
**First Quarter 2019
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). These comments should be read in conjunction with the unaudited first quarter 2019 consolidated financial statements and related notes included in this report, as well as the 2018 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 \$9.9 billion at March 31, 2019, a decrease of \$192.2 million since December 31, 2018. The net decrease was due to seasonal decreases of \$151.0 million and \$97.8 million in real estate mortgage volume and production and intermediate-term loan volume, respectively. Partially offsetting these decreases were increases of \$34.1 million, \$11.1 million and \$10.8 million in agribusiness, rural infrastructure and direct financing lease volumes, respectively.

In addition to the \$9.9 billion of loan and lease volume reported on our balance sheet at March 31, 2019, we serviced loans and leases totaling \$2.6 billion for other institutions.

Loan Portfolio Quality

As shown in the following table, our loan quality statistics declined by 0.8% during the three months of 2019 due to an increase in substandard loan volume.

	March 31, 2019	December 31, 2018	December 31, 2017
Nonadversely classified	94.8%	95.6%	95.9%
Adversely classified	5.2%	4.4%	4.1%

Agriculture in the area served by Farm Credit West is generally less susceptible to market declines than most areas of the U.S. because of the diversity in commodities produced and the relatively low level of dependence on government support programs (other than rice).

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill

governs an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accord with state and federal regulations. The Farm Bill will require the United States Department of Agriculture (USDA) to develop rules and procedures to fully implement these authorities. These rules and procedures with regard to hemp, are expected to be implemented by USDA by the end of 2019.

The State of California's election results in 2017 to legalize the production of marijuana poses customer relationship challenges for Farm Credit West. The cultivation of marijuana for any purpose is a federal offense. As a federally chartered entity, it remains illegal for Farm Credit West to be associated with marijuana production in any form and therefore cannot loan to any customer that is involved directly or indirectly with marijuana production. Additionally, this creates uncertainty as to the value of greenhouses that could potentially be used for marijuana production.

A concern surrounding California water availability is the unknown long term impacts of the Sustainable Groundwater Management Act of 2014 (SGMA). The required reduction in groundwater usage under SGMA is expected to impact land values, and in some cases may require fallowing acreage.

Uncertainty around global trade activity could have a negative impact on some industries we finance. The tree nut, table grape, and dairy industries are very dependent on an export market and these issues can potentially cause some stress to these borrowers including the potential for the implementation by foreign trade partners of tariffs.

Tree nuts, which include almonds, pistachios, walnuts and pecans, when combined, represent the largest commodity concentration in the Association's loan portfolio. However, because of their distinct nature, each tree nut represents a unique commodity. Walnut prices deteriorated in 2018 which may impact the profitability of some borrowers this year, however; borrowers in all other tree nut crops are expected to remain profitable throughout 2019.

The Arizona and California dairy industries continue to face economic challenges as a result of global production coupled with existing high inventories of dairy products, other than butter, exceeding current demand. This is anticipated to continue through 2019, however, the 2018 Farm Bill and

Management's Discussion and Analysis

California's move to the Federal Milk Marketing Order have provided some relief to the dairy industry.

Nonearning Assets

Nonearning assets (nonaccrual loan volume plus other property owned) totaled \$103.2 million at March 31, 2019, a decrease of \$9.9 million from December 31, 2018. The decrease was due to \$13.5 million in year-to-date net repayments on nonaccrual loans partially offset by \$0.6 million in livestock loans transferred to nonaccrual during the first three months of 2019. Other property owned balances remained unchanged.

Allowance for Loan Losses

Our allowance for loan losses totaled \$63.8 million (0.64% of loan principal and interest) at March 31, 2019, an increase of \$2.0 million since December 31, 2018. The increase is due in part to increasing loss exposure as a result of risk rating downgrades and collateral revaluations on certain loans that resulted in a higher risk profile. 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 March 31, 2019, net recoveries totaled less than \$0.1 million, essentially unchanged as compared to the same period in 2018. Additionally, provision expense of \$1.9 million was recognized in the first three months of 2019 as compared to \$2.1 million for the same period in 2018.

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 borrower 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.

Net Income

Net income for the three months ended March 31, 2019 was \$67.4 million with an annualized rate of return on average assets (ROA) of 2.53%. Net income for the first three months of 2018 was \$67.8 million with an ROA of 2.53%. Following are the key changes in net income for the same period year-over-year:

- ❖ Net interest income increased by \$6.7 million to \$73.8 million during the first three months of 2019 compared to the same period last year. The increase was mainly due to \$3.3 million and \$3.1 million in favorable volume and interest rate variances respectively, and by a

\$0.3 million increase in nonaccrual interest income recognized.

