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**Third Quarter 2015  
Report to Shareholders**

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**Farm Credit West**

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## Management's Discussion and Analysis

The following commentary is a review of the consolidated financial condition and results of operations of Farm Credit West, ACA and subsidiaries (Farm Credit West). These comments should be read in conjunction with the unaudited third quarter 2015 consolidated financial statements and related notes included in this report, as well as the 2014 Annual Report to Shareholders. Shareholders may obtain copies of the Quarterly or Annual Report to Shareholders free of charge by calling 916-780-1166, or by writing to Farm Credit West, 1478 Stone Point Drive, Suite 450, Roseville, CA 95661, or by accessing our website at [www.farmcreditwest.com](http://www.farmcreditwest.com).

The financial condition and results of operations of CoBank, ACB (CoBank), materially affect the risk associated with shareholder investments in Farm Credit West. Shareholders of Farm Credit West may obtain copies of CoBank's financial statements free of charge by calling 916-780-1166 or by writing to Farm Credit West, 1478 Stone Point Drive, Suite 450, Roseville, CA 95661, or by accessing CoBank's website at [www.cobank.com](http://www.cobank.com).

In September, 2015, the stockholders of Farm Credit West and Farm Credit Services Southwest (Southwest) approved a Plan of Merger. Final regulatory approval for the Plan of Merger was received in late October, 2015. Under the Plan of Merger, Southwest stock was converted into Farm Credit West stock effective November 1, 2015. However, the Plan of Merger is unique in that, rather than Southwest merging directly into Farm Credit West on November 1st, Southwest was acquired by Farm Credit West on that date, and Southwest will operate as a wholly-owned subsidiary of Farm Credit West for some period of time.

Southwest has branch offices in Tempe, Yuma and Safford, Arizona and an office in California's Imperial Valley. To give some perspective, the combined Farm Credit West and Southwest assets totaled \$9.0 billion at September 30, 2015, which includes an \$8.5 billion diversified portfolio of agricultural loans across three western states.

### Loan and Lease Volume

Loan and lease volume (net of sold loan participations) was \$7.6 billion at September 30, 2015, an increase of \$601.3 million since December 31, 2014. The increase was mainly due to a \$338 million increase in mortgage loan volume and a \$271 million increase in participations purchased.

In addition to the \$7.6 billion of loan and lease volume reported on our balance sheet, at September 30, 2015, we serviced loans and leases totaling \$1.7 billion for other institutions.

### Portfolio Quality

As shown in the following table, our loan quality statistics declined slightly during the first nine months of 2015 compared to December 31, 2014. The change was primarily

due to an increase in nonaccrual loan volume during the first nine months of 2015.

|                         | September 30,<br>2015 | December 31,<br>2014 | December 31,<br>2013 |
|-------------------------|-----------------------|----------------------|----------------------|
| Nonadversely classified | 97.0%                 | 97.1%                | 95.5%                |
| Adversely classified    | 3.0%                  | 2.9%                 | 4.5%                 |

The outlook remains positive for most of the key commodities in our territory, although persistent unfavorable market conditions have weakened the financial position of some producers in the nursery segment of the portfolio.

Tree nuts are the largest commodity concentration in FCW's loan portfolio at 16.2%. Almonds and pistachio prices have remained relatively strong, but walnut prices dropped significantly due to weakening exports. Water availability continues to be a concern for this segment of our portfolio. Also, a continued strong U.S. dollar may further weaken export demand.

FCW's dairy portfolio is the second largest commodity concentration in our loan portfolio at 13.2%. Overall the dairy industry did fairly well last year as record-high milk prices helped most dairy customers to rebuild liquidity in their operations. The drought conditions in California have increased forage prices which tends to reduce margins for dairy producers. With lower milk prices and higher forage costs in 2015, many producers are at or near breakeven, adding some stress to this portfolio.

California is nearing the end of its fourth consecutive year of drought, with the majority of FCW's lending territory classified by the USDA as experiencing extreme or exceptional drought conditions. The drought is impacting each of FCW's three regions in unique ways. The coastal areas are suffering from dramatic declines in well water levels, forcing many farmers to deepen existing wells and expand the number of available wells. The Northern Region is suffering from reductions in surface water deliveries for the first time in recent history and some farmers are reactivating wells that have not been utilized in many years. The Southern San Joaquin Region is experiencing both well draw down and reduced surface water availability.

Production acreage has been reduced to adjust to water availability, and yields may be reduced due to water stress. Thus continued drought conditions can be expected to result in increased prices and decreased supplies for most agricultural products produced in our lending territory. This could result in reduced income to certain agricultural producers and processors, which in turn may increase credit stress and add credit risk to FCW's loan and lease portfolio. Management has taken this risk into consideration when evaluating the allowance for loan losses.

