
**Second Quarter 2021
Report to Shareholders**



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 its subsidiaries Farm Credit West, FLCA and Farm Credit West, PCA (Farm Credit West or Association). These comments should be read in conjunction with the unaudited second quarter 2021 consolidated financial statements and related notes included in this report, as well as the 2020 Annual Report to Shareholders. Shareholders may obtain copies of the Quarterly or Annual Report to Shareholders free of charge by calling our corporate headquarters at 916-780-1166, by writing to Farm Credit West, 3755 Atherton Road, Rocklin, CA 95765, or by accessing our website at www.farmcreditwest.com. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, may materially affect the risk associated with shareholder investments in Farm Credit West. Shareholders of Farm Credit West may obtain copies of CoBank's Quarterly or Annual Report to Shareholders free of charge by calling 916-780-1166, by writing to Farm Credit West, 3755 Atherton Road, CA, 95765, or by accessing CoBank's website at www.cobank.com.

Loan and Lease Volume

Loan and lease volume (net of sold loan and lease participations) was \$11.6 billion at June 30, 2021, an increase of \$9.8 million since December 31, 2020. The net increase was primarily due to increases of \$144.5 million in real estate mortgage volume, \$99.2 million in agribusiness volume and \$31.5 million in rural infrastructure loan volume. Partially offsetting these increases were seasonal decreases of \$258.5 million in production and intermediate term volume and \$6.9 million in direct financing lease volume.

In addition to the \$11.6 billion of loan and lease volume reported on our balance sheet at June 30, 2021, we serviced loans and leases totaling \$3.2 billion held by other institutions.

Loan Portfolio Quality

As shown in the following table, our loan quality statistics improved by 0.8% during the first six months of 2021 due to a decrease in substandard loan volume.

| | June 30, 2021 | December 31, 2020 | December 31, 2019 |
|-------------------------|------------------|----------------------|----------------------|
| Nonadversely classified | 96.4% | 95.6% | 95.4% |
| Adversely classified | 3.6% | 4.4% | 4.6% |

Economic Overview and Commodities

Under normal conditions, agriculture in the area served by Farm Credit West is highly diversified and generally less susceptible to financial volatility than other areas of the U.S. because of the diversity in commodities produced. However, the Coronavirus pandemic (COVID-19) caused worldwide

disruptions in financial markets, numerous business sectors, human capital and also impacted our customers.

The long-term impacts of COVID-19 on agriculture and Farm Credit West customers are still unfolding given the new variants that are arising. The tree nut, table grape and dairy industries, which are significant exposures in our portfolio, are very dependent on export markets. The first round of COVID-19 caused significant levels of stress in these commodities due to the impact on export markets (sales reductions) and general economic uncertainty. While most markets have recovered from the uncertainty, exports remain at lower levels due to container shortages and port slowdowns. Uncertainties brought about by the continuing COVID-19 pandemic and new variants could cause further stress to those industries dependent on export markets.

Other noteworthy economic factors include inflationary pressure, the U.S. labor supply, and drought. Inflation has increased in recent months, and there is speculation that the Federal Reserve will move up its timeline for increasing interest rates. Inflation will potentially have a negative impact on operating costs for the association. COVID-19 has negatively impacted the availability of applicants for certain positions at Farm Credit West. Also, extended unemployment benefits and COVID-19 safety concerns have raised the cost (and reduced the supply) of labor for many of our customers. Significant portions of Farm Credit West's territory are experiencing drought conditions in 2021. While the long-term impacts of the Sustainable Groundwater Management Act continue to be unknown, required reductions in groundwater usage will likely impact land values, and in some cases will require fallowing acreage. This impact is likely to be greatest in the Kern/Kings/Tulare County areas of California. In addition, the Central Arizona Project and other agencies are reviewing drought contingency plans that may impact several agricultural counties in Arizona.

Nonearning Assets

Nonearning assets (nonaccrual loan volume plus other property owned) totaled \$90.2 million at June 30, 2021, a decrease from \$99.6 million at December 31, 2020. Nonaccrual loan volume decreased \$9.4 million due to net repayments during the first six months of 2021. Other property owned balances remained unchanged during the first half of the year.