Offsetting the above positive net income variance:

- ❖ Total noninterest income decreased by \$5.6 million to \$19.5 million during the first three months of 2019 compared to the same period last year. The decrease was largely due to a \$3.8 million reduction in the refund received from the Farm Credit System Insurance Corporation (FCSIC), as the 2019 refund was \$2.3 million compared to the prior year refund of \$6.1 million. The distributions represent our allocated portion of the excess amount in the System's Insurance Fund above the secure base amount.
- ❖ Total noninterest expense increased by \$1.7 million to \$23.9 million during the first three months of 2019 compared to the same period in 2018. The change was primarily due to increases in salaries and benefits of \$1.1 million, occupancy and equipment of \$0.4 million and information and technology services of \$0.1 million.

Preferred Stock

Farm Credit West offers a preferred stock program as a means of adding value to the customer relationship. This program enables customers to provide us with capital needed to support our growth and the customer is paid an attractive dividend on their investment. While \$500 million is authorized for issuance, Farm Credit West maintains an internal issuance limit of \$425 million based on regulatory and capital management considerations. The preferred stock balance at March 31, 2019 was \$395.3 million, an increase of \$17.2 million from December 31, 2018. The per annum dividend rate at March 31, 2019 was 2.40%.

Future Payment Funds

At March 31, 2019, the customer-owned future payment funds increased by \$39.9 million to \$366.5 million compared to \$326.6 million at December 31, 2018. Future payment funds represent voluntary advance conditional payments and are an interest-bearing funding source for the Association. The per annum dividend rate at March 31, 2019 was 1.90%.

Amounts of Capital and Capital Adequacy

In the past three months, total members' equity increased \$82.5 million to \$2.3 billion due to net income of \$67.4 million and an increase in preferred stock of \$17.2 million, offset by \$2.3 million in preferred stock dividends.

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 B. Thiara
Board Chair



Mark D. Littlefield
President and Chief Executive Officer



Jean L. Koenck
Executive Vice President – Chief Financial Officer

May 8, 2019

Farm Credit West, ACA

Consolidated Balance Sheet

<i>(in thousands)</i>	March 31, 2019	December 31, 2018
	(unaudited)	
Assets		
Loans and leases	\$ 9,920,472	\$ 10,112,715
Less: allowance for loan and lease losses	(63,800)	(61,800)
Net loans and leases	<u>9,856,672</u>	<u>10,050,915</u>
Cash	—	11,864
Accrued interest receivable	95,444	93,455
Investment in CoBank	324,483	321,888
Other property owned	1,211	1,211
Premises and equipment, net	42,972	43,413
Accrued patronage receivable from CoBank	10,356	44,072
Other assets	47,475	47,952
Total assets	<u>\$ 10,378,613</u>	<u>\$ 10,614,770</u>
Liabilities		
Note payable to CoBank	\$ 7,699,846	\$ 7,927,775
Future payment funds	366,538	326,630
Accrued interest payable	13,783	14,846
Patronage distribution payable	—	115,700
Other liabilities	34,945	48,869
Total liabilities	<u>8,115,112</u>	<u>8,433,820</u>
Members' Equity		
Preferred stock	395,345	378,105
Capital stock and participation certificates	5,012	5,025
Unallocated retained earnings	1,734,692	1,669,518
Additional Paid-in-Capital	133,312	133,312
Accumulated other comprehensive loss	(4,860)	(5,010)
Total members' equity	<u>2,263,501</u>	<u>2,180,950</u>
Total liabilities and members' equity	<u>\$ 10,378,613</u>	<u>\$ 10,614,770</u>

