

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of United FCS, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2010 annual report should also be read for a description of our organization, operations and significant accounting policies. Our annual report is available on our website at www.unitedfcs.com.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in United FCS, 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 P.O. Box 1330, Willmar, Minnesota 56201, (320) 235-1912. You may also contact AgriBank at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or by e-mail to 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

Loan volume totaled \$1.1 billion at September 30, 2011, a \$27.9 million decrease from December 31, 2010. The decrease is due to an increase in unused operating commitments because of reduced operating loan needs along with principal payments exceeding plan, partially offset by new mortgage loan growth. Loan volume has increased 11.2% from one year ago on an average daily balance basis.

Risk Assets

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	September 30 2011	December 31 2010
As of:		
Loans:		
Accruing restructured	\$3,833	\$1,017
Past due 90 days or more still accruing	6	--
Nonaccrual	9,678	8,818
Total risk loans	13,517	9,835
Other property owned	3,396	2,931
Total risk assets	\$16,913	\$12,766
Risk loans as a % of total loans	1.2%	0.8%
Total delinquencies as a % of total loans	0.2%	0.4%

Our risk assets have increased from December 31, 2010; however they remain at acceptable levels.

The increase in accruing restructured loans is primarily due to a mortgage loan restructuring.

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

Despite the increase in nonaccrual loans, total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at September 30, 2011, and represented 0.8% of our total portfolio. At September 30, 2011, 78.6% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio has improved slightly from December 31, 2010. Adversely classified assets have decreased to 1.9% of the portfolio at September 30, 2011, from 2.0% of the portfolio at December 31, 2010. Adversely classified assets are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, equity and/or collateral.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At September 30, 2011, \$44.4 million of our loans were, to some level, guaranteed under these governmental programs.

Agricultural and Economic Conditions

USDA's August 2011 Farm Sector Income Forecast revised 2011 net farm income upward from the initial February forecast of \$94.7 billion to a record \$103.6 billion, up \$24.5 billion from 2010. USDA forecasts farm expenses will rise 11.4% in 2011 after increasing 2.3% in 2010, and exceed \$300 billion for the first time.

Cash Grain – Corn/Soybeans: USDA's September Supply and Demand report continued to project tight ending U.S. corn and soybean supplies continuing into 2012. USDA projects ending 2012 U.S. corn supplies at 672 million bu. and a record season average price of \$6.50-\$7.50/bu., and the ending U.S. soybean supplies at 225 million bu. with a season average price of \$12.65-\$14.65/bu.

General Crops: Area producers were able to plant (on a delayed basis) corn, soybeans, potatoes, sugar beets and canning crops this spring with very limited preventative plantings. Crop conditions this summer were quite variable due to the wide window of planting dates, excess moisture, less than optimal plant stand counts and weed pressure. A hard freeze in September impacted some of the crops in our Minnesota service area. Overall, our Wisconsin producers experienced favorable growing conditions in 2011. Area producers are expected to harvest average corn, cranberry, potato and canning crops and potentially below average soybean and sugar beet crops.

Dairy: USDA's August 2011 Farm Sector Income Forecast projects dairy cash receipts to increase in 2011 with projected milk prices increasing by \$4/cwt from 2010 levels. Dairy cow numbers are also expected to increase slightly in 2011. USDA's August 2011 milk production outlook was for a 1.5% increase over 2010 with a similar increase forecast for 2012. August U.S. milk production was up 2.2% from August 2010 levels with production in Wisconsin up 1.2% and Minnesota down 4.5%.

Area dairy producers harvested good alfalfa forage and corn silage crops in 2010 along with corn for grain which have helped minimize 2011 year-to-date feed purchases. Many dairy producers in our local service area have operated at or slightly above break-even levels for the last 24 months. The current milk futures for 2011, if achieved,

should allow most dairy producers to operate at profitable levels for the remainder of 2011.