Allowance for Loan and Lease Losses

Our allowance for loan losses totaled \$73.2 million (0.63% of loan principal and interest) at June 30, 2021, a decrease of \$4.4 million since December 31, 2020. 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. The general allowance took into account the improvement in credit quality noted during the first half of the year and the likelihood of possible losses due to COVID-

Management's Discussion and Analysis

19's impact on the economy, agriculture and customers. 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. There were less than \$0.1 million in recoveries during the first half of the year and the reversal of provision for loan loss totaled \$4.4 million.

Credit Risk Management

To help manage and diversify credit risk, our credit risk management framework includes selling loan participation interests, limiting our "hold" positions to amounts below the legal lending limits, and prudently establishing lending limits at the customer level based on asset quality. Additionally, we obtain credit guarantees with the Federal Agricultural Mortgage Corporation (Farmer Mac) and certain U.S. government agencies, primarily the Farm Services Agency (FSA), on a small portion of our loan portfolio. The PPP loans we funded through the provisions of the CARES Act, are fully guaranteed by the SBA.

Funding and Liquidity

While inflation, employment levels and potential interest rate markets remain somewhat volatile, Farm Credit West is able to continue to offer our full line of product offerings to our customers. We closely monitor liquidity available to us from CoBank, our funding bank, and in addition we have established direct access to our own liquidity to ensure that we have funding available to meet our customer needs.

Investment Securities

Farm Credit West holds investment securities primarily to maintain a liquidity reserve and to assist with interest rate risk management. In accordance with Board-approved policies, Farm Credit West purchases only high credit quality investment securities with the goal of ensuring that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to Farm Credit West's normal funding sources. See Note 3 for additional information.

Net Income

Net income for the six months ended June 30, 2021 was \$166.6 million with an annualized rate of return on average assets (ROA) of 2.71%. This was an increase of \$15.3 million compared to the same period last year. Net income for the first six months of 2020 was \$151.3 million with an ROA of 2.72%. Following are the key changes in net income for the same period year-over-year:

- ❖ Net interest income increased by \$6.1 million to \$163.7 million during the first six months of 2021 compared to the same period last year. The increase was mainly due to \$15.3 million in favorable volume variances offset by an unfavorable interest rate variance

of \$6.5 million and a \$2.7 million reduction in nonaccrual interest income recognized.

- ❖ Total noninterest income increased by \$0.7 million to \$48.9 million primarily due to a \$7.6 million increase in patronage from other Farm Credit Institutions and a \$0.6 million reduction in losses on the buyback of debt. The increase in noninterest income was partially offset by a \$2.3 million decrease in loan fees, no FCSIC refund was received in 2021 compared to a \$2.2 million FCSIC refund received in 2020, a \$1.7 million decrease in SBA Loan Fees and a \$1.0 million decrease in gains recognized.
- ❖ Provision for loan losses decreased by \$9.9 million to a reversal of provision of \$4.4 million during the first six months of 2021 compared to the same period in 2020.

Offsetting the above positive net income variances:

- ❖ Total noninterest expense increased by \$1.4 million to \$50.5 million during the first six months of 2021 compared to the same period in 2020. The change was due primarily to an increase in FCSIC insurance premiums of \$3.7 million. Partially offsetting this increase was a \$1.0 million decrease in information technology, a \$0.8 million increase in gains on the sale of acquired property and decreases of \$0.3 million in both purchased services and public and member relations.

Preferred Stock

Farm Credit West's preferred stock program was established as a means of adding value to the customer relationship and to provide the Association with capital to fund lending activity. Changes in regulatory capital requirements have diminished the capital value of this program. At June 30, 2021, the preferred stock balance was \$297.6 million, a decrease of \$55.8 million from December 31, 2020. Farm Credit West has elected to suspend new issuances into the preferred stock program.

Future Payment Funds

At June 30, 2021, the customer-owned future payment funds increased by \$52.3 million to \$511.9 million compared to \$459.6 million at December 31, 2020. Future payment funds represent voluntary advance conditional payments and are an interest-bearing funding source for the Association.

Capital

In the past six months, total members' equity increased \$111.4 million to \$2.5 billion due to net income of \$166.6 million and a \$1.4 million decrease in accumulated other comprehensive loss. These increases were partially offset by a decrease in preferred stock of \$55.8 million and preferred stock dividend distributions of \$0.8 million.