## Management's Discussion and Analysis

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### Nonearning Assets

Nonearning assets (nonaccrual loan volume plus the volume of other property owned) totaled \$99.3 million at September 30, 2015. This level represents a \$26.9 million, or 37.1% increase since December 31, 2014. The increase during the first nine months of 2015 was primarily due to a \$27.1 million increase in nonaccrual loan volume.

Management initiatives are in place to continue to reduce the level of nonearning assets.

### Allowance for Loan Losses

Our allowance for loan losses totaled \$43.8 million (0.57% of loan principal and interest) at September 30, 2015, an increase of \$6.5 million since December 31, 2014. The allowance is our best estimate of the amount of probable losses existing in, and inherent in, our loan portfolio as of the balance sheet date. We determine the allowance based on a regular evaluation of the loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

At September 30, 2015, charge-offs net of recoveries, totaled \$4.2 million compared to \$0.5 million during the same period in 2014. Loan charge-offs in 2014 and 2013 were primarily due to recognition of collateral deficits on impaired loans in the process of collection.

### Credit Risk Management

To help manage and diversify credit risk, our credit risk management framework includes securitizing loans, obtaining credit guarantees, selling loan participation interests, limiting "hold" positions to amounts below legal lending limits, and prudently establishing individual lending limits based on asset quality. Our loan securitizations include the exchange of mortgage loans for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities, which are reported as investment securities on the accompanying consolidated balance sheet.

### Net Income

Net income for the first nine months ended September 30, 2015 was \$130.6 million with an annualized rate of return on average assets (ROA) of 2.28%. Net income for the first nine months of 2014 was \$124.9 million with an ROA of 2.39%.

Following are the key changes in net income year-over-year:

- ❖ Net interest income increased by \$15.1 million, or 10.9% during the first nine months of 2015 compared to the same period last year, mainly due to \$14.7 million in favorable volume variances. Average earning assets volume for the first nine months of 2015 was \$682 million (10.3%) higher than the average 2014 volume and a \$1.2 million increase in nonaccrual interest income recognized in 2015. These increases above were

partially offset by \$0.9 million in unfavorable rate variances.

- ❖ Total noninterest income increased by \$1.8 million during the first nine months of 2015 compared to the same period last year. The increase was primarily due to a \$2.1 million increase in CoBank patronage income and a \$0.9 million increase in loan origination fees. These increases were partially offset by \$0.8 million decrease in 2015 gains as the sale of the Visalia Branch land and building was recorded in 2014 and no such transactions have occurred in the current year and a \$0.6 million decrease in loan servicing income.

Offsetting the positive net income variances noted above:

- ❖ Noninterest expense increased by \$2.7 million, or 6.3%, to \$45.8 million during the first nine months of 2015 from \$43.1 million during the first nine months of 2014. The increase was primarily due to a \$1.6 million increase in salaries and benefits, a \$0.8 million increase in FCSIC premiums and a \$0.6 million increase in information technology services. These increases were partially offset by \$0.7 million reduction in losses on other property owned.
- ❖ Provision for loan losses increased by \$8.5 million during the first nine months of 2015 compared to the same period last year.

### Patronage

We distributed cash patronage dividends totaling \$57 million to eligible customers in February 2015. The patronage rate was at the target level of 75 basis points (0.75%) of average principal outstanding during 2014.

### Preferred Stock

Our preferred stock program is another means of adding value to the customer relationship. This program enables customers to provide us with the capital needed to support growth, while the customer is paid an attractive dividend on their investment. Due to the increased demand for our preferred stock, the FCW stockholders approved an increase in the preferred stock program limit from \$200 million to \$500 million in 2013. While \$500 million shares are authorized for issuance, FCW maintains an internal issuance limit based on regulatory and capital management considerations. At September 30, 2015 the outstanding preferred stock balance was \$350 million, or equal to the internal limit established. The per annum dividend rate is 2.00%. The dividend rate has not changed since November, 2011.

## Management's Discussion and Analysis

### Future Payment Funds

At September 30, 2015, the customer-owned future payment funds increased by \$21.3 million to \$533.6 million compared to \$512.3 million at December 31, 2014. The current economic cycle has enabled many of our customers to maintain high levels of liquid assets. Future payment funds represent voluntary advance conditional payments and are an interest-bearing funding source for the Association. We paid interest at a rate of 1.00% on these accounts during the quarter. The interest rate on future payment funds has not changed since February, 2009.

### Amounts of Capital and Capital Adequacy

In the past nine months, total members' equity has increased \$155.6 million (10.2%) primarily due to retained net income of \$130.6 million and an increase of \$30.0 million in preferred stock outstanding. Partially offsetting the net income were preferred stock dividends of \$5.0 million.

