Second Quarter 2016
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). These comments should be read in conjunction with the unaudited second quarter 2016 consolidated financial statements and related notes included in this report, as well as the 2015 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.

The financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, 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.

Effective November 1, 2015, Farm Credit West, ACA acquired Farm Credit Services Southwest, ACA (Southwest) with chartered territory in Arizona and Imperial County, California in a stock-for-stock exchange. Southwest remains in existence as a wholly-owned subsidiary of Farm Credit West, and Southwest's PCA and FLCA subsidiaries remain direct wholly-owned subsidiaries of Southwest. Under the Plan of Merger, it is expected that ultimately the three Southwest legal entities will be merged into the corresponding Farm Credit West entities and Southwest will cease to exist. The combined Association is headquartered in Roseville, California. The primary reason for the stock exchange/merger was to ensure long-term stability by increasing the capital base and increasing portfolio and geographical diversification thus allowing the combined Association to withstand fluctuations in the agriculture markets. The Association also expects to realize operating efficiencies and cost savings. The effects of the stock exchange/merger are included in Farm Credit West's results of operations, balance sheet, average balances and related metrics beginning November 1, 2015.

Loan and Lease Volume

Loan and lease volume (net of sold loan participations) was $9.2 billion at June 30, 2016, an increase of $217 million since December 31, 2015. The increase was primarily due to a $334 million increase in real estate loan volume. This increase was offset by a $119 million decrease in production and intermediate-term loan volume.

In addition to the $9.2 billion of loan and lease volume reported on our balance sheet at June 30, 2016, we serviced loans and leases totaling $2.3 billion for other institutions.

Portfolio Quality

As shown in the following table, our loan quality statistics declined during the first six months of 2016 due to an increase in nonaccrual loan volume.

	June 30, 2016	December 31, 2015	December 31, 2014
Nonadversely classified	**95.8%**	96.8%	97.1%
Adversely classified	**4.2%**	3.2%	2.9%

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, particularly in the dairy and nursery segment of the portfolio.

Tree nuts are the largest commodity concentration in Farm Credit West's loan portfolio at 15.3%. Demand for almonds, walnuts and pistachios has softened and prices for all three major nut crops have declined although they remain above break-even levels for most borrowers.

Farm Credit West's dairy portfolio is the second largest commodity concentration in our loan portfolio at 13.1%. The 2016 economic outlook for the dairy industry remains weak as a result of ongoing increased global production and slowing world demand. In addition, the U.S. dollar has strengthened compared to other currencies and as a result, exports have stalled.

California has had five years of drought, with the majority of Farm Credit West's lending territory classified by the U.S. Department of Agriculture (USDA) as experiencing extreme or exceptional drought conditions. According to the U.S. Drought Monitor, 21 percent of California was in "exceptional" drought as of June 28, 2016. Prolonged drought conditions and potential impacts of the Sustainable Groundwater Management Act will likely have an impact on our loan portfolio.

Nonearning Assets

Nonearning assets (nonaccrual loan volume plus other property owned) totaled $139.2 million at June 30, 2016, an increase of $19.7 million from what was reported at December 31, 2015. Transfers into nonaccrual of $37.2 million during the second quarter were mostly related to nursery operations. This was offset by repayments of $13.3 million on nonaccrual loans, transfer to accrual loans of $1.6 million and charge-offs of $1.6 million.

Allowance for Loan Losses

Our allowance for loan losses totaled $52.0 million (0.56% of loan principal and interest) at June 30, 2016, an increase of $6.8 million since December 31, 2015. The allowance is our best estimate of the amount of probable losses existing in,

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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 June 30, 2016, net charge-offs totaled $1.5 million compared to net recoveries of less than $0.1 million during the same period in 2015. Additionally, provision expense of $8.3 million was recognized in the first six months of 2016.

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 six months ended June 30, 2016 was $109.9 million with an annualized rate of return on average assets (ROA) of 2.35%. Net income for the first six months of 2015 was $87.7 million with an ROA of 2.35%. Because the Southwest merger occurred on November 1, 2015, the first six months of 2016 include income and expense from Southwest that were not included in the same period last year. Following are the key changes in net income year-over-year:

- Net interest income increased by $26.6 million, or 27%, to $126.4 million during the first six months of 2016 compared to the same period last year, mainly due to $23.5 million in favorable volume variances. Average earning assets volume for the first six months of 2016 was $9.0 billion which was $1.8 billion, or 25.6%, higher than the average volume of $7.2 billion for the first six months of 2015 due to strong loan growth and the merger with Southwest in November 2015.