Management's Discussion and Analysis

Forward-Looking Information

This discussion contains forward looking statements. These statements are not guarantees of future performance as 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 Farm Credit West 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.



Sureena S. Bains Thiara
Board Chair



Mark D. Littlefield
President and Chief Executive Officer



Jean L. Koenck
Executive Vice President – Chief Financial Officer

July 30, 2021

Farm Credit West, ACA
Consolidated Balance Sheets

| <i>(in thousands)</i> | June 30, 2021 (unaudited) | December 31, 2020 |
|--|--|----------------------|
| Assets | | |
| Loans and leases | \$ 11,613,010 | \$ 11,603,195 |
| Less: allowance for loan and lease losses | (73,200) | (77,600) |
| Net loans and leases | 11,539,810 | 11,525,595 |
| Cash | 26,038 | 62,948 |
| Accrued interest receivable | 90,903 | 79,962 |
| Investment securities — available-for-sale | 319,344 | 399,948 |
| Investment in CoBank | 374,512 | 371,862 |
| Other property owned | 1 | 1 |
| Premises and equipment, net | 48,948 | 48,903 |
| Accrued patronage receivable from CoBank | 26,320 | 50,264 |
| Funded benefits expense | 33,061 | 30,762 |
| Other assets | 31,842 | 32,915 |
| Total assets | \$ 12,490,779 | \$ 12,603,160 |
| Liabilities | | |
| Note payable to CoBank | \$ 9,430,446 | \$ 9,569,310 |
| Future payment funds | 511,892 | 459,611 |
| Accrued interest payable | 10,122 | 8,971 |
| Patronage distribution payable | — | 130,000 |
| Accrued benefits liability | 31,440 | 38,563 |
| Other liabilities | 8,108 | 9,312 |
| Total liabilities | 9,992,008 | 10,215,767 |
| Members' Equity | | |
| Preferred stock | 297,562 | 353,360 |
| Capital stock and participation certificates | 4,962 | 4,980 |
| Unallocated retained earnings | 2,067,148 | 1,901,370 |
| Additional Paid-in-Capital | 133,312 | 133,312 |
| Accumulated other comprehensive loss | (4,213) | (5,629) |
| Total members' equity | 2,498,771 | 2,387,393 |
| Total liabilities and members' equity | \$ 12,490,779 | \$ 12,603,160 |

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

Farm Credit West, ACA
Consolidated Statements of Comprehensive Income

| <i>(unaudited and in thousands)</i> | For the three months ended June 30, | | For the six months ended June 30, | |
|--|--|------------------|--------------------------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Interest Income | | | | |
| Loans and leases | \$ 100,485 | \$ 101,722 | \$ 199,815 | \$ 224,693 |
| Investment securities | 369 | — | 474 | — |
| Total interest income | 100,854 | 101,722 | 200,289 | 224,693 |
| Interest Expense | | | | |
| Note payable to CoBank | 18,162 | 24,108 | 35,753 | 65,474 |
| Future payment funds | 423 | 515 | 838 | 1,583 |
| Total interest expense | 18,585 | 24,623 | 36,591 | 67,057 |
| Net interest income | 82,269 | 77,099 | 163,698 | 157,636 |
| Reversal of (provision for) loan losses | 3,604 | (3,565) | 4,408 | (5,498) |
| Net interest income after provision for loan losses | 85,873 | 73,534 | 168,106 | 152,138 |
| Noninterest Income | | | | |
| Patronage income | 16,394 | 12,515 | 39,321 | 31,697 |
| Farm Credit Insurance Fund distribution | — | — | — | 2,227 |
| Loan and other fees | 4,139 | 5,328 | 7,262 | 9,554 |
| Losses on early extinguishments of debt | — | — | — | (561) |
| Other noninterest income | 953 | 4,447 | 2,347 | 5,318 |
| Total noninterest income | 21,486 | 22,290 | 48,930 | 48,235 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 13,997 | 14,100 | 29,018 | 28,795 |
| Information technology services | 3,449 | 4,216 | 7,345 | 8,348 |
| Occupancy and equipment | 981 | 951 | 2,337 | 2,286 |
| Farm Credit Insurance Fund premiums | 3,403 | 1,587 | 6,840 | 3,184 |
| FCA Supervisory and examination expense | 655 | 630 | 1,311 | 1,261 |
| Other operating expense | 1,913 | 1,893 | 4,306 | 5,075 |
| (Gain) loss on other property owned, net | (548) | 64 | (682) | 94 |
| Total noninterest expense | 23,850 | 23,441 | 50,475 | 49,043 |
| Income before income taxes | 83,509 | 72,383 | 166,561 | 151,330 |
| Provision for income taxes | (2) | (7) | (9) | (18) |
| Net income | \$ 83,507 | \$ 72,376 | \$ 166,552 | \$ 151,312 |
| Other Comprehensive Income | | | | |
| Change in unrealized gains (losses) on investment securities - available-for-sale | 1,106 | — | 876 | — |
| Change in unrealized actuarial gains (losses) in Pension Restoration Plan | 270 | 177 | 540 | 354 |
| Change in unrealized actuarial gains (losses) in FPI Pension Plan | — | — | — | 20 |
| Total comprehensive income | \$ 84,883 | \$ 72,553 | \$ 167,968 | \$ 151,686 |

