AgStar Financial Services, ACA

Quarterly Report
March 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the 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 2012 Annual Report for the year ended December 31, 2012.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.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 and Affiliated Associations' financial reports are available through AgriBank's website at www.agribank.com.

Notice of Significant or Material Events

On April 29, 2013, our stockholders voted to approve amending our capital bylaws to allow for the issuance of preferred stock and also approved the issuance of up to $250.0 million of preferred stock. In addition to the stockholder approvals, we also need to receive certain approvals from our regulator, the Farm Credit Administration (FCA). We have submitted a request to FCA for approval to issue up to $150.0 million of preferred stock and expect to receive the necessary approval from FCA in May, 2013.

Loan Portfolio

Loans totaled $5.8 billion at March 31, 2013, a $127.3 million decrease from December 31, 2012. During the fourth quarter of 2012, operating loans increased due to tax planning by a certain segment of our clients in the grain, swine, and dairy industries and were subsequently repaid in the first quarter. This decrease was partially offset by an increase in our real estate mortgage portfolio.

Agricultural and Economic Conditions

We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. Credit quality, delinquencies, and nonaccrual measures showed significant improvement during 2012 and further improvement is expected during 2013. The USDA Prospective Plantings Crop Report released on March 31, 2013 indicates corn growers intend to plant 97.3 million acres of corn for all purposes in 2013, which is up 127 thousand acres from last year. If accurate, this will represent the highest planted corn acreage in the United States since 1936. The estimated number of soybean acres planted for 2013 is 77.1 million acres, down slightly from last year. Margins for grain producers are expected to narrow in 2013.

Increasing pork supplies have kept pressure on profit margins so far in 2013. In contrast, grain price declines have provided livestock producers with an opportunity to improve margins recently. Profit margins for dairy producers and ethanol plants have improved and are expected to remain positive through the end of 2013.

According to the USDA, net farm income is forecast at $128.2 billion for 2013. This is nearly 14 percent higher than the 2012 forecast. Over the last two years, overall conditions have been favorable for agricultural producers resulting in positive performance generally for agribusinesses. The ethanol industry experienced a challenging economic environment during 2012 and credit quality in this segment has moderated relative to the overall portfolio. Additionally, agricultural related businesses have generally been profitable and fared better during the past two years than companies not closely tied to agriculture.

Farm real estate values in our territory continued to show strong increases during 2012 and we are projecting the demand for farm real estate to continue to remain strong this year. Values for transitional and recreational property remain low compared to the peak values previously reached.

Our home mortgage portfolio has performed better than the overall housing industry the past few years. Delinquencies and foreclosure numbers stabilized in 2010, and have shown gradual improvement since that time. There are positive signs that the economy has turned the corner, with the unemployment rate being an example. According to the U.S. Bureau of Labor Statistics, the national unemployment rate dropped to 7.6% as of March 31, 2013.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

Portfolio Credit Quality

The credit quality of our portfolio has declined slightly from December 31, 2012 resulting from a limited number of accounts in the renewable energy and telecom industries showing weaknesses in their business. Adversely classified loans increased to 4.6% of the portfolio at March 31, 2013, from 4.3% of the portfolio at December 31, 2012. 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/lease losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At March 31, 2013, $407.3 million of our loans were, to some level, guaranteed under these governmental programs.

Excluded in the ratios and volumes discussed in this section are our investment securities. At March 31, 2013, our investment securities totaled $467.5 million, consisting of $285.1 million in mortgage backed securities issued by Federal Agricultural Mortgage Corporation and $182.4 million in investment securities, guaranteed by the Small Business Administration or the United States Department of Agriculture. Had this volume been included, the adversely classified asset ratio would be 4.2%.

Risk Assets

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

As of:	**March 31 2013**	December 31 2012
Loans:		
Nonaccrual	**$174,633**	$151,591
Accruing restructured	**77**	102
Accruing loans 90 days or more past due	**5,052**	126
Total risk loans	**179,762**	151,819
Other property owned	**9,300**	10,137
Total risk assets	**$189,062**	$161,956
Risk loans as a percentage of total loans	**3.1%**	2.6%
Total delinquencies as a percentage of total loans	**1.4%**	1.5%

Our risk assets have increased from December 31, 2012 and remain outside our targeted credit standards.

The increase in nonaccrual loans was due to a limited number of accounts in the dairy, swine, and telecom industries showing weaknesses in their business. Nonaccrual loan volume is above our credit standards at March 31, 2013, and represented 3.0% of our total portfolio. We are actively engaged in working with clients to provide individualized servicing plans and strategies. At March 31, 2013, 70.2% of our nonaccrual loans were current.