General Livestock: The August 2011 USDA Farm Sector Income Forecast states "Livestock receipts are expected to rise nearly 16%, led by strong sales of dairy, meat animals, and turkeys. Many different crop and livestock categories are expected to achieve record high sales." In addition, this report states "...cattle and calf cash receipts are anticipated to increase despite declining production in 2011, reflecting large price gains as global demand for U.S. beef is expected to remain strong. Hog cash receipts are expected to increase due to large price gains coupled with a small increase in pork production. Broiler cash receipts are expected to increase in 2011, with increases in production offset by strong broiler export demand."

The August 2011 USDA Cold Storage report showed that frozen meat stocks were 11% higher than a year-ago and 6% less than July levels. The report showed that frozen beef stocks were up 8% from year-ago levels, frozen pork stocks were up 16%, frozen chicken stocks were up 14% and frozen turkey stocks were up 5%.

The September USDA Hogs and Pigs report showed the U.S. hogs and pigs inventory was up 1% from one year-ago. Breeding inventory and marketing hog inventory were both up 1% from year-ago September levels. Year-to-date, hog producers in the Association's portfolio have operated at profitable levels even with high feed costs due to strong domestic and export demand.

Prices for turkey products steadily increased throughout 2010 and remained at strong levels through the first three quarters of 2011 due to historically low levels of product inventory. The turkey industry was able to operate at a strong profitability level in 2010 after two years of more limited returns. The industry continued to operate profitably in the first three quarters of 2011 even with the higher feed costs. Current frozen stocks of turkeys are at very low levels. The outlook for 2011 continues to be positive but not as strong as 2010 levels due to higher feed and fuel costs.

The broiler industry continued to struggle in 2011 with both demand and production issues that started in the latter half of 2010. The U.S. broiler meat production estimate for third quarter 2011 is 1% less than the previous year. The continued combination of strong first-half production, and weaker demand, particularly exports, have resulted in more production going into frozen storage and stable/slightly lower broiler prices. Feed costs also started to increase substantially in the 4th quarter of 2010 and are projected to remain at high levels into the 4th quarter of 2011. The industry outlook is for losses to continue into the first quarter of 2012 when lower production should start to better balance supply and demand, resulting in improved profitability.

Ethanol: The ethanol industry was generally able to operate at slight profitability in the first three calendar quarters of 2011. 2011's higher oil and gas prices have allowed ethanol prices to increase to offset a majority of the corn price increase that has occurred in 2011. The current eleven state three month (Sept-Nov) cash flow forecast before debt servicing is a positive \$.65/gal.

The Renewable Fuel Standard required the production of 12.6 billion gallons of ethanol in 2011. According to the Renewable Fuels Association, ethanol producers are producing on an annualized basis just over 13.34 billion gallons of ethanol based on September information. U.S. ethanol production capacity is currently projected to be at 14.7 billion gallons in 2011. There continue to be no significant imports of ethanol into the U.S. in the first 9 months of 2011. The U.S. continues to export ethanol in 2011 after setting record levels of exports during 2010.

The industry continues to deal with much higher corn costs in 2011 compared to 2010 due to tighter U.S. corn supplies.

Allowance for Loan Losses

The allowance for loan losses is a valuation estimate of potential 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, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	September 30	December 31
Allowance as a percentage of:	2011	2010
Loans	0.4%	0.4%
Nonaccrual loans	48.8%	59.5%
Total risk loans	34.9%	53.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2011.

Results of Operations

Net income for the nine months ended September 30, 2011, totaled \$18.1 million compared to \$16.6 million for the same period of 2010. The following table illustrates profitability information:

As of September 30	2011	2010
Return on average assets	2.0%	2.0%
Return on average members' equity	12.5%	12.8%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$3,357
Provision for loan losses	275
Patronage income	569
Other income, net	(889)
Operating expenses	(1,356)
Provision for income taxes	(420)
Total change in net income	\$1,536

Net interest income was \$27.1 million for the nine months ended September 30, 2011. The following table quantifies changes in net interest income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$2,835
Changes in rates	408
Changes in nonaccrual income and other	114
Net change	\$3,357

The change in the provision for loan losses is related to increased allowance for loan loss requirements on several participations purchased. Subsequent to September 30, 2011, a participation purchased by us was liquidated. The borrower sold their business to a third party for less than the amount owed to lenders which resulted in a debt compromise that has caused us to record an additional charge-off, although in an amount less than our specific reserve. Accordingly, we will reverse any remaining specific reserve after this charge-off as a reduction to provision expense.