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

Farm Credit West, ACA

Consolidated Statements of Changes in Members' Equity

| <i>(unaudited and in thousands)</i> | Preferred Stock | Capital Stock and Participation Certificates | Unallocated Retained Earnings | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|--------------------------|---|-------------------------------------|----------------------------------|---|-----------------------------|
| Balance at December 31, 2019 | \$ 365,403 | \$ 4,932 | \$ 1,794,045 | \$ 133,312 | \$ (5,030) | \$ 2,292,662 |
| Comprehensive income | | | 151,312 | | 374 | 151,686 |
| Preferred stock issued | 64,386 | | | | | 64,386 |
| Preferred stock retired | (56,782) | | | | | (56,782) |
| Capital stock and participation certificates issued | | 161 | | | | 161 |
| Capital stock and participation certificates retired | | (167) | | | | (167) |
| Preferred stock dividends declared and paid | 2,492 | | (2,492) | | | — |
| Cash Patronage Distribution declared | | | (55,000) | | | (55,000) |
| Balance at June 30, 2020 | <u>\$ 375,499</u> | <u>\$ 4,926</u> | <u>\$ 1,887,865</u> | <u>\$ 133,312</u> | <u>\$ (4,656)</u> | <u>\$ 2,396,946</u> |
| Balance at December 31, 2020 | \$ 353,360 | \$ 4,980 | \$ 1,901,370 | \$ 133,312 | \$ (5,629) | \$ 2,387,393 |
| Comprehensive income | | | 166,552 | | 1,416 | 167,968 |
| Preferred stock issued | — | | | | | — |
| Preferred stock retired | (56,572) | | | | | (56,572) |
| Capital stock and participation certificates issued | | 201 | | | | 201 |
| Capital stock and participation certificates retired | | (219) | | | | (219) |
| Preferred stock dividends declared and paid | 774 | | (774) | | | — |
| Balance at June 30, 2021 | <u>\$ 297,562</u> | <u>\$ 4,962</u> | <u>\$ 2,067,148</u> | <u>\$ 133,312</u> | <u>\$ (4,213)</u> | <u>\$ 2,498,771</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, ACA and its subsidiaries (Farm Credit West or Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2020, are contained in the 2020 Farm Credit West Annual Report to Shareholders. These unaudited second quarter 2021 financial statements should be read in conjunction with the 2020 Annual Report to Shareholders.

The accompanying unaudited 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 generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020 through December 31, 2022. Farm Credit West applied the optional expedients in the first quarter of 2021. The impact of adoption was not material to the institution's financial condition or its results of operations.

In June 2016, the 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 determine 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 was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the

adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and results of operations.

Note 2 – Loans and Allowance for Loan and Lease Losses

A summary of loan principal outstanding follows.

| <i>(in thousands)</i> | June 30, 2021 | December 31, 2020 |
|---|----------------------|----------------------|
| Real estate mortgage loans | \$ 6,931,049 | \$ 6,786,534 |
| Production and intermediate-term loans | 1,828,285 | 2,086,818 |
| Agribusiness loans | 2,183,055 | 2,083,797 |
| Direct financing leases | 210,087 | 217,028 |
| Rural infrastructure loans | 460,447 | 428,929 |
| Rural residential loans | 87 | 89 |
| Total loans | <u>\$ 11,613,010</u> | <u>\$ 11,603,195</u> |

At June 30, 2021, Farm Credit West had \$4.0 billion in unused commitments to extend credit to customers, net of participations sold, and \$37.9 million in stand-by-letters of credit.