The increase in accruing loans 90 days or more past due was primarily due to a limited number of loans secured by real estate with a collection plan in place. Our accounting policy generally requires loans past due 90 days to be transferred into nonaccrual status.

Allowance for Loan/Lease Losses

The allowance for loan/lease 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/lease 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.

The following table presents comparative allowance coverage of various loan categories:

Allowance as a percentage of:	**March 31 2013**	December 31 2012
Loans	**0.5%**	0.5%
Nonaccrual loans	**15.9%**	17.7%
Total risk loans	**15.4%**	17.7%

In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at March 31, 2013.

Results of Operations

Net income for the three months ended March 31, 2013 totaled $24.8 million compared to $23.9 million for the same period in 2012. The following table illustrates profitability information:

As of March 31	**2013**	2012
Return on average assets	**1.5%**	1.6%
Return on average members' equity	**11.2%**	11.9%

The following table summarizes the changes in components of net income (in thousands):

For the three months ended March 31	**2013**	2012	**Increase (decrease) in net income**
Net interest income	**$41,353**	$38,221	**$3,132**
Provision for loan/lease losses	**1,629**	1,724	**95**
Patronage income	**4,073**	3,211	**862**
Other income	**12,510**	9,051	**3,459**
Operating expenses	**27,472**	27,354	**(118)**
Provision for (benefit from) income taxes	**4,019**	(2,497)	**(6,516)**
Net income	**$24,816**	$23,902	**$914**

Net interest income was $41.4 million for the three months ended March 31, 2013. The following table quantifies changes in net interest income for the three months ended March 31, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in AgriBank note payable and earning assets balances	**$5,108**
Changes in rates on AgriBank note payable and earning assets	**(2,016)**
Changes due to asset securitization	**116**
Changes in deferred income	**(54)**
Changes due to capital management	**91**
Changes in nonaccrual income and other	**(113)**
Net change	**$3,132**

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year.

The change in other income was primarily related to increases in fee income.

The change in provision for (benefit from) income taxes was primarily related to the tax savings from the redemption of nonqualified patronage in the first quarter of 2012.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling $20.5 million through March 31, 2013 compared to $19.4 million for the same period in 2012. The fee income from this activity totaled $452 thousand for the three months ended March 31, 2013 compared to $288 thousand for the same period of 2012.

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, under a note payable, in the form of a line of credit. Our promissory note matured on March 31, 2013 and was renewed for $6.5 billion with a maturity date of March 31, 2014. 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.

Cost of funds associated with our note payable include a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and a risk premium component, if applicable. We were not subject to the risk premium component at March 31, 2013 or December 31, 2012.

Total members' equity increased $24.6 million from December 31, 2012 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by redemptions of nonqualified patronage allocations.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 9 in our 2012 Annual Report for a more complete description of these ratios. As of March 31, 2013, the ratios were as follows:

- The permanent capital ratio was 14.1%.
- The total surplus ratio was 13.9%.
- The core surplus ratio was 10.9%.

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.

Certification

The undersigned certify they have reviewed AgStar Financial Services, ACA's March 31, 2013 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.

Spencer Enninga
Chairperson of the Board
AgStar Financial Services, ACA

Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA

Rodney W. Hebrink
Executive Vice President and Chief Financial Officer
AgStar Financial Services, ACA

May 8, 2013

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	March 31 2013	December 31 2012
ASSETS		
Loans	**$5,786,018**	$5,913,336
Allowance for loan/lease losses	**27,741**	26,814
Net loans	**5,758,277**	5,886,522
Investment securities	**467,453**	484,092
Assets held for lease, net	**35,644**	35,296
Accrued interest receivable	**45,095**	45,029
Investment in AgriBank, FCB	**143,542**	141,137
Premises and equipment, net	**17,677**	18,128
Other property owned	**9,300**	10,137
Other assets	**34,537**	44,031
Total assets	**$6,511,525**	$6,664,372
LIABILITIES		
Note payable to AgriBank, FCB	**$5,448,423**	$5,610,487
Subordinated debt	**100,000**	100,000
Accrued interest payable	**23,942**	22,628
Deferred tax liabilities, net	**7,245**	8,751
Other liabilities	**35,621**	50,785
Total liabilities	**5,615,231**	5,792,651
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Capital stock and participation certificates	**15,717**	15,655
Allocated surplus	**316,097**	302,789
Unallocated surplus	**564,480**	553,277
Total members' equity	**896,294**	871,721
Total liabilities and members' equity	**$6,511,525**	$6,664,372