As shown in the following table, Farm Credit West has substantially exceeded each regulatory minimum capital requirement for all periods presented. Capital ratios have decreased during 2015 due to substantial loan growth during the first nine months of the year and an increase in loan commitments requiring capital.

| Type of capital as % of risk-weighted assets | For the quarter ended |               |               | Regulatory Minimum |
|--|-----------------------|---------------|---------------|--------------------|
|  | Sept. 30, 2015        | Dec. 31, 2014 | Dec. 31, 2013 |                    |
| Permanent capital                            | 18.40%                | 19.62%        | 18.62%        | 7.00%              |
| Total surplus                                | 13.90%                | 14.92%        | 14.46%        | 7.00%              |
| Core surplus                                 | 13.90%                | 14.90%        | 14.35%        | 3.50%              |

### Forward-Looking Information

This discussion contains forward looking statements. These statements are not guarantees of future performance; future operations involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," or "will" are intended to identify forward-looking statements. These statements are based on management's assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Readers are cautioned not to place undue reliance on these forward-looking statements. We will not update any forward-looking statements to reflect events or circumstances arising after they are made.

### Certification

The undersigned certify that this report has been prepared under the oversight of the FCW Audit Committee, that it is presented in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief, and we have reviewed this report.



Blake Harlan  
Chairman of the Board of Directors



Mark D. Littlefield  
President and Chief Executive Officer



Christopher J. Doherty  
Executive Vice President – Fiscal Operations  
and Chief Financial Officer

November 4, 2015

## Consolidated Balance Sheet

| <i>(in thousands)</i>                        | <b>September 30,<br/>2015<br/>(unaudited)</b> | <b>December 31,<br/>2014</b> |
|--|---|------------------------------|
| <b>Assets</b>                                |   |                              |
| Loans and leases                             | \$ 7,600,231                                  | \$ 6,998,977                 |
| Less: allowance for loan and lease losses    | (43,800)                                      | (37,300)                     |
| Net loans and leases                         | <u>7,556,431</u>                              | <u>6,961,677</u>             |
| Cash   | —   | 20,223                       |
| Accrued interest receivable                  | 78,411  | 46,437                       |
| Investment securities — available-for-sale   | 111,195                                       | 127,545                      |
| Investment securities — held-to-maturity     | 37,949  | 40,808                       |
| Investment in CoBank                         | 213,897                                       | 212,294                      |
| Other property owned                         | 6,128   | 6,337                        |
| Premises and equipment, net                  | 22,905  | 19,620                       |
| Other assets                                 | 51,253  | 57,251                       |
| <b>Total assets</b>                          | <u><b>\$ 8,078,169</b></u>                    | <u><b>\$ 7,492,192</b></u>   |
| <b>Liabilities</b>                           |   |                              |
| Note payable to CoBank                       | \$ 5,829,715                                  | \$ 5,366,091                 |
| Future payment funds                         | 533,627                                       | 512,308                      |
| Accrued interest payable                     | 4,264   | 4,921                        |
| Patronage distribution payable               | —   | 57,000                       |
| Unfunded disbursements                       | 7,605   | —                            |
| Other liabilities                            | 20,461  | 24,972                       |
| <b>Total liabilities</b>                     | <u><b>6,395,672</b></u>                       | <u><b>5,965,292</b></u>      |
| Commitments and contingent liabilities       |   |                              |
| <b>Members' Equity</b>                       |   |                              |
| Preferred stock                              | 350,575                                       | 320,544                      |
| Capital stock and participation certificates | 4,184   | 4,130                        |
| Unallocated retained earnings                | 1,326,839                                     | 1,201,239                    |
| Accumulated other comprehensive income       | 899   | 987                          |
| <b>Total members' equity</b>                 | <u><b>1,682,497</b></u>                       | <u><b>1,526,900</b></u>      |
| <b>Total liabilities and members' equity</b> | <u><b>\$ 8,078,169</b></u>                    | <u><b>\$ 7,492,192</b></u>   |

