GOLDEN STATE
FARM CREDIT

Quarterly Report to Shareholders

June 30, 2016

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

(Unaudited)

The following discussion summarizes the financial position and results of operations of Golden State Farm Credit for the six months ended June 30, 2016, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2015 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

The association financial performance during the first half of 2016 was strong and continues building on the momentum of 2015. Additional investments in staff, systems and controls position us to grow and meet the needs of California agricultural growers and producers into the future.

Significant challenges to the association and our customers are the ongoing drought and declining commodity prices. There are political and environmental risks to the agricultural economy. We anticipate lower prices for most commodities in 2016. It is uncertain whether this is a short term correction or part of a longer trend. The extended production cycle and increase in permanent plantings create unique risks for our borrowers. The drought, water availability and commodity prices will be monitored closely throughout 2016.

LOAN PORTFOLIO

Loans outstanding at June 30, 2016 totaled $1.289 billion, an increase of $73 million, or 6.0%, from loans of $1.216 billion at December 31, 2015. The increase was primarily due to organic growth and several capital market loans purchased in 2016.

OTHER PROPERTY OWNED

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at June 30, 2016 or December 31, 2015.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2016 was $11.5 million, a decrease of $349 thousand, or 2.9%, from the same period ended one year ago. The quarter and year to date decline in income was primarily due to increased operating expenses and provisions for credit losses.

Net interest income for the six months ended June 30, 2016 was $16.9 million, an increase of $1.3 million, or 8.5%, compared with June 30, 2015. Net interest income increased as a result of loan growth.

The provision for credit losses for the six months ended June 30, 2016 was $548 thousand, an increase of $508 thousand, from the provision for credit losses for the same period ended one year ago. The provision for credit losses increased as a result of loan growth and managements concern over the long term effects of the drought conditions.

Noninterest income increased $182 thousand during the first six months of 2016 compared with the first six months in 2015 primarily due to increased insurance commissions and patronage dividends on participations purchased.

We received mineral income of $2 thousand during the first six months of 2016, which is distributed to us quarterly by the Bank.

During the first six months of 2016, noninterest expense increased $1.3 million to $7.5 million, primarily due to increases in salary and benefits, purchased information technology, Farm Credit Insurance premium increases and travel and training expenses. The increase in salaries is the result of filling executive positions and accruing incentive obligations throughout the year.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2016 was $272.6 million, an increase from $261.0 million at December 31, 2015. This increase is due to net income, with minor adjustments to the retirement obligation and stock certificates issued.

REGULATORY MATTERS

On March 10, 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank, and Associations. The New Capital Regulations are scheduled to become effective January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 ("CET1"), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings ("URE") and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below these buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, expected to begin on January 1, 2017. There will be no phase-in of the leverage buffer.

OTHER MATTERS

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

Mike Fry
Chairman of the Board
August 3, 2016

J. Fletcher Monroe
President and Chief Executive Officer
August 3, 2016

Larry Grager
Chief Financial Officer
August 3, 2016

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2016 UNAUDITED	December 31 2015 AUDITED
ASSETS		
Loans	**$ 1,288,978**	$ 1,216,296
Less allowance for loan losses	**3,763**	3,321
Net loans	**1,285,215**	1,212,975
Cash	**629**	18,555
Accrued interest receivable	**15,216**	6,274
Investment in CoBank, ACB	**39,684**	39,592
Premises and equipment, net	**3,312**	3,182
Prepaid benefit expense	**1,099**	863
Other assets	**3,393**	5,434
Total assets	**$ 1,348,548**	$ 1,286,875
LIABILITIES		
Note payable to CoBank, ACB	**$ 1,038,716**	$ 991,675
Advance conditional payments	**31,526**	20,696
Accrued interest payable	**1,152**	1,084
Patronage distributions payable	**-**	6,500
Accrued benefits liability	**617**	723
Reserve for unfunded commitment	**170**	64
Other liabilities	**3,809**	5,085
Total liabilities	**1,075,990**	1,025,827
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	**1,602**	1,582
Additional paid-in capital	**141,442**	141,442
Unallocated retained earnings	**129,759**	118,333
Accumulated other comprehensive (loss)/income	**(245)**	(309)
Total shareholders' equity	**272,558**	261,048
Total liabilities and shareholders' equity	**$ 1,348,548**	$ 1,286,875