The increase in patronage income is related to our July 2010 sale of a participation interest in certain real estate loans to AgriBank. This was

partially offset by our share of distributions from Allocated Insurance Reserve Accounts (AIRA) during the first quarter of 2010 totaling \$130 thousand related to the participations sold to AgriBank during 2010. 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.

The decrease in *other income, net* is primarily related to our share of distributions from AIRA of \$1.1 million during the first quarter of 2010 and not received in 2011, partially offset by an increase in fee income.

The changes in *operating expenses* are primarily related to an increase in staff related expense to support the Association's year-over-year growth and ongoing staff expense.

The change in *provision for income taxes* is primarily related to an increase in taxable income partially offset by a change in the tax deductibility of planned patronage levels.

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

Funding, Liquidity and Capital

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. The 2011 U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the apparent implied link between the credit rating of the System and the U.S. government given the System's status as a government-sponsored enterprise.

Moody's Investors Service and Fitch confirmed the AAA rating of U.S. government bonds and financial institutions directly linked to the U.S. government, including debt issued by the Farm Credit System, following the raising of the statutory debt limit in August 2011. The rating outlook was revised to negative by Moody's and remained stable from Fitch. However, Standard and Poor's Rating Services lowered the U.S. government rating to AA+ in August 2011 with an outlook of negative, followed with a similar change for the System. The impact of current and future downgrades may increase our borrowing costs and may limit Farm Credit System access to the capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve. The impact of the August downgrade did not have a significant impact on our borrowing costs and access to capital markets. The August downgrade also did not impact the individual credit rating of AgriBank, FCB.

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on October 31, 2011, and was renewed for \$1.225 million with a maturity date of October 31, 2012. 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 \$14.5 million from December 31, 2010, due primarily to net income for the period and a small 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 2010 annual report for a more complete description of these ratios. As of September 30, 2011, the ratios were as follows:

- The permanent capital ratio was 11.9%.
- The total surplus ratio was 11.5%.
- The core surplus ratio was 11.5%.

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

Certification

The undersigned certify they have reviewed United FCS, ACA's September 30, 2011, 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.



Gregory Jans
Chairperson of the Board
United FCS, ACA



Marcus L. Knisely
Chief Executive Officer
United FCS, ACA



Robert M. Haines
Chief Financial Officer
United FCS, ACA

November 8, 2011

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA
(Dollars in thousands)
(Unaudited)

	September 30	December 31
	2011	2010
ASSETS		
Loans	\$1,148,979	\$1,176,885
Allowance for loan losses	4,724	5,251
Net loans	1,144,255	1,171,634
Investment in AgriBank, FCB	36,434	36,651
Investment securities	697	1,447
Accrued interest receivable	14,002	9,631
Premises and equipment, net	11,533	8,964
Other property owned	3,396	2,931
Assets held for lease, net	827	4,504
Net deferred income tax asset	75	--
Other assets	8,338	9,661
Total assets	\$1,219,557	\$1,245,423
LIABILITIES		
Note payable to AgriBank, FCB	\$1,005,416	\$1,041,992
Accrued interest payable	4,198	4,122
Net deferred income tax liability	--	1,412
Patronage distribution payable	3,750	6,000
Other liabilities	6,138	6,350
Total liabilities	1,019,502	1,059,876
Contingencies and commitments	--	--
MEMBERS' EQUITY		
Capital stock and participation certificates	4,554	4,427
Unallocated surplus	195,501	181,120
Total members' equity	200,055	185,547
Total liabilities and members' equity	\$1,219,557	\$1,245,423

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA
(Dollars in thousands)
(Unaudited)