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

## Consolidated Statement of Comprehensive Income

| <i>(unaudited and in thousands)</i>                                     | For the three months ended<br>September 30 |                  | For the nine months ended<br>September 30 |                   |
|---|--|------------------|---|-------------------|
|   | 2015                                       | 2014             | 2015                                      | 2014              |
| <b>Interest Income</b>  |  |                  |   |                   |
| Loans and leases  | \$ 67,718                                  | \$ 62,686        | \$ 197,048                                | \$ 183,322        |
| Investment securities   | 1,464                                      | 1,770            | 4,566                                     | 5,471             |
| <b>Total interest income</b>  | <b>69,182</b>                              | <b>64,456</b>    | <b>201,614</b>                            | <b>124,837</b>    |
| <b>Interest Expense</b>   |  |                  |   |                   |
| Note payable to CoBank  | 15,515                                     | 16,199           | 45,563                                    | 48,777            |
| Future payment funds  | 1,283                                      | 1,257            | 3,865                                     | 3,378             |
| <b>Total interest expense</b>   | <b>16,798</b>                              | <b>17,456</b>    | <b>49,428</b>                             | <b>52,155</b>     |
| <b>Net interest income</b>  | <b>52,384</b>                              | <b>47,000</b>    | <b>152,186</b>                            | <b>137,138</b>    |
| Provision for loan losses   | (5,846)                                    | (652)            | (10,697)                                  | (2,216)           |
| <b>Net interest income after provision for loan losses</b>              | <b>46,538</b>                              | <b>46,348</b>    | <b>141,489</b>                            | <b>134,922</b>    |
| <b>Noninterest Income</b>   |  |                  |   |                   |
| Patronage income  | 8,247                                      | 7,177            | 25,628                                    | 23,097            |
| Loan and other fees   | 2,372                                      | 2,090            | 6,697                                     | 6,095             |
| Loan servicing income   | 648  | 791              | 2,048                                     | 2,508             |
| Other noninterest income  | 208  | 135              | 661                                       | 1,512             |
| <b>Total noninterest income</b>   | <b>11,475</b>                              | <b>10,193</b>    | <b>35,034</b>                             | <b>33,212</b>     |
| <b>Noninterest Expense</b>  |  |                  |   |                   |
| Salaries and employee benefits  | 8,501                                      | 8,154            | 26,089                                    | 24,464            |
| Information technology services   | 1,529                                      | 1,360            | 4,575                                     | 4,026             |
| Occupancy and equipment   | 830  | 844              | 2,555                                     | 2,638             |
| Farm Credit Insurance Fund premiums                                     | 1,820                                      | 1,461            | 5,097                                     | 4,306             |
| Supervisory and examination expense                                     | 297  | 352              | 1,071                                     | 1,055             |
| Loss (gain) on other property owned, net                                | (7)  | 84               | 103                                       | 757               |
| Other operating expense   | 2,022                                      | 1,923            | 6,332                                     | 5,869             |
| <b>Total noninterest expense</b>  | <b>14,992</b>                              | <b>14,178</b>    | <b>45,822</b>                             | <b>43,115</b>     |
| <b>Income before income taxes</b>                                       | <b>43,021</b>                              | <b>42,363</b>    | <b>130,701</b>                            | <b>125,019</b>    |
| Provision for income taxes  | (1)  | (52)             | (89)                                      | (134)             |
| <b>Net income</b>   | <b>\$ 43,020</b>                           | <b>\$ 42,311</b> | <b>\$ 130,612</b>                         | <b>\$ 124,885</b> |
| <b>Other Comprehensive Income</b>                                       |  |                  |   |                   |
| Unrealized (loss) gain on investment securities -<br>available-for-sale | (70)                                       | (1,465)          | (465)                                     | (1,644)           |
| Pension Restoration Plan adjustment                                     | 125  | 116              | 377                                       | 349               |
| <b>Total comprehensive income</b>                                       | <b>\$ 43,075</b>                           | <b>\$ 40,962</b> | <b>\$ 130,524</b>                         | <b>\$ 123,590</b> |

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

## Consolidated Statement of Changes in Member's Equity

| <i>(unaudited and in thousands)</i>                             | Preferred<br>Stock       | Capital<br>Stock and<br>Participation<br>Certificates | Unallocated<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Members'<br>Equity |
|---|--------------------------|---|-------------------------------------|---|-----------------------------|
| <b>Balance at December 31, 2013</b>                             | \$ 271,438               | \$ 3,978  | \$ 1,101,448                        | \$ 3,039  | \$ 1,379,903                |
| Comprehensive income  |                          |   | 124,885                             | (1,295)   | 123,590                     |
| Preferred stock issued  | 138,771                  |   |                                     |   | 138,771                     |
| Preferred stock retired   | (98,666)                 |   |                                     |   | (98,666)                    |
| Capital stock and participation<br>certificates issued          |                          | 248   |                                     |   | 248                         |
| Capital stock and participation<br>certificates retired         |                          | (148)   |                                     |   | (148)                       |
| Preferred stock dividends<br>declared and paid                  | 4,481                    |   | (4,481)                             |   | —                           |
| <b>Balance at September 30, 2014</b>                            | <u>\$ 316,024</u>        | <u>\$ 4,078</u>                                       | <u>\$ 1,221,852</u>                 | <u>\$ 1,744</u>                                 | <u>\$ 1,543,698</u>         |
| <b>Balance at December 31, 2014</b>                             | <b>\$ 320,544</b>        | <b>\$ 4,130</b>                                       | <b>\$ 1,201,239</b>                 | <b>\$ 987</b>                                   | <b>\$ 1,526,900</b>         |
| <b>Comprehensive income</b>                                     |                          |   | <b>130,612</b>                      | <b>(88)</b>                                     | <b>130,524</b>              |
| <b>Preferred stock issued</b>                                   | <b>115,573</b>           |   |                                     |   | <b>115,573</b>              |
| <b>Preferred stock retired</b>                                  | <b>(90,554)</b>          |   |                                     |   | <b>(90,554)</b>             |
| <b>Capital stock and participation<br/>certificates issued</b>  |                          | <b>264</b>  |                                     |   | <b>264</b>                  |
| <b>Capital stock and participation<br/>certificates retired</b> |                          | <b>(210)</b>  |                                     |   | <b>(210)</b>                |
| <b>Preferred stock dividends<br/>declared and paid</b>          | <b>5,012</b>             |   | <b>(5,012)</b>                      |   | <b>—</b>                    |
| <b>Balance at September 30, 2015</b>                            | <u><b>\$ 350,575</b></u> | <u><b>\$ 4,184</b></u>                                | <u><b>\$ 1,326,839</b></u>          | <u><b>\$ 899</b></u>                            | <u><b>\$ 1,682,497</b></u>  |