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30 2016	For the three months ended June 30 2015	For the six months ended June 30 2016	For the six months ended June 30 2015
INTEREST INCOME				
Loans	**$ 11,768**	$ 10,684	**$ 23,096**	$ 21,022
Total interest income	**11,768**	10,684	**23,096**	21,022
INTEREST EXPENSE				
Note payable to CoBank	**3,152**	2,752	**6,158**	5,399
Advanced conditional payments and other conditional trust funds	**37**	39	**79**	81
Total interest expense	**3,189**	2,791	**6,237**	5,480
Net interest income	**8,579**	7,893	**16,859**	15,542
Provision for credit losses	**322**	-	**548**	40
Net interest income after provision for credit losses	**8,257**	7,893	**16,311**	15,502
NONINTEREST INCOME				
Financially related services income	**5**	2	**8**	31
Loan fees	**68**	24	**119**	59
Patronage refund from Farm Credit Institutions	**1,210**	1,120	**2,375**	2,223
Mineral income	**1**	2	**2**	4
Other noninterest income	**1**	71	**75**	80
Total noninterest income	**1,285**	1,219	**2,579**	2,397
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,070**	1,540	**4,145**	3,366
Occupancy and equipment	**173**	107	**291**	221
Purchased services from AgVantis, Inc.	**353**	255	**703**	514
Farm Credit Insurance Fund premium	**370**	270	**732**	543
Supervisory and examination costs	**94**	91	**188**	182
Other noninterest expense	**714**	658	**1,403**	1,285
Total noninterest expense	**3,774**	2,921	**7,462**	6,111
Income before income taxes	**5,768**	6,191	**11,428**	11,788
Provision for income taxes	**2**	-	**2**	2
Net income	**5,766**	6,191	**11,426**	11,786
OTHER COMPREHENSIVE INCOME				
Amortization of retirements costs	**32**	26	**64**	53
Total comprehensive income	**$ 5,798**	$ 6,217	**$ 11,490**	$ 11,839

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock and Participation Certificates	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2014	$ 1,612	$ 141,442	$ 107,833	$ (338)	$ 250,549
Comprehensive income			11,786	53	11,839
Stock and participation certificates issued	227				227
Stock and participation certificates retired	(254)				(254)
Balance at June 30, 2015	$ 1,585	$ 141,442	$ 119,619	$ (285)	$ 262,361
Balance at December 31, 2015	$ 1,582	$ 141,442	$ 118,333	$ (309)	$ 261,048
Comprehensive income			11,426	64	11,490
Stock and participation certificates issued	91				91
Stock and participation certificates retired	(71)				(71)
Balance at June 30, 2016	**$ 1,602**	**$ 141,442**	**$ 129,759**	**$ (245)**	**$ 272,558**

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

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Golden State Farm Credit (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited second quarter 2016 financial statements should be read in conjunction with the 2015 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015 as contained in the 2015 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. Descriptions of the significant accounting policies are included in the 2015 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled “Presentation of Financial Statements – Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	June 30, 2016	December 31, 2015
Real estate mortgage	**$1,129,206**	$1,061,681
Production and intermediate-term	**67,917**	72,100
Agribusiness:		
Loans to cooperatives	**1**	--
Processing and marketing	**35,323**	25,961
Farm-related business	**18,566**	21,346
Rural infrastructure:		
Communication	**--**	--
Energy	**--**	--
Water and waste water	**--**	--
Rural residential real estate	**263**	269
Lease receivables	**37,701**	34,939
Total loans	**$1,288,978**	$1,216,296

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 15,430	$ 87,064	$ --	$ --	$ 15,430	$ 87,064
Production and intermediate-term	352	--	--	--	352	--
Agribusiness	20,131	--	--	--	20,131	--
Rural infrastructure	--	--	--	--	--	--
Rural residential real estate	--	--	--	--	--	--
Lease receivables	3,809	14,304	--	--	3,809	14,304
Total	$ 39,722	$ 101,368	$ --	$ --	$ 39,722	$ 101,368

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2016	December 31, 2015
Real estate mortgage		
Acceptable	**99.63%**	99.77%
OAEM	**0.18%**	0.13%
Substandard	**0.19%**	0.10%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**99.99%**	99.99%
OAEM	**0.01%**	0.01%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%

Rural residential real estate		
Acceptable	**79.92%**	79.54%
OAEM	**19.70%**	20.09%
Substandard	**0.38%**	0.37%
Total	**100.00%**	100.00%
Lease receivables		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**99.67%**	99.79%
OAEM	**0.16%**	0.12%
Substandard	**0.16%**	0.09%
Total	**100.00%**	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	**June 30, 2016**	December 31, 2015
Nonaccrual loans		
Real estate mortgage	**$ 520**	$ 283
Lease receivables	**--**	1
Total nonaccrual loans	**520**	284
Accruing restructured loans		
Total accruing restructured loans	**--**	--
Accruing loans 90 days past due		
Total accruing loans 90 days past due	**--**	--
Total impaired loans	**520**	284
Other property owned	**0**	0
Total high risk assets	**$ 520**	$ 284

Additional impaired loan information is as follows:

	June 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 520**	**$ 619**	**$ --**	$ 283	$ 346	$ --
Lease receivables	**--**	**--**	**--**	1	1	--
Total	**$ 520**	**$ 619**	**$ --**	$ 284	$ 347	$ --

Note: The recorded investment in the receivable is the face amount 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.