- Total noninterest income increased by $9.3 million to $32.8 million during the first six months of 2016 compared to the same period last year. The increase was primarily due to a $5.2 million increase in CoBank patronage accruals, a $2.1 million gain related to proceeds received on Southwest charged-off loans, an increase of $0.9 million in patronage from other Farm Credit Associations and a $0.6 million increase in appraisal fee income.

Offsetting the positive net income variances noted previously:

- Noninterest expense increased by $10.2 million, or 33%, to $41.1 million during the first six months of 2016 from $30.8 million during the first six months of 2015. The increase was primarily due to a $5.6 million increase in salaries and benefits, a $2.1 million increase in the Farm Credit System Insurance Corporation (FCSIC) premiums, a $1.1 million increase in information technology services and a $0.4 million increase in occupancy/equipment, mostly as a result of the merger with Southwest.

- Provision for loan losses increased by $3.4 million to $8.3 million during the first six months of 2016 compared to the same period last year as a result of increased risk in certain loans in the portfolio.

Preferred Stock

Our preferred stock program is a means of adding value to the customer relationship. This program enables customers to provide us with capital needed to support our growth, while the customer is paid an attractive dividend on their investment. The Farm Credit West 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, Farm Credit West maintains an internal issuance limit based on regulatory and capital management considerations. The preferred stock limit was $375.0 million at June 30, 2016. The preferred stock balance at June 30, 2016 was $355.3 million, an increase of $4.7 million from December 31, 2015. The per annum dividend rate is 2.00%. The dividend rate has not changed since November, 2011.

Future Payment Funds

At June 30, 2016, the customer-owned future payment funds decreased by $1.0 million to $425.9 million compared to $426.9 million at December 31, 2015. 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 an annual rate of 1.00% on these accounts during the first six months of 2016. The interest rate on future payment funds has not changed since February, 2009.

Management's Discussion and Analysis

Amounts of Capital and Capital Adequacy

In the past six months, total members' equity has increased $111.3 million (6%) primarily due to retained net income of $109.9 million, an increase in preferred stock of $4.7 million and other comprehensive income of $0.3 million. Partially offsetting the net income were preferred stock dividends of $3.5 million. As shown in the following table, Farm Credit West has substantially exceeded each regulatory minimum capital requirement for all periods presented although ratios have declined from previous years due to significant loan growth.

	For the quarter ended			
Type of capital as % of risk-weighted assets	**June 30, 2016**	Dec. 31, 2015	Dec. 31, 2014	Regulatory Minimum
Permanent capital	**16.98%**	17.54%	19.62%	7.00%
Total surplus	**13.16%**	13.54%	14.92%	7.00%
Core surplus	**13.16%**	13.50%	14.90%	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 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.

Joseph C. Airoso
Chairman of the Board of Directors

Mark D. Littlefield
President and Chief Executive Officer

Jean L. Koenck
Executive Vice President – Chief Financial Officer

August 3, 2016

Consolidated Balance Sheet

(in thousands)	**June 30, 2016 (unaudited)**	December 31, 2015
Assets		
Loans and leases	**$ 9,168,707**	$ 8,951,406
Less: allowance for loan and lease losses	**(52,000)**	(45,200)
Net loans and leases	**9,116,707**	8,906,206
Cash	**—**	7,159
Accrued interest receivable	**79,523**	57,318
Investment securities — available-for-sale	**92,420**	103,292
Investment securities — held-to-maturity	**29,613**	34,142
Investment in CoBank	**273,919**	271,801
Other property owned	**3,743**	5,831
Premises and equipment, net	**31,238**	28,194
Other assets	**61,723**	80,678
Total assets	**$ 9,688,886**	$ 9,494,621
Liabilities		
Note payable to CoBank	**$ 7,308,205**	$ 7,074,724
Future payment funds	**425,917**	426,887
Accrued interest payable	**6,334**	5,819
Patronage distribution payable	**—**	70,249
Unfunded disbursements	**3,513**	—
Other liabilities	**50,797**	134,139
Total liabilities	**7,794,766**	7,711,818
Members' Equity		
Preferred stock	**355,261**	350,595
Capital stock and participation certificates	**5,060**	4,998
Unallocated retained earnings	**1,403,515**	1,297,179
Additional Paid-in-Capital	**133,312**	133,312
Accumulated other comprehensive loss	**(3,028)**	(3,281)
Total members' equity	**1,894,120**	1,782,803
Total liabilities and members' equity	**$ 9,688,886**	$ 9,494,621