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

## Notes to Consolidated Financial Statements

### Note 1 – Organization and Operations

A description of the organization and operations of Farm Credit West, significant accounting policies followed, and the financial condition and results of operations as of and for the year ended, December 31, 2014 are contained in the 2014 Farm Credit West Annual Report to Shareholders. These unaudited third quarter 2015 financial statements should be read in conjunction with the 2014 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the Association's interim financial condition and results of operations. Farm Credit West's accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry.

In August 2014, the Financial Accounting Standards Board (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 and 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 the Association's financial condition or its results of operations.

### Note 2 – Loans and Allowance for Loan Losses

A summary of loan principal outstanding follows.

| <i>(in thousands)</i>                     | <b>September 30,<br/>2015</b> | December 31,<br>2014       |
|---|-------------------------------|----------------------------|
| Real estate mortgage loans                | <b>\$ 4,234,548</b>           | \$ 3,977,829               |
| Production and<br>intermediate-term loans | <b>1,454,248</b>              | 1,433,983                  |
| Agribusiness loans:                       |                               |                            |
| Processing and marketing                  | <b>1,008,937</b>              | 805,160                    |
| Farm related businesses                   | <b>347,801</b>                | 346,102                    |
| Loans to cooperatives                     | <b>132,194</b>                | 115,635                    |
| Direct financing leases                   | <b>195,281</b>                | 182,484                    |
| Communication loans                       | <b>110,346</b>                | 87,849                     |
| Energy loans                              | <b>61,047</b>                 | 49,935                     |
| Water/Waste disposal                      | <b>55,829</b>                 | —                          |
| Total loans                               | <b><u>\$ 7,600,231</u></b>    | <b><u>\$ 6,998,977</u></b> |

An analysis of changes in the allowance for loan losses is shown below.

| <i>(in thousands)</i>                          | <b>2015</b>             | 2014                    |
|--|-------------------------|-------------------------|
| <i>For the nine months ended September 30,</i> |                         |                         |
| Balance at beginning of year                   | <b>\$ 37,300</b>        | \$ 34,700               |
| Provision for loan losses                      | <b>10,697</b>           | 2,216                   |
| Charge-offs                                    | <b>(4,336)</b>          | (3,346)                 |
| Recoveries                                     | <b>139</b>              | 2,830                   |
| Balance at September 30,                       | <b><u>\$ 43,800</u></b> | <b><u>\$ 36,400</u></b> |

The following table presents allowance information concerning impaired loans. Impaired loans include nonaccrual loans, accruing restructured loans and loans past due 90 days or more and still accruing interest.

| <i>(in thousands)</i>                    | <b>September 30,<br/>2015</b> | December 31,<br>2014    |
|--|-------------------------------|-------------------------|
| Impaired loans with related allowance    | <b>\$ 43,527</b>              | \$ 39,600               |
| Impaired loans with no related allowance | <b>64,149</b>                 | 42,719                  |
| Total impaired loans                     | <b><u>107,676</u></b>         | <b><u>82,319</u></b>    |
| Allowance on impaired loans              | <b><u>\$ 14,318</u></b>       | <b><u>\$ 11,810</u></b> |

## Notes to Consolidated Financial Statements

The following table presents average impaired loans and interest income recognized on impaired loans.

| <i>For the nine months ended September 30,<br/>(in thousands)</i> |                  |                  |
|---|------------------|------------------|
|   | 2015             | 2014             |
| Average impaired loans  | <u>\$ 93,445</u> | <u>\$ 97,794</u> |
| Interest income recognized on impaired loans                      | <u>\$ 2,592</u>  | <u>\$ 1,031</u>  |

A restructuring of a loan constitutes a troubled debt restructuring (TDR) if, for economic or legal reasons related to the debtor's financial difficulties, the Association grants a concession to the debtor that it would not otherwise consider. During the first nine months of 2015, no loan restructuring transactions were deemed to be troubled debt restructurings.