Notes to Consolidated Financial Statements

Farm Credit West's leasing operations consist principally of the lease financing of various types of agricultural equipment. Most Farm Credit West leases are classified as direct financing leases, the financial components of which are detailed in the following table. Farm Credit West's financing leases typically expire or mature within five years.

The following table summarizes the components of the net investment in direct financing leases included as Loans and leases in the Consolidated Balance Sheets.

| <i>(in thousands)</i> | June 30, 2021 | December 31, 2020 |
|-----------------------------------|--------------------------|----------------------|
| Minimum lease payments receivable | \$ 308,602 | \$ 331,303 |
| Unearned income | (32,022) | (36,091) |
| Estimated residual values | 6,997 | 9,988 |
| Participation interest sold | (73,490) | (88,172) |
| Direct financing leases | <u>\$ 210,087</u> | <u>\$ 217,028</u> |

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

| <i>For the six months ended June 30, (in thousands)</i> | 2021 | 2020 |
|---|------------------|------------------|
| Balance at beginning of year | \$ 77,600 | \$ 73,800 |
| (Reversal of) provision for loan losses | (4,408) | 5,498 |
| Charge-offs | — | (2,832) |
| Recoveries | 8 | 1,134 |
| Balance at June 30, | <u>\$ 73,200</u> | <u>\$ 77,600</u> |

The following table summarizes the allowance for loan losses as collectively or individually evaluated for impairment.

| <i>(in thousands)</i> | June 30, 2021 | December 31, 2020 |
|---------------------------------------|--------------------------|----------------------|
| Individually evaluated for impairment | \$ 9,383 | \$ 8,754 |
| Collectively evaluated for impairment | 63,817 | 68,846 |
| Total allowance | <u>\$ 73,200</u> | <u>\$ 77,600</u> |

Farm Credit West purchases and sells loan and lease participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following tables present information regarding participations purchased and sold. Participations purchased volume includes loan syndications where Farm Credit West is a lending member.

| <i>June 30, 2021 (in thousands)</i> | Participations Purchased | | |
|---|-----------------------------|---------------------------------|---------------------|
| | Farm Credit Institutions | Non-Farm Credit Institutions | Total |
| Real estate mortgage loans | \$ 740,256 | \$ 10,971 | \$ 751,227 |
| Production and intermediate-term loans | 8,130 | — | 8,130 |
| Agribusiness loans | 1,291,299 | 183,270 | 1,474,569 |
| Rural infrastructure loans | 460,447 | — | 460,447 |
| Total participations purchased | <u>\$ 2,500,132</u> | <u>\$ 194,241</u> | <u>\$ 2,694,373</u> |

| <i>June 30, 2021 (in thousands)</i> | Participations Sold | | |
|---|-----------------------------|---------------------------------|---------------------|
| | Farm Credit Institutions | Non-Farm Credit Institutions | Total |
| Real estate mortgage loans | \$ 2,218,748 | \$ — | \$ 2,218,748 |
| Production and intermediate-term loans | 632,921 | — | 632,921 |
| Agribusiness loans | 274,929 | — | 274,929 |
| Direct financing leases | 73,490 | — | 73,490 |
| Total participations sold | <u>\$ 3,200,088</u> | <u>\$ —</u> | <u>\$ 3,200,088</u> |

Impaired loans are generally loans for which it is probable that not all principal and interest will be collected according to the contractual terms. They include nonaccrual loans, accruing restructured loans and loans past due 90 days or more and still accruing interest.

