses. We record specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

We completed troubled debt restructurings of certain commercial/agribusiness loans during the six months ended June 30, 2012. Our recorded investment in these loans just prior to restructuring was $1.8 million. Our recorded investment in these loans immediately following the restructuring was $1.8 million. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months for which there was a subsequent payment default during the six months ended June 30, 2012 (in thousands):

	Recorded Investment
Real estate	**$66**
Commercial/agribusiness	**128**
Total	**$194**

Troubled debt restructurings outstanding at June 30, 2012 totaled $15.0 million, of which $14.4 million were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $42 thousand at June 30, 2012.

Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Six months ended June 30	**2012**	2011
Balance at beginning of year	**$10,949**	$13,314
(Reversal of) provision for loan losses	**(377)**	568
Loan recoveries	**34**	11
Loan charge-offs	**(3,112)**	(514)
Balance at end of period	**$7,494**	$13,379

The decrease in our allowance for loan losses was a result of improved credit quality in much of our portfolio and charge-offs in our horticultural portfolio.

NOTE 3: Investment Securities

We held investment securities of $292.5 million at June 30, 2012 and $274.5 million at December 31, 2011. Our investment securities consisted of loans guaranteed by the Small Business Administration.

Our investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

As of:	**June 30 2012**	December 31 2011
Amortized cost	**$292,476**	$274,513
Unrealized gains	**5,384**	5,310
Unrealized losses	**(561)**	(312)
Fair value	**$297,299**	$279,511
Weighted average yield	**1.2%**	1.3%

Investment income is recorded in “Interest income” on the Consolidated Statements of Income and totaled $1.8 million and $1.5 million for the six months ended June 30, 2012 and 2011, respectively.

The following table presents contractual maturities of our investment securities (in thousands):

As of June 30, 2012	**Amortized Cost**
One to five years	**$23,120**
Five to ten years	**137,295**
More than ten years	**132,061**
Total	**$292,476**

NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 5: Fair Value Measurements

The FASB guidance on “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2011 Annual Report for a more complete description.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2012 or December 31, 2011. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information about assets measured at fair value on a non-recurring basis was as follows (in thousands):

	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Gains
June 30, 2012					
Loans	**$ --**	**$407**	**$4,601**	**$5,008**	**$3,131**
Other property owned	**--**	**--**	**--**	**--**	**3**
December 31, 2011					
Loans	$ --	$361	$10,718	$11,079	$285
Other property owned	--	--	50	50	--

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

The fair value measurement would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under Level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

NOTE 6: Subsequent Events

We have evaluated subsequent events through August 2, 2012, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.