There were no TDRs that occurred within the previous 12 months for which there was a subsequent payment default during the nine months ended September 30, 2015. At December 31, 2014 there was one production and intermediate term loan for \$3.5 million for which there was a payment default during that 12 month period.

TDRs outstanding at September 30, 2015 totaled \$20.5 million, of which \$6.1 million were in nonaccrual status. At December 31, 2014, TDRs outstanding totaled \$25.1 million, of which \$9.4 million were in nonaccrual status.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were less than \$0.1 million at September 30, 2015 and \$0.3 million at December 31, 2014.

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

| <i>Principal and interest<br/>September 30, 2015<br/>(in thousands)</i> | Not Past Due<br>or Less Than 30<br>Days Past Due | Total<br>Past Due | Total<br>Loans     |
|---|--|-------------------|--------------------|
| Real estate mortgage loans  | \$4,247,343                                      | \$ 34,290         | \$4,281,633        |
| Production and<br>intermediate-term loans                               | 1,460,144  | 13,651            | 1,473,795          |
| Agribusiness loans  | 1,494,177  | 3,580             | 1,497,757          |
| Direct financing leases   | 195,190  | 91                | 195,281            |
| Communication loans   | 110,470  | —                 | 110,470            |
| Energy loans  | 61,305   | —                 | 61,305             |
| Water/Waste disposal  | 55,862   | —                 | 55,862             |
| Total loans   | <u>\$7,624,491</u>                               | <u>\$ 51,612</u>  | <u>\$7,676,103</u> |

| <i>Principal and interest<br/>September 30, 2015<br/>(in thousands)</i> | 30-89 Days<br>Past Due | 90 Days or<br>More Past Due | Total<br>Past Due |
|---|------------------------|-----------------------------|-------------------|
| Real estate mortgage loans  | \$ 3,105               | \$ 31,185                   | \$ 34,290         |
| Production and<br>intermediate-term loans                               | 1,934                  | 11,717                      | 13,651            |
| Agribusiness loans  | 2,167                  | 1,413                       | 3,580             |
| Direct financing leases   | —                      | 91                          | 91                |
| Communication loans   | —                      | —                           | —                 |
| Energy loans  | —                      | —                           | —                 |
| Water/Waste disposal  | —                      | —                           | —                 |
| Total loans   | <u>\$ 7,206</u>        | <u>\$ 44,406</u>            | <u>\$ 51,612</u>  |

| <i>Principal and interest<br/>December 31, 2014<br/>(in thousands)</i> | Not Past Due<br>or Less Than 30<br>Days Past Due | Total<br>Past Due | Total<br>Loans     |
|--|--|-------------------|--------------------|
| Real estate mortgage loans   | \$3,987,753                                      | \$ 19,625         | \$4,007,378        |
| Production and<br>intermediate-term loans                              | 1,426,011  | 15,742            | 1,441,753          |
| Agribusiness loans   | 1,271,629  | 545               | 1,272,174          |
| Direct financing leases  | 182,471  | 13                | 182,484            |
| Communication loans  | 87,908   | —                 | 87,908             |
| Energy loans   | 50,007   | —                 | 50,007             |
| Total loans  | <u>\$7,005,779</u>                               | <u>\$ 35,925</u>  | <u>\$7,041,704</u> |

| <i>Principal and interest<br/>December 31, 2014<br/>(in thousands)</i> | 30-89 Days<br>Past Due | 90 Days or<br>More Past Due | Total<br>Past Due |
|--|------------------------|-----------------------------|-------------------|
| Real estate mortgage loans   | \$ 3,054               | \$ 16,571                   | \$ 19,625         |
| Production and<br>intermediate-term loans                              | 2,192                  | 13,550                      | 15,742            |
| Agribusiness loans   | 92                     | 453                         | 545               |
| Direct financing leases  | —                      | 13                          | 13                |
| Communication loans  | —                      | —                           | —                 |
| Energy loans   | —                      | —                           | —                 |
| Total loans  | <u>\$ 5,338</u>        | <u>\$ 30,587</u>            | <u>\$ 35,925</u>  |

### Note 3 – Investment Securities

The following is a summary of Farmer Mac agricultural mortgage-backed securities.