The following table presents allowance information concerning impaired loans.

| <i>(in thousands)</i> | June 30, 2021 | December 31, 2020 |
|--|--------------------------|----------------------|
| Impaired loans with related allowance | \$ 29,436 | \$ 35,127 |
| Impaired loans with no related allowance | 60,805 | 68,795 |
| Total impaired loans | <u>\$ 90,241</u> | <u>\$ 103,922</u> |
| Allowance on impaired loans | <u>\$ 9,383</u> | <u>\$ 8,754</u> |

Notes to Consolidated Financial Statements

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

| <i>For the six months ended June 30, (in thousands)</i> | 2021 | 2020 |
|---|------------------|------------|
| Average impaired loans | \$ 98,423 | \$ 128,850 |
| Interest income recognized on impaired loans | \$ 480 | \$ 3,364 |

Nonperforming assets (including related accrued interest) additional information follows:

| <i>(in thousands)</i> | June 30, 2021 | December 31, 2020 |
|--|--------------------------|----------------------|
| Nonaccrual loans | \$ 90,174 | \$ 99,562 |
| Accrual loans 90 days or more past due | 67 | 4,360 |
| Total impaired loans | 90,241 | 103,922 |
| Other property owned | 1 | 1 |
| Total impaired assets | \$ 90,242 | \$ 103,923 |

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 six months of 2021, there were no TDR modifications.

There were no TDRs that occurred within the previous 12 months respectively, for which there was a subsequent payment default during the six months ended June 30, 2021 or at December 31, 2020.

TDRs outstanding totaled \$0.1 million at June 30, 2021, all of which were in nonaccrual status. At December 31, 2020, TDR's outstanding also totaled \$0.1 million and all were in nonaccrual status.

There were no additional commitments to lend to customers whose loans have been modified in a TDR at June 30, 2021 or at December 31, 2020.

The following tables provide an age analysis of past due loans, including interest at June 30, 2021 below.

| <i>Principal and interest June 30, 2021 (in thousands)</i> | Not Past Due or Less Than 30 Days Past Due | Total Past Due | Total Loans |
|--|--|-------------------|----------------------|
| Real estate mortgage loans | \$ 6,977,612 | \$ 24,515 | \$ 7,002,127 |
| Production and intermediate-term loans | 1,827,444 | 11,405 | 1,838,849 |
| Agribusiness loans | 2,190,842 | 589 | 2,191,431 |
| Direct financing leases | 210,052 | 35 | 210,087 |
| Rural infrastructure loans | 460,940 | — | 460,940 |
| Rural residential loans | 88 | — | 88 |
| Total loans | \$ 11,666,978 | \$ 36,544 | \$ 11,703,522 |

| <i>Principal and interest June 30, 2021 (in thousands)</i> | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due |
|--|------------------------|-----------------------------|-------------------|
| Real estate mortgage loans | \$ 3,348 | \$ 21,167 | \$ 24,515 |
| Production and intermediate-term loans | 1,372 | 10,033 | 11,405 |
| Agribusiness loans | 589 | — | 589 |
| Direct financing leases | 20 | 15 | 35 |
| Total loans | \$ 5,329 | \$ 31,215 | \$ 36,544 |

| <i>Principal and interest December 31, 2020 (in thousands)</i> | Not Past Due or Less Than 30 Days Past Due | Total Past Due | Total Loans |
|--|--|-------------------|----------------------|
| Real estate mortgage loans | \$ 6,803,759 | \$ 43,111 | \$ 6,846,870 |
| Production and intermediate-term loans | 2,081,958 | 16,849 | 2,098,807 |
| Agribusiness loans | 2,089,952 | 1,199 | 2,091,151 |
| Direct financing leases | 216,701 | 328 | 217,029 |
| Rural infrastructure loans | 429,211 | — | 429,211 |
| Rural residential loans | 89 | — | 89 |
| Total loans | \$ 11,621,670 | \$ 61,487 | \$ 11,683,157 |

| <i>Principal and interest December 31, 2020 (in thousands)</i> | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due |
|--|------------------------|-----------------------------|-------------------|
| Real estate mortgage loans | \$ 14,919 | \$ 28,192 | \$ 43,111 |
| Production and intermediate-term loans | 6,628 | 10,221 | 16,849 |
| Agribusiness loans | 724 | 475 | 1,199 |
| Direct financing leases | 322 | 6 | 328 |
| Total loans | \$ 22,593 | \$ 38,894 | \$ 61,487 |