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

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

For the three months ended March 31	**2013**	2012
Interest income	**$64,952**	$63,792
Interest expense	**23,599**	25,571
Net interest income	**41,353**	38,221
Provision for loan/lease losses	**1,629**	1,724
Net interest income after provision for loan/lease losses	**39,724**	36,497
Other income		
Patronage income	**4,073**	3,211
Net operating lease income	**397**	459
Financially related services income	**4,659**	6,522
Fee and miscellaneous income, net	**7,454**	2,070
Total other income	**16,583**	12,262
Operating expenses		
Salaries and employee benefits	**19,287**	18,761
Other operating expenses	**8,185**	8,593
Total operating expenses	**27,472**	27,354
Income before income taxes	**28,835**	21,405
Provision for (benefit from) income taxes	**4,019**	(2,497)
Net income	**$24,816**	$23,902

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31 , 2011	$14,859	$290,517	$500,860	$806,236
Net income	--	--	23,902	23,902
Surplus allocated as nonqualified patronage	--	10,300	(10,300)	--
Redemption of prior year allocated patronage	--	(18,455)	--	(18,455)
Capital stock/participation certificates issued	472	--	--	472
Capital stock/participation certificates retired	(352)	--	--	(352)
Balance at March 31 , 2012	$14,979	$282,362	$514,462	$811,803
Balance at December 31 , 2012	$15,655	$302,789	$553,277	$871,721
Net income	**--**	**--**	**24,816**	**24,816**
Surplus allocated as nonqualified patronage	**--**	**13,613**	**(13,613)**	**--**
Redemption of prior year allocated patronage	**--**	**(305)**	**--**	**(305)**
Capital stock/participation certificates issued	**410**	**--**	**--**	**410**
Capital stock/participation certificates retired	**(348)**	**--**	**--**	**(348)**
Balance at March 31 , 2013	**$15,717**	**$316,097**	**$564,480**	**$896,294**

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 three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013. 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 2012 Annual Report for the year ended December 31, 2012.

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued but are not yet effective and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

NOTE 2: Loans and Allowance for Loan/Lease Losses

Loans consisted of the following (dollars in thousands):

As of:	**March 31, 2013**		December 31, 2012	
	Amount	**%**	Amount	%
Real estate mortgage	**$2,958,507**	**51.1%**	$2,889,701	48.9%
Production and intermediate term	**1,572,482**	**27.2%**	1,761,770	29.8%
Agribusiness	**600,315**	**10.4%**	610,220	10.3%
Communication	**130,561**	**2.2%**	137,221	2.3%
Energy	**172,170**	**3.0%**	162,628	2.8%
Rural residential real estate	**97,845**	**1.7%**	97,398	1.6%
Finance/conditional sales leases	**114,462**	**2.0%**	113,742	1.9%
Other	**139,676**	**2.4%**	140,656	2.4%
Total	**$5,786,018**	**100.0%**	$5,913,336	100.0%

The other category is comprised of loans originated under our Mission Related Investment authority as well as water and waste water loans.

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (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 March 31, 2013						
Real estate mortgage	**$17,162**	**$36,940**	**$54,102**	**$2,928,852**	**$2,982,954**	**$4,797**
Production and intermediate term	**4,933**	**4,446**	**9,379**	**1,576,396**	**1,585,775**	**21**
Agribusiness	**31**	**208**	**239**	**602,066**	**602,305**	**--**
Communication	**--**	**--**	**--**	**130,693**	**130,693**	**--**
Energy	**--**	**--**	**--**	**172,266**	**172,266**	**--**
Rural residential real estate	**2,277**	**1,219**	**3,496**	**94,653**	**98,149**	**8**
Finance/conditional sales leases	**1,593**	**928**	**2,521**	**111,941**	**114,462**	**226**
Other	**2,155**	**8,229**	**10,384**	**130,024**	**140,408**	**--**
Total	**$28,151**	**$51,970**	**$80,121**	**$5,746,891**	**$5,827,012**	**$5,052**
As of December 31, 2012						
Real estate mortgage	$16,719	$33,589	$50,308	$2,861,770	$2,912,078	$99
Production and intermediate term	2,561	5,051	7,612	1,768,005	1,775,617	27
Agribusiness	14,158	892	15,050	597,616	612,666	--
Communication	--	--	--	137,331	137,331	--
Energy	--	--	--	162,779	162,779	--
Rural residential real estate	2,697	1,458	4,155	93,524	97,679	--
Finance/conditional sales leases	826	1,167	1,993	111,749	113,742	--
Other	--	8,229	8,229	133,339	141,568	--
Total	$36,961	$50,386	$87,347	$5,866,113	$5,953,460	$126