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

Consolidated Statement of Comprehensive Income

(unaudited and in thousands)	For the three months ended June 30 2016	2015	For the six months ended June 30 2016	2015
Interest Income				
Loans and leases	**$ 83,035**	$ 65,645	**$ 167,535**	$ 129,329
Investment securities	**1,217**	1,524	**2,493**	3,101
Total interest income	**84,252**	67,169	**170,028**	132,430
Interest Expense				
Note payable to CoBank	**21,024**	15,114	**41,262**	30,048
Future payment funds	**1,093**	1,214	**2,320**	2,582
Total interest expense	**22,117**	16,328	**43,582**	32,630
Net interest income	**62,135**	50,841	**126,446**	99,800
Provision for loan losses	**(4,792)**	(2,397)	**(8,282)**	(4,852)
Net interest income after provision for loan losses	**57,343**	48,444	**118,164**	94,948
Noninterest Income				
Patronage income	**10,614**	7,909	**23,471**	17,381
Loan and other fees	**2,912**	2,388	**4,926**	4,325
Loan servicing income	**566**	685	**1,148**	1,400
Other noninterest income	**1,859**	151	**3,282**	453
Total noninterest income	**15,951**	11,133	**32,827**	23,559
Noninterest Expense				
Salaries and employee benefits	**11,516**	8,610	**23,186**	17,588
Information technology services	**2,100**	1,524	**4,113**	3,046
Occupancy and equipment	**923**	780	**2,122**	1,725
Farm Credit Insurance Fund premiums	**2,682**	1,658	**5,371**	3,277
FCA Supervisory and examination expense	**515**	387	**1,031**	774
Other operating expense	**2,370**	2,073	**5,382**	4,310
(Gain) Loss on other property owned, net	**(215)**	22	**(144)**	110
Total noninterest expense	**19,891**	15,054	**41,061**	30,830
Income before income taxes	**53,403**	44,523	**109,930**	87,677
Benefit from (Provision for) income taxes	**43**	(33)	**(80)**	(88)
Net income	**$ 53,446**	$ 44,490	**$ 109,850**	$ 87,589
Other Comprehensive Income				
Change in unrealized gain on investment securities - available-for-sale	**(355)**	(624)	**(271)**	(395)
Change in pension restoration plan unrecognized actuarial loss	**262**	125	**524**	251
Total comprehensive income	**$ 53,353**	$ 43,991	**$ 110,103**	$ 87,445

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

Consolidated Statement of Changes in Members' Equity

(unaudited and in thousands)	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, 2014	$ 320,544	$ 4,130	$ 1,201,239	$ -	$ 987	$ 1,526,900
Comprehensive income			87,589		(144)	87,445
Preferred stock issued	65,120					65,120
Preferred stock retired	(53,361)					(53,361)
Capital stock and participation certificates issued		168				168
Capital stock and participation certificates retired		(152)				(152)
Preferred stock dividends declared and paid	3,248		(3,248)			—
Balance at June 30, 2015	$ 335,551	$ 4,146	$ 1,285,580	$ -	$ 843	$ 1,626,120
Balance at December 31, 2015	**$ 350,595**	**$ 4,998**	**$ 1,297,179**	**$ 133,312**	**$ (3,281)**	**$ 1,782,803**
Comprehensive income	**-**	**-**	**109,850**		**253**	**110,103**
Preferred stock issued	**52,191**					**52,191**
Preferred stock retired	**(51,039)**					**(51,039)**
Capital stock and participation certificates issued	**-** **-**	**234**				**234**
Capital stock and participation certificates retired		**(172)**				**(172)**
Preferred stock dividends declared and paid	**3,514**		**(3,514)**			—
Balance at June 30, 2016	**$ 355,261**	**$ 5,060**	**$ 1,403,515**	**$ 133,312**	**$ (3,028)**	**$ 1,894,120**

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, 2015 are contained in the 2015 Farm Credit West Annual Report to Shareholders. These unaudited second quarter 2016 financial statements should be read in conjunction with the 2015 Annual Report to Shareholders.

The accompanying 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 June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

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

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

(in thousands)	**June 30, 2016**	December 31, 2015
Real estate mortgage	**$ 5,384,747**	$ 5,050,955
Production and intermediate-term	**1,652,764**	1,772,030
Agribusiness:		
Processing and marketing	**1,073,586**	1,140,562
Farm related businesses	**386,804**	399,004
Loans to cooperatives	**205,671**	150,058
Rural infrastructure:		
Communication	**120,761**	108,892
Energy	**81,025**	69,985
Water and waste water	**55,829**	55,829
Rural residential real estate	**104**	105
Direct financing leases	**207,416**	203,986
Total loans	**$ 9,168,707**	$ 8,951,406

Notes to Consolidated Financial Statements

At June 30, 2016, Farm Credit West had $3.1 billion in unused commitments to extend credit and $60.7 million in letters of credit.