Notes to Consolidated Financial Statements

Note 3 – Investment Securities

A summary of the amortized cost and fair value of investment securities available-for-sale is as follows:

| <i>(dollars in thousands)</i> | US Treasury Securities — Available-for-Sale | | | | Weighted Average Yield |
|-----------------------------------|---|------------------|-----------------|-------------------|------------------------------|
| | Amortized Cost | Gross Unrealized | | Fair Value | |
| | | Gains | Losses | | |
| June 30, 2021 | \$ 318,442 | \$ 1,103 | \$ (201) | \$ 319,344 | 0.61% |
| December 31, 2020 | 399,921 | 27 | — | 399,948 | 0.11% |

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of investments available-for-sale at June 30, 2021:

| <i>(dollars in thousands)</i> | US Treasury Securities — Available-for-Sale | | |
|-----------------------------------|---|-----------------------------|------------|
| | Due in one to five years | Due in five to ten years | Total |
| | Amount | Amount | Amount |
| Fair Value | \$ 199,756 | \$ 119,588 | \$ 319,344 |
| Amortized Cost | 199,957 | 118,485 | 318,442 |
| Weighted average yield | 0.18% | 1.32% | 0.61% |

Note 4 – Members' Equity

Preferred Stock

Farm Credit West is authorized to issue 500 million shares of class H preferred stock but had an internal issuance limit set at 425 million shares at June 30, 2021. 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. Farm Credit West has elected to suspend new issuances into the preferred stock program. Preferred stock is unprotected and "at-risk." Retirement of preferred stock upon the holder's request is at the sole discretion of the Farm Credit West Board consistent with Farm Credit West Bylaws. Retirements of preferred stock may also require approval by FCA.

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 per annum dividend rate at June 30, 2021 was 0.50%.

Common Stock

Farm Credit West issues the following classes of common stock: voting class C common stock, non-voting class F participation certificates, and under certain circumstances, non-voting class A common stock. Such equities are at-risk and are purchased in cash not advanced by Farm Credit West. Retirement is at the sole discretion of the Board, or by our

President when consistent with authority delegated by our Board to the President. Retirements of common stock may also require approval by the FCA. At June 30, 2021, the required common investment was one thousand dollars per voting stockholder. Customers with multiple loans satisfy their equity ownership requirement with a single thousand dollar cash investment.

At June 30, 2021, Farm Credit West had 890,920 shares of class C capital stock outstanding at a par value of \$5 per share, and 101,408 shares of class F capital stock outstanding at a par value of \$5 per share.

Capital Adequacy

The FCA sets minimum regulatory capital requirements for Banks and Associations. As shown in the following table, Farm Credit West has substantially exceeded each regulatory minimum capital requirement for all periods presented.

| Type of capital as % of risk-weighted assets | <i>For the quarter ended</i> | | | Regulatory Minimum with Buffer |
|---|------------------------------|------------------|------------------|--------------------------------------|
| | Jun. 30, 2021 | Dec. 31, 2020 | Dec. 31, 2019 | |
| Common Equity Tier 1 | | | | |
| Capital (CET1) ratio | 13.71% | 13.85% | 14.37% | 7.00% |
| Tier 1 Capital ratio | 13.71% | 13.85% | 14.37% | 8.50% |
| Total Capital ratio | 14.31% | 14.46% | 15.00% | 10.50% |
| Tier 1 leverage ratio | 14.88% | 14.74% | 15.70% | 5.00% |
| Minimum URE leverage ratio | 16.69% | 16.30% | 17.31% | 1.50% |
| Permanent capital ratio | 16.16% | 16.88% | 17.75% | 7.00% |

Notes to Consolidated Financial Statements

Accumulated Other Comprehensive Loss

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

| <i>(in thousands)</i> | Unrealized Gain (Loss) on Investments Available for Sale | Unrealized Gain (Loss) on Pension and Other Benefit Plans | Accumulated Other Comprehensive Gain (Loss) |
|--|--|---|--|
| Balance at December 31, 2020 | \$ 27 | \$ (5,656) | \$ (5,629) |
| Other comprehensive (loss) gain before reclassifications | 876 | 540 | 1,416 |
| Net current period comprehensive income | 876 | 540 | 1,416 |
| Balance at June 30, 2021 | \$ 903 | \$ (5,116) | \$ (4,213) |

| <i>(in thousands)</i> | Unrealized Gain (Loss) on Investments Available for Sale | Unrealized Gain (Loss) on Pension and Other Benefit Plans | Accumulated Other Comprehensive Gain (Loss) |
|--|--|---|--|
| Balance at December 31, 2019 | \$ (3,409) | \$ (1,621) | \$ (5,030) |
| Other comprehensive income gain before reclassifications | 354 | 20 | 374 |
| Net current period comprehensive income | 354 | 20 | 374 |
| Balance at June 30, 2020 | \$ (3,055) | \$ (1,601) | \$ (4,656) |