| <i>(dollars<br/>in thousands)</i> | Mortgage-Backed Securities — Available-for-Sale |                           |        |               |                              |
|-----------------------------------|---|---------------------------|--------|---------------|------------------------------|
|                                   | Amortized<br>Cost                               | Gross Unrealized<br>Gains | Losses | Fair<br>Value | Weighted<br>Average<br>Yield |
| September 30, 2015                | \$108,114                                       | \$ 3,081                  | \$ —   | \$111,195     | 4.07%                        |
| December 31, 2014                 | 123,999   | 3,546                     | —      | 127,545       | 4.15%                        |

## Notes to Consolidated Financial Statements

| (dollars<br>in thousands) | Mortgage-Backed Securities — Held-to-Maturity |                |                      |               | Weighted<br>Average<br>Yield |
|---------------------------|---|----------------|----------------------|---------------|------------------------------|
|                           | Amortized<br>Cost                             | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value |                              |
| September 30, 2015        | \$ 37,949                                     | \$ 1,048       | \$ —                 | \$ 38,997     | 3.68%                        |
| December 31, 2014         | 40,808  | 985            | —                    | 41,793        | 3.80%                        |

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter than contractual maturity due to scheduled and unscheduled payment activity affecting the loans underlying such securities.

None of Farm Credit West's investment securities are in an unrealized loss position at September 30, 2015. Accordingly, no investment security impairment has been recorded.

### Note 4 – Members' Equity

#### Preferred Stock

Farm Credit West is authorized to issue 500 million shares of class H preferred stock but has an internal issuance limit set at 350 million shares. Purchases may be made by individuals or entities that hold, at the time of their purchase of preferred stock, legal title to, or beneficial interest in, shares of any class of Farm Credit West common stock or participation certificates. Preferred stock is unprotected and "at-risk." Retirement of preferred stock upon the holder's request is at the sole discretion of the Board, or by Farm Credit West's president when consistent with authority delegated by the Board.

The preferred stock dividend rate is a per annum rate which is subject to change each calendar month. For any particular month, the dividend rate shall not exceed 8% nor be less than the federal funds rate. The preferred stock dividend rate was 2.00% during the first nine months of 2015 and the average preferred stock dividend rate was 2.00% for the full year in 2014.

#### Common Stock

Farm Credit West issues the following classes of common stock: class C common stock and class F participation certificates. Such equities are unprotected and "at-risk." At-risk equities can only be retired: 1) with the express approval of the Farm Credit West Board of Directors, and only if the capitalization requirements described below have been met; or 2) by Farm Credit West's president when consistent with authority delegated by the Board. At September 30, 2015, the required common stock investment was \$1 thousand per stockholder. Customers with multiple loans under common control satisfy their equity ownership requirement with a single \$1 thousand cash investment.

### Capital Adequacy

Farm Credit capital adequacy regulations require all Farm Credit associations to achieve permanent capital of 7% of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7% capital requirement can initiate certain mandatory and possibly additional discretionary actions by our regulator that, if undertaken, could have a direct material effect on our financial statements. Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. Farm Credit regulations also require that additional minimum capital standards be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7% and core surplus as a percentage of risk-adjusted assets of 3.5%. For the quarter ended September 30, 2015, Farm Credit West's permanent capital, total surplus, and core surplus ratios were 18.40%, 13.90%, and 13.90%, respectively.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component.

| (in thousands)  | Unrealized<br>Gains on<br>Investments<br>Available for<br>Sale | Pension<br>and Other<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|-------------------------------|---|
| Balance at December 31, 2014                                | \$ 3,546   | \$ (2,559)                    | \$ 987  |
| Other comprehensive income (loss) before reclassifications  | (465)  | 377                           | (88)  |
| Amounts reclassified from other comprehensive income (loss) | —  | —                             | —   |
| Net current period comprehensive income                     | (465)  | 377                           | (88)  |
| Balance at September 30, 2015                               | \$ 3,081   | \$ (2,182)                    | \$ 899  |

| (in thousands)  | Unrealized<br>Gains on<br>Investments<br>Available for<br>Sale | Pension<br>and Other<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|-------------------------------|---|
| Balance at December 31, 2013                                | \$ 5,067   | \$ (2,028)                    | \$ 3,039                                      |
| Other comprehensive income (loss) before reclassifications  | (1,644)  | 349                           | (1,295)                                       |
| Amounts reclassified from other comprehensive income (loss) | —  | —                             | —   |
| Net current period comprehensive income                     | (1,644)  | 349                           | (1,295)                                       |
| Balance at September 30, 2014                               | \$ 3,423   | \$ (1,679)                    | \$ 1,744                                      |

## Notes to Consolidated Financial Statements

### Note 5 – Fair Value Measurements

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. For additional information, see Note 2 to the 2014 Annual Report to Shareholders – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis are summarized below. There were no other assets and no liabilities measured at fair value on a recurring basis for the periods presented.