Period ended September 30	Three Months		Nine Months	
	2011	2010	2011	2010
Interest income	\$13,169	\$11,962	\$39,671	\$37,008
Interest expense	4,198	4,264	12,597	13,291
Net interest income	8,971	7,698	27,074	23,717
Provision for loan losses	7	262	632	907
Net interest income after provision for loan losses	8,964	7,436	26,442	22,810
Other income				
Patronage income	1,494	1,441	4,531	3,962
Financially related services income	1,496	1,838	3,082	3,065
Fee income	442	385	1,321	971
Allocated insurance reserve account distribution	--	--	--	1,143
Miscellaneous income, net	197	348	851	964
Total other income	3,629	4,012	9,785	10,105
Operating expenses				
Salaries and employee benefits	3,784	3,498	11,628	10,441
Other operating	1,787	1,682	5,121	4,952
Total operating expenses	5,571	5,180	16,749	15,393
Income before income taxes	7,022	6,268	19,478	17,522
Provision for (reversal of) income taxes				
	645	(468)	1,348	928
Net income	\$6,377	\$6,736	\$18,130	\$16,594

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA
(Dollars in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	\$4,108	\$162,614	\$166,722
Net income	--	16,594	16,594
Unallocated surplus designated for patronage distributions	--	(3,898)	(3,898)
Capital stock/participation certificates issued	474	--	474
Capital stock/participation certificates retired	(271)	--	(271)
Balance at September 30, 2010	\$4,311	\$175,310	\$179,621
Balance at December 31, 2010	\$4,427	\$181,120	\$185,547
Net income	--	18,130	18,130
Unallocated surplus designated for patronage distributions	--	(3,749)	(3,749)
Capital stock/participation certificates issued	416	--	416
Capital stock/participation certificates retired	(289)	--	(289)
Balance at September 30, 2011	\$4,554	\$195,501	\$200,055

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

Our 2010 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2010. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 annual report.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

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

Recent Accounting Developments

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 that 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 is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The new 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. The amendments include the following:

- Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a significant impact on our financial condition or 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". This 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 is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

NOTE 2: Investment Securities

We held investment securities of \$697 thousand at September 30, 2011, and \$1.4 million at December 31, 2010, consisting of investment notes in a trust of equipment loans. The 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 the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

	September 30	December 31
As of:	2011	2010
Amortized cost	\$697	\$1,447
Unrealized gains	2	157
Unrealized losses	–	(142)
Fair value	<u>\$699</u>	<u>\$1,462</u>
Weighted average yield	2.2%	3.4%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$15 thousand for the nine month period ended September 30, 2011, and \$134 thousand for the nine month period ended September 30, 2010.

NOTE 3: Allowance for Loan Losses

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

Nine months ended September 30	2011	2010
Balance at beginning of year	\$5,251	\$3,915
Provision for loan losses	632	907
Loan recoveries	28	247
Loan charge-offs	(1,187)	163
Balance at end of period	\$4,724	\$5,232

The decrease in allowance for loan losses is due to participation charge-offs in the third quarter of 2011. Subsequent to September 30, 2011, a participation purchased by us was liquidated. The borrower sold their business to a third party for less than the amount owed to lenders which resulted in a debt compromise that has caused us to record an additional charge-off, although in an amount less than our specific reserve. Accordingly, we will reverse any remaining specific reserve after this charge-off as a reduction to provision expense.

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

	September 30	December 31
As of:	2011	2010
Volume with specific reserves	\$3,807	\$3,217
Volume without specific reserves	9,710	6,618
Total risk loans	\$13,517	\$9,835
Total specific reserves	\$2,097	\$907
Nine months ended September 30	2011	2010
Income on accrual risk loans	\$90	\$54
Income on nonaccrual loans	456	342
Total income on risk loans	\$546	\$396
Average recorded investment	\$12,071	\$16,373

The increase in risk loans is primarily due to a mortgage loan restructuring and several participation downgrades.

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 2010 annual report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2011, or December 31, 2010. 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 is as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
September 30, 2011					
Loans	\$ --	\$1,741	\$2,113	\$3,854	(\$1,190)
Other property owned	--	2,883	650	3,533	(25)
December 31, 2010					
Loans	\$ --	\$1,640	\$785	\$2,425	(\$171)
Other property owned	--	--	3,048	3,048	85

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. 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. 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.

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.

NOTE 6: Subsequent Events

We have evaluated subsequent events through November 8, 2011, which is the date the 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 those financial statements except as disclosed in Note 3.