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 2020 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 Measurement Using | | | Total |
|--|------------------------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets: | | | | |
| Assets held in trusts for nonqualified benefit plans | | | | |
| June 30, 2021 | \$ 140 | \$ — | \$ — | \$ 140 |
| December 31, 2020 | \$ 525 | \$ — | \$ — | \$ 525 |
| Investment securities – available-for-sale | | | | |
| June 30, 2021 | \$ — | \$ 319,344 | \$ — | \$ 319,344 |
| December 31, 2020 | \$ — | \$ 399,948 | \$ — | \$ 399,948 |

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 Measurement Using Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|------------------------|
| Assets: | | |
| Nonaccrual loans, net of related specific allowance | | |
| June 30, 2021 | \$ 20,053 | \$ 20,053 |
| December 31, 2020 | 26,373 | 26,373 |
| Other property owned, appraised value | | |
| June 30, 2021 | \$ 1 | \$ 1 |
| December 31, 2020 | 1 | 1 |

Valuation Techniques

As more fully discussed in Note 2 to the 2020 Annual Report to Shareholders, the FASB guidance 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 measured at fair value.

Assets held in Trust: Assets held in trust for nonqualified benefit plans are related to supplemental retirement plans and are classified within Level 1. These trust assets held by Farm Credit West include cash, money market funds and mutual funds that have quoted net asset values that are observable in the marketplace.

Notes to Consolidated Financial Statements

Investment Securities: Farm Credit West's security portfolio is made up of U.S. Treasuries and classified as Level 2. 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 U.S. Treasury, U.S. agency and 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.

Nonaccrual Loans: For nonaccrual loans evaluated for impairment under FASB impairment guidance, the fair value is based on the underlying collateral since the loans are collateral-dependent. At June 30, 2021, substantially all of the Association's impaired loans that are recorded at fair value are secured by personal and/or real property. The fair value measurement process uses appraisals performed by independent licensed appraisers and other market-based 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, certain of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate or other collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and loans are reported at fair value.

Other Property Owned: Other property owned is generally classified as Level 3 of the fair value hierarchy. 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.

Note 6 – Income Taxes

Farm Credit West, ACA conducts its business activities through its subsidiaries. Long-term mortgage lending activities are conducted through the Farm Credit West, FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through the Farm Credit West, PCA subsidiary which is subject to tax. As with the PCA subsidiary, the Farm Credit West, 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 – Employee Benefit Plans

Certain Farm Credit West employees participate in a multi-employer defined benefit retirement plan (Defined Benefit Plan). The Association previously disclosed in its financial statements for the year ended December 31, 2020, that it expects to contribute \$6.3 million to its pension plan in 2021. As of June 30, 2021, \$2.1 million in contributions have been made. Farm Credit West's allocated share of expense on the defined benefit retirement plan, included in salaries and employee benefits, was a contra-expense of \$0.2 million for the six months ended June 30, 2021.

Farm Credit West also participates in a non-qualified defined benefit plan (Pension Restoration Plan) that is unfunded. The purpose of this plan is to supplement a participant's benefits under the Defined Benefit Plan to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code.

The components of net periodic pension expense for the Pension Restoration Plan included in Farm Credit West's Consolidated Statement of Comprehensive Income follow.

| <i>For the six months ended June 30,</i> | | |
|--|---------------|---------------|
| <i>(in thousands)</i> | 2021 | 2020 |
| Service cost | \$ 203 | \$ 185 |
| Interest cost | 46 | 105 |
| Net amortization and deferral | 541 | 354 |
| Net periodic benefit cost | <u>\$ 790</u> | <u>\$ 644</u> |

The components of net period benefit cost are included in the line item "salaries and employee benefits" in the income statement. Farm Credit West has continued to account for the service cost component in this line item due to immateriality.

Note 8 – Subsequent Events

The Association has evaluated subsequent events through July 30, 2021, which is the date the financial statements were issued. No subsequent event items met the criteria for disclosure.