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

Farm Credit West, ACA
Consolidated Statement of Comprehensive Income

<i>For the three months ended March 31, (unaudited and in thousands)</i>	2019	2018
Interest Income		
Loans and leases	\$ 129,273	\$ 104,961
Investment securities	—	971
Total interest income	129,273	105,932
Interest Expense		
Note payable to CoBank	53,744	37,354
Future payment funds	1,724	1,513
Total interest expense	55,468	38,867
Net interest income	73,805	67,065
Provision for loan losses	(1,949)	(2,083)
Net interest income after provision for loan losses	71,856	64,982
Noninterest Income		
Patronage income	14,574	15,381
Farm Credit Insurance Fund distribution	2,333	6,115
Loan and other fees	2,010	2,545
Loan servicing income	—	338
Other noninterest income	560	660
Total noninterest income	19,477	25,039
Noninterest Expense		
Salaries and employee benefits	13,947	12,850
Information technology services	2,663	2,537
Occupancy and equipment	1,837	1,446
Farm Credit Insurance Fund premiums	1,695	1,606
FCA Supervisory and examination expense	613	613
Other operating expense	3,163	3,150
(Gain) loss on other property owned, net	(56)	3
Total noninterest expense	23,862	22,205
Income before income taxes	67,471	67,816
Provision for income taxes	(24)	(52)
Net income	\$ 67,447	\$ 67,764
Other Comprehensive Income		
Change in unrealized gain on investment securities - available-for-sale	—	122
Change in unrealized actuarial losses in Pension Restoration Plan	150	207
Total comprehensive income	\$ 67,597	\$ 68,093

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

Farm Credit West, ACA

Consolidated Statement 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 (loss)	Total Members' Equity
Balance at December 31, 2017	\$ 399,667	\$ 5,200	\$ 1,545,742	\$ 133,312	\$ (4,210)	\$ 2,079,711
Comprehensive income			67,764		329	68,093
Preferred stock issued	45,437					45,437
Preferred stock retired	(49,412)					(49,412)
Capital stock and participation certificates issued		66				66
Capital stock and participation certificates retired		(108)				(108)
Preferred stock dividends declared and paid	2,016		(2,016)			—
Balance at March 31, 2018	<u>\$ 397,708</u>	<u>\$ 5,158</u>	<u>\$ 1,611,490</u>	<u>\$ 133,312</u>	<u>\$ (3,881)</u>	<u>\$ 2,143,787</u>
Balance at December 31, 2018	\$ 378,105	\$ 5,025	\$ 1,669,518	\$ 133,312	\$ (5,010)	\$ 2,180,950
Comprehensive income			67,447		150	67,597
Preferred stock issued	41,871					41,871
Preferred stock retired	(26,904)					(26,904)
Capital stock and participation certificates issued		228				228
Capital stock and participation certificates retired		(241)				(241)
Preferred stock dividends declared and paid	2,273		(2,273)			—
Balance at March 31, 2019	<u>\$ 395,345</u>	<u>\$ 5,012</u>	<u>\$ 1,734,692</u>	<u>\$ 133,312</u>	<u>\$ (4,860)</u>	<u>\$ 2,263,501</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), significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2018, are contained in the 2018 Farm Credit West Annual Report to Shareholders. These unaudited first quarter 2019 financial statements should be read in conjunction with the 2018 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 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance

modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

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 becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the new current standard for all prior periods presented. The guidance and related amendments in this update become effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance in 2019 did not materially impact the institution's financial condition or its results of operations but will impact lease disclosures.

Notes to Consolidated Financial Statements

Note 2 – Loans and Allowance for Loan Losses

A summary of loan principal outstanding follows.

<i>(in thousands)</i>	March 31, 2019	December 31, 2018
Real estate mortgage loans	\$ 5,992,020	\$ 6,142,538
Production and intermediate-term loans	1,721,548	1,819,309
Agribusiness loans	1,726,123	1,691,984
Direct financing leases	203,538	192,763
Rural infrastructure loans	277,148	266,025
Rural residential loans	95	96
Total loans	<u>\$ 9,920,472</u>	<u>\$ 10,112,715</u>

At March 31, 2019, Farm Credit West had \$3.0 billion in unused commitments, net of participations sold, to extend credit and \$37.6 million in stand by letters of credit.

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

<i>For the three months ended March 31, (in thousands)</i>	2019	2018
Balance at beginning of year	\$ 61,800	\$ 64,900
Provision for loan losses	1,949	2,083
Charge-offs	—	—
Recoveries	51	17
Balance at March 31,	<u>\$ 63,800</u>	<u>\$ 67,000</u>

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

<i>(in thousands)</i>	March 31, 2019	December 31, 2018
Individually evaluated for impairment	\$ 12,282	\$ 12,477
Collectively evaluated for impairment	51,518	49,323
Total allowance	<u>\$ 63,800</u>	<u>\$ 61,800</u>

Farm Credit West purchases and sells loan participations with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration 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>March 31, 2019 (in thousands)</i>	Participations Purchased		
	Farm Credit Institutions	Non-Farm Credit Institutions	Total
Real estate mortgage loans	\$ 556,037	\$ —	\$ 556,037
Agribusiness loans	806,054	188,744	994,798
Rural infrastructure loans	277,148	—	277,148
Total participations purchased	<u>\$ 1,639,239</u>	<u>\$ 188,744</u>	<u>\$ 1,827,983</u>