| <i>(in thousands)</i>                         | Fair Value<br>Measurement Using<br>Significant Unobservable<br>Inputs (Level 3) | Total Fair Value  |
|---|---|-------------------|
| Assets:                                       |   |                   |
| Investment securities –<br>available-for-sale |   |                   |
| <b>September 30, 2015</b>                     | <b>\$ 111,195</b>   | <b>\$ 111,195</b> |
| December 31, 2014                             | \$ 127,545  | \$ 127,545        |

The tables below represents a reconciliation of Farm Credit West's investment securities – available-for-sale measured at fair value on a recurring basis.

| <i>(in thousands)</i>  | Fair Value Measurement Using<br>Significant Unobservable Inputs (Level 3)<br>Investment securities – available-for-sale |            |
|--|---|------------|
|  | 2015  | 2014       |
| Balance at June 30,  | <b>\$ 114,306</b>   | \$ 138,068 |
| Unrealized (losses) gains included in<br>other comprehensive (loss) income | <b>(70)</b>   | (1,465)    |
| Settlements  | <b>(3,041)</b>  | (3,864)    |
| Balance at September 30,   | <b>\$ 111,195</b>   | \$ 132,739 |

| <i>(in thousands)</i>  | Fair Value Measurement Using<br>Significant Unobservable Inputs (Level 3)<br>Investment securities – available-for-sale |            |
|--|---|------------|
|  | 2015  | 2014       |
| Balance at beginning of year   | <b>\$ 127,545</b>   | \$ 150,673 |
| Unrealized (losses) gains included in<br>other comprehensive (loss) income | <b>(465)</b>  | (1,644)    |
| Settlements  | <b>(15,885)</b>   | (16,290)   |
| Balance at September 30,   | <b>\$ 111,195</b>   | \$ 132,739 |

Assets measured at fair value on a non-recurring basis are summarized in the following table. There were no other assets and no liabilities measured at fair value on a non-recurring basis for the periods presented.

| <i>(in thousands)</i>                                     | Fair Value<br>Measurement Using<br>Significant Unobservable<br>Inputs (Level 3) | Total<br>Fair<br>Value | Total<br>(Losses)/Gains<br>Incurred During<br>the Year |
|---|---|------------------------|--|
| Assets:   |   |                        |  |
| Nonaccrual loans,<br>net of related<br>specific allowance |   |                        |  |
| <b>September 30, 2015</b>                                 | <b>\$ 29,209</b>  | <b>\$ 29,209</b>       | <b>\$ (6,830)</b>                                      |
| December 31, 2014   | 27,790  | 27,790                 | (3,822)  |
| Other property owned,<br>appraised value                  |   |                        |  |
| <b>September 30, 2015</b>                                 | <b>\$ 7,255</b>   | <b>\$ 7,255</b>        | <b>\$ 24</b>   |
| December 31, 2014   | 7,464   | 7,464                  | (577)  |

### Valuation Techniques

As more fully discussed in Note 2 to the 2014 Annual Report to Shareholders, the FASB established a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation technique used by Farm Credit West for assets and liabilities subject to fair value measurement. For a more complete description, see Notes to the 2014 Annual Report to Shareholders.

**Investment Securities:** Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities are estimated using pricing models, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified as Level 3 include Farm Credit West's mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation.

Farm Credit West's held-to-maturity investment securities are carried at amortized cost.

**Loans Evaluated for impairment:** For certain loans evaluated for impairment under FASB impairment guidance, the fair value was based on the underlying real estate collateral for collateral-dependent loans. At September 30, 2015, substantially all of the Association's impaired loans that are recorded at fair value are secured by real estate. The fair value measurement process uses appraisals performed by independent licensed appraisers and other market-based

## Notes to Consolidated Financial Statements

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information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

**Other Property Owned:** The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

### Note 6 – Income Taxes

Farm Credit West, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. As with the PCA subsidiary, the ACA holding company is subject to income tax. Farm Credit West operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Farm Credit West can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock, or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends.

### Note 7 – Subsequent Events

The Association has evaluated subsequent events through November 4, 2015, which is the date the financial statements were issued.

In late October, 2015 the Association received final approval of the Plan of Merger with Farm Credit Services Southwest. Thus, effective November 1, 2015, pursuant to the Plan of Merger, Farm Credit Services Southwest, ACA, and its subsidiaries Farm Credit Services Southwest, FLCA and Farm Credit Services Southwest, PCA (collectively Southwest), became wholly owned subsidiaries of Farm Credit West, ACA. Beginning November 1, 2015, the assets, liabilities and equity of Southwest will be consolidated for financial reporting purposes with Farm Credit West, and the results of operations will be presented on a consolidated basis by Farm Credit West from that date forward.