	For the Three Months Ended June 30, 2016		For the Three Months Ended June 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 341**	**$ 1**	$ 223	$ --
Production and intermediate-term	**21**	**1**	236	--
Lease receivables	**--**	**--**	14	--
Total	**$ 362**	**$ 2**	$ 473	$ --

	For the Six Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 467**	**$ 22**	$ 226	$ --
Production and intermediate-term	**10**	**1**	118	--
Lease receivables	**--**	**--**	9	--
Total	**$ 477**	**$ 23**	$ 353	$ --

The following tables provide an age analysis of past due loans (including accrued interest).

June 30, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 2,345	$ --	$ 2,345	$1,140,949	$1,143,294	$ --
Production and intermediate-term	100	--	100	68,525	68,626	--
Agribusiness	330	--	330	53,971	54,302	--
Rural residential real estate	--	--	--	264	264	--
Lease receivables	--	--	--	37,708	37,708	--
Total	$ 2,775	$ --	$ 2,775	$1,301,418	$1,304,194	$ --

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 208	$ --	$ 208	$1,066,848	$1,067,056	$ --
Production and intermediate-term	--	--	--	72,682	72,682	--
Agribusiness	--	--	--	47,620	47,620	--
Rural residential real estate	--	--	--	270	270	--
Lease receivables	--	--	--	34,942	34,942	--
Total	$ 208	$ --	$ 208	$1,222,362	$1,222,570	$ --

A summary of changes in the allowance for loan losses is as follows:

	Balance at March 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 796	$ --	$ --	$ (96)	$ 703
Production and intermediate-term	1,580	--	--	(208)	1,372
Agribusiness	385	--	--	685	1,070
Rural residential real estate	2	--	--	(1)	1
Lease receivables	751	--	--	(134)	617
Total	$ 3,514	$ --	$ --	$ 249	$ 3,763

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 773	$ --	$ --	$ (70)	$ 703
Production and intermediate-term	1,464	--	--	(96)	1,372
Agribusiness	311	--	--	759	1,070
Rural residential real estate	2	--	--	(1)	1
Lease receivables	771	--	--	154	617
Total	$ 3,321	$ --	$ --	$ 442	$ 3,763

	Balance at March 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2015
Real estate mortgage	$ 417	$ --	$ --	$ --	$ 417
Production and intermediate-term	1,318	--	--	--	1,318
Agribusiness	187	--	--	--	187
Rural residential real estate	3	--	--	--	3
Lease receivables	639	--	--	--	639
Total	$ 2,564	$ --	$ --	$ --	$ 2,564

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2015
Real estate mortgage	$ 422	$ --	$ --	$ (5)	$ 417
Production and intermediate-term	1,310	--	--	8	1,318
Agribusiness	156	--	--	31	187
Rural residential real estate	3	--	--	--	3
Lease receivables	633	--	--	6	639
Total	$ 2,524	$ --	$ --	$ 40	$ 2,564

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	**2016**	2015
Balance at beginning of period	**$ 96**	$ --	**$ 64**	$ --
Provision for unfunded commitments	**73**	--	**105**	--
Total	**$ 169**	$ --	**$ 169**	$ --

Additional detail of the allowance for credit losses is summarized below:

	Allowance for Credit Losses Ending Balance at June 30, 2016		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ --	$ 703	$ 520	$1,142,775
Production and intermediate-term	--	1,372	--	68,626
Agribusiness	--	1,070	--	54,302
Rural residential real estate	--	1	--	264
Lease receivables	--	617	--	37,708
Total	$ --	$ 3,763	$ 520	$1,303,674

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ --	$ 773	$ 283	$1,066,773
Production and intermediate-term	--	1,464	--	72,682
Agribusiness	--	311	--	47,620
Rural residential real estate	--	2	--	270
Lease receivables	--	771	1	34,941
Total	$ --	$ 3,321	$ 284	$1,222,286

Restructured Debt:

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. The Association recorded no TDRs during the six months ended June 30, 2016.

NOTE 3 - CAPITAL

At June 30, 2016 the Permanent Capital Ratio was 17.14%. The decline from December 31, 2015 was due to the patronage payment made in December 2015 and strong loan growth during 2016.

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2015 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring basis at June 30, 2016 or December 31, 2015.

The Association had no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2016 or December 31, 2015.

	Fair Value Measurement Using			Total Fair	Total
	Level 1	**Level 2**	**Level 3**	**Value**	**Gains/(Losses)**
June 30, 2016 **Other property owned**	**$ —**	**$ —**	**$ --**	**$ --**	**$ --**
December 31, 2015 Other property owned	$ —	$ —	$ --	$ --	$ --

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 3rd, 2016, which is the date the financial statements were issued, and no material subsequent events were identified.