<i>March 31, 2019 (in thousands)</i>	Participations Sold		
	Farm Credit Institutions	Non-Farm Credit Institutions	Total
Real estate mortgage loans	\$ 1,573,001	\$ 2,098	\$ 1,575,099
Production and intermediate-term loans	512,701	—	512,701
Agribusiness loans	309,975	—	309,975
Direct financing leases	178,227	—	178,227
Total participations sold	<u>\$ 2,573,904</u>	<u>\$ 2,098</u>	<u>\$ 2,576,002</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>	March 31, 2019	December 31, 2018
Impaired loans with related allowance	\$ 28,543	\$ 28,583
Impaired loans with no related allowance	88,591	83,975
Total impaired loans	<u>\$ 117,134</u>	<u>\$ 112,558</u>
Allowance on impaired loans	<u>\$ 12,282</u>	<u>\$ 12,477</u>

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

<i>For the three months ended March 31, (in thousands)</i>	2019	2018
Average impaired loans	<u>\$ 107,250</u>	<u>\$ 115,056</u>
Interest income recognized on impaired loans	<u>\$ 872</u>	<u>\$ 559</u>

Notes to Consolidated Financial Statements

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

<i>(in thousands)</i>	March 31, 2019	December 31, 2018
Nonaccrual loans	\$ 101,976	\$ 111,886
Accrual loans 90 days or more past due	15,158	672
Total impaired loans	117,134	112,558
Other property owned	1,211	1,211
Total impaired assets	\$ 118,345	\$ 113,769

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 three months of 2019, 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 three months ended March 31, 2019 or at December 31, 2018.

TDRs outstanding totaled \$1.7 million at March 31, 2019, all of which were in nonaccrual status. At December 31, 2018, TDR's outstanding totaled \$0.4 million, all of which were in nonaccrual status.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$0.1 million at March 31, 2019 and \$0.4 million at December 31, 2018.

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

<i>Principal and interest March 31, 2019 (in thousands)</i>	Not Past Due or Less Than 30 Days Past Due	Total Past Due	Total Loans
Real estate mortgage loans	\$ 6,011,048	\$ 47,101	\$ 6,058,149
Production and intermediate-term loans	1,709,696	28,813	1,738,509
Agribusiness loans	1,732,973	4,824	1,737,797
Direct financing leases	203,481	57	203,538
Rural infrastructure loans	277,829	—	277,829
Rural residential real loans	95	—	95
Total loans	\$ 9,935,122	\$ 80,795	\$10,015,917

<i>Principal and interest March 31, 2019 (in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Real estate mortgage loans	\$ 9,261	\$ 37,840	\$ 47,101
Production and intermediate-term loans	9,018	19,795	28,813
Agribusiness loans	63	4,761	4,824
Direct financing leases	24	33	57
Total loans	\$ 18,366	\$ 62,429	\$ 80,795

<i>Principal and interest December 31, 2018 (in thousands)</i>	Not Past Due or Less Than 30 Days Past Due	Total Past Due	Total Loans
Real estate mortgage loans	\$ 6,164,332	\$ 45,664	\$ 6,209,996
Production and intermediate-term loans	1,821,472	13,861	1,835,333
Agribusiness loans	1,696,768	4,757	1,701,525
Direct financing leases	192,683	80	192,763
Rural infrastructure loans	266,457	—	266,457
Rural residential loans	96	—	96
Total loans	\$ 10,141,808	\$ 64,362	\$ 10,206,170

<i>December 31, 2018 (in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Real estate mortgage loans	\$ 12,855	\$ 32,809	\$ 45,664
Production and intermediate-term loans	1,459	12,402	13,861
Agribusiness loans	—	4,757	4,757
Direct financing leases	—	80	80
Total loans	\$ 14,314	\$ 50,048	\$ 64,362

Note 3 – 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 March 31, 2019. 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 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 March 31, 2019 was 2.40%.

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 and CEO. Retirements of common stock may also require approval by the FCA. At March 31, 2019, the required common investment was \$1 thousand per voting stockholder. Customers with multiple loans satisfy

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their equity ownership requirement with a single \$1 thousand cash investment.

At March 31, 2019, Farm Credit West had 888,411 shares of class C capital stock at a par value of \$5 per share, and 113,901 shares of class F capital stock were outstanding at a part value of \$5 per share.

Capital Adequacy

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaced core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also replaced the net collateral ratio for banks with a tier 1 leverage ratio that is required for both Banks and associations. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements was January 1, 2017.