Risk Loans

The following table presents risk loan information (in thousands):

As of:	**March 31 2013**	December 31 2012
Volume with specific reserves	**$38,358**	$20,279
Volume without specific reserves	**141,404**	131,540
Total risk loans	**$179,762**	$151,819
Total specific reserves	**$9,465**	$5,524
For the three months ended March 31	**2013**	2012
Income on accrual risk loans	**$83**	$1
Income on nonaccrual loans	**985**	1,098
Total income on risk loans	**$1,068**	$1,099
Average risk loans	**$163,553**	$170,517

The credit quality of our portfolio has declined slightly from December 31, 2012 resulting from a limited number of accounts in the dairy, swine, renewable energy, and telecom industries showing weaknesses in their business.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as formally restructured. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan/lease losses. We record a specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the three months ended March 31 (in thousands):

	2013		2012	
	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate mortgage	**$159**	**$158**	$35	$35
Production and intermediate term	**36**	**37**	231	231
Total	**$195**	**$195**	$266	$266

Pre-modification outstanding represents the recorded investment just prior to restructuring and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

Our real estate mortgage loans had troubled debt restructurings of $33 thousand and $311 thousand that defaulted during the periods ended March 31, 2013 and 2012 in which the modifications were within twelve months of the beginning of the respective reporting period.

Troubled debt restructurings outstanding at March 31, 2013 totaled $35.9 million, all but $104 thousand of which were in nonaccrual status compared to $37.0 million at December 31, 2012 all but $102 thousand of which were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $410 thousand at March 31, 2013.

Allowance for Loan/Lease Losses

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

Three months ended March 31	**2013**	2012
Balance at beginning of year	**$26,814**	$26,833
Provision for loan losses	**1,629**	1,724
Loan recoveries	**233**	1,037
Loan charge-offs	**(935)**	(2,593)
Other	**--**	4
Balance at end of period	**$27,741**	$27,005

In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at March 31, 2013.

NOTE 3: Investment Securities

We held investment securities of $467.5 million at March 31, 2013 and $484.1 million at December 31, 2012. Our investment securities consisted of:

- securities containing loans guaranteed by the Small Business Administration (SBA) or by the U.S. Department of Agriculture (USDA), and
- mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac),

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):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
As of March 31, 2013					
SBA/USDA	**$182,381**	**$2,061**	**($5,592)**	**$178,850**	**3.8%**
Farmer Mac	**285,072**	**4,217**	**(115)**	**289,174**	**4.6%**
Total	**$467,453**	**$6,278**	**($5,707)**	**$468,024**	**4.3%**
As of December 31, 2012					
SBA/USDA	$181,442	$2,117	($5,215)	$178,344	3.8%
Farmer Mac	302,650	5,361	(112)	307,899	4.7%
Total	$484,092	$7,478	($5,327)	$486,243	4.4%

Investment income is recorded in “Interest income” on the Consolidated Statements of Income and totaled $4.3 million and $4.9 million for the three months ended March 31, 2013 and 2012, respectively.

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

As of March 31, 2013	Amortized Cost
Less than one year	**$2,624**
One to five years	**27,991**
Five to ten years	**96,882**
More than ten years	**339,956**
Total	**$467,453**

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 in the principal or most advantageous market for the asset or liability. 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 14 in our 2012 Annual Report for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2013 or December 31, 2012. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
As of March 31, 2013					
Loans	**$ --**	**$1,403**	**$28,934**	**$30,337**	**$(6,530)**
Other property owned	**--**	**--**	**11,296**	**11,296**	**(237)**
As of December 31, 2012					
Loans	$ --	$1,774	$13,719	$15,493	($1,828)
Other property owned	--	--	12,065	12,065	(1,484)

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 May 8, 2013, which is the date the consolidated financial statements were available to be issued. On April 29, 2013, our stockholders voted to approve amending our capital bylaws to allow for the issuance of preferred stock and also approved the issuance of up to $250.0 million of preferred stock. In addition to the stockholder approvals, we also need to receive certain approvals from our regulator, the Farm Credit Administration (FCA). We have submitted a request to FCA for approval to issue up to $150.0 million of preferred stock and expect to receive the necessary approval from FCA in May, 2013.