As shown in the following table, Farm Credit West has substantially exceeded each regulatory minimum capital requirement for all periods presented.

	<i>For the quarter ended</i>			Regulatory Minimum including Buffer**
	Mar. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	
Common Equity Tier 1 Capital (CET1) ratio	13.89%	14.00%	13.33%	7.00%
Tier 1 Capital ratio	13.89%	14.00%	13.33%	8.50%
Total Capital ratio	14.46%	14.66%	13.95%	10.50%
Tier 1 Leverage ratio	15.01%	15.29%	14.37%	5.00%
Minimum URE Leverage ratio	16.71%	16.95%	15.99%	1.50%
Permanent capital ratio	17.53%	17.64%	17.37%	7.00%

** The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

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 Net Actuarial Gain (Loss) on Pension Restoration Plan	Unrealized Actuarial (Loss) in FPI pension plan	Accumulated Other Comprehensive Gain (Loss)
Balance at December 31, 2018	\$ (3,819)	\$ (1,191)	\$ (5,010)
Other comprehensive income (loss) before reclassifications	<u>150</u>	<u>—</u>	<u>150</u>
Net current period comprehensive change	<u>150</u>	<u>—</u>	<u>150</u>
Balance at March 31, 2019	<u>\$ (3,669)</u>	<u>\$ (1,191)</u>	<u>\$ (4,860)</u>

<i>(in thousands)</i>	Unrealized Gains on Investments Available for Sale	Unrealized Net Actuarial Gain (Loss) on Pension Restoration Plan	Accumulated Other Comprehensive Gain (Loss)
Balance at December 31, 2017	\$ 813	\$ (5,023)	\$ (4,210)
Other comprehensive income (loss) before reclassifications	<u>122</u>	<u>207</u>	<u>329</u>
Net current period comprehensive change	<u>122</u>	<u>207</u>	<u>329</u>
Balance at March 31, 2018	<u>\$ 935</u>	<u>\$ (4,816)</u>	<u>\$ (3,881)</u>

Note 4 – 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 2018 Annual Report to Shareholders – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis included assets held in trusts for nonqualified benefit plans and were classified as Level 1, with total fair value of \$776 thousand at March 31, 2019 and \$1.2 million at December 31, 2018. There were no other assets and no liabilities measured at fair value on a recurring basis for the periods presented.

Notes to Consolidated Financial Statements

The table below represents a reconciliation of Farm Credit West's investment securities- available-for-sale measured at fair value on a recurring basis at March 31, 2018. At March 31, 2019 there were no investment securities held. For additional information regarding these securities, refer to Note 4 – Investment Securities in the 2018 Annual Report.

<i>(in thousands)</i>	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Investment securities – available-for-sale	
	2019	2018
Balance at beginning of year	\$ —	\$ 70,648
Unrealized (losses) gains included in other comprehensive (loss) income	—	122
Settlements	—	(4,580)
Balance at March 31,	<u>\$ —</u>	<u>\$ 66,190</u>

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		
March 31, 2019	\$ 16,261	\$ 16,261
December 31, 2018	16,107	16,107
Other property owned, appraised value		
March 31, 2019	\$ 2,008	\$ 2,008
December 31, 2018	2,008	2,008

Valuation Techniques

As more fully discussed in Note 2 to the 2018 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.

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 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. As explained more fully in Note 4 – Investment Securities of the 2018 Annual Report, effective December 1, 2018, the securitization certificates were redeemed and the underlying loans were returned to Farm Credit West.

Farm Credit West's held-to-maturity investment securities at March 31, 2018 were carried at amortized cost and, as such, are not included in the disclosure. Farm Credit West had no held-to-maturity investments at March 31, 2019.

Loans Evaluated for Impairment: For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based on the underlying collateral since the loans are collateral-dependent real estate loans. At March 31, 2019, 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 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, 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 5 – 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. As with the PCA subsidiaries, 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

Notes to Consolidated Financial Statements

allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends.

Note 6 – 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, 2018, that it expects to contribute \$4.9 million to its pension plan in 2019. As of March 31, 2019, no contributions have been made.

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 three months ended March 31, (in thousands)</i>	2019	2018
Service cost	\$ 86	\$ 88
Interest cost	85	68
Net amortization and deferral	<u>150</u>	<u>208</u>
Net periodic benefit cost	\$ 321	\$ 364

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 7 – Subsequent Events

The Association has evaluated subsequent events through May 8, 2019, which is the date the financial statements were issued. No subsequent event items met the criteria for disclosure.