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

For the six months ended June 30, (in thousands)	**2016**	2015
Balance at beginning of year	**$ 45,200**	$ 37,300
Provision for loan losses	**8,282**	4,852
Charge-offs	**(1,592)**	(14)
Recoveries	**110**	62
Balance at June 30,	**$ 52,000**	$ 42,200

Farm Credit West purchases and sells loan 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.

	Participations Purchased		
June 30, 2016 (in thousands)	Farm Credit Institutions	Non-Farm Credit Institutions	Total
Real estate mortgage	**$ 389,076**	**$ 5,113**	**$ 394,189**
Production and intermediate-term	**—**	**4,129**	**4,129**
Agribusiness	**806,126**	**118,561**	**924,687**
Rural infrastructure	**257,614**	**—**	**257,614**
Total participations purchased	**$ 1,452,816**	**$ 127,803**	**$ 1,580,619**

	Participations Sold		
June 30, 2016 (in thousands)	Farm Credit Institutions	Non-Farm Credit Institutions	Total
Real estate mortgage	**$ 1,122,495**	**$ 2,160**	**$ 1,124,655**
Production and intermediate-term	**449,285**	**—**	**449,285**
Agribusiness	**157,500**	**—**	**157,500**
Direct financing leases	**211,916**	**—**	**211,916**
Total participations sold	**$ 1,941,196**	**$ 2,160**	**$ 1,943,356**

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.

(in thousands)	**June 30, 2016**	December 31, 2015
Impaired loans with related allowance	**$ 50,696**	$ 37,396
Impaired loans with no related allowance	**93,312**	90,512
Total impaired loans	**$ 144,008**	$ 127,908
Allowance on impaired loans	**$ 16,168**	$ 15,544

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

For the six months ended June 30, (in thousands)	**2016**	2015
Average impaired loans	**$ 133,543**	$ 90,140
Interest income recognized on impaired loans	**$ 5,212**	$ 2,072

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 2016, 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 six months ended June 30, 2016 or at December 31, 2015.

TDRs outstanding at June 30, 2016 totaled $20.7 million, of which $7.2 million were in nonaccrual status. At December 31, 2015, TDRs outstanding totaled $22.6 million, of which $8.4 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 June 30, 2016 and December 31, 2015.

Notes to Consolidated Financial Statements

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

Principal and interest June 30, 2016 (in thousands)	Not Past Due or Less Than 30 Days Past Due	Total Past Due	Total Loans
Real estate mortgage	**$ 5,388,946**	**$ 44,700**	**$ 5,433,646**
Production and intermediate-term	**1,628,262**	**44,297**	**1,672,559**
Agribusiness	**1,662,958**	**11,844**	**1,674,802**
Rural infrastructure	**257,969**	**—**	**257,969**
Rural residential real estate	**104**	**—**	**104**
Direct financing leases	**207,334**	**83**	**207,417**
Total loans	**$ 9,145,573**	**$ 100,924**	**$ 9,246,497**

Principal and interest June 30, 2016 (in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Real estate mortgage	**$ 8,422**	**$ 36,278**	**$ 44,700**
Production and intermediate-term	**24,858**	**19,439**	**44,297**
Agribusiness	**4,181**	**7,663**	**11,844**
Direct financing leases	**10**	**73**	**83**
Total loans	**$ 37,471**	**$ 63,453**	**$ 100,924**

Principal and interest December 31, 2015 (in thousands)	Not Past Due or Less Than 30 Days Past Due	Total Past Due	Total Loans
Real estate mortgage	$ 5,043,638	$ 44,473	$ 5,088,111
Production and intermediate-term	1,762,496	20,228	1,782,724
Agribusiness	1,687,131	9,711	1,696,842
Rural infrastructure	235,018	—	235,018
Rural residential real estate	105	—	105
Direct financing leases	203,898	87	203,985
Total loans	$ 8,932,286	$ 74,499	$ 9,006,785

Principal and interest December 31, 2015 (in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Real estate mortgage	$ 7,275	$ 37,198	$ 44,473
Production and intermediate-term	7,578	12,650	20,228
Agribusiness	8,238	1,473	9,711
Direct financing leases	9	78	87
Total loans	$ 23,100	$ 51,399	$ 74,499

Note 3 – Investment Securities

The following is a summary of Farmer Mac agricultural mortgage-backed securities held by Farm Credit West.

	Mortgage-Backed Securities — Available-for-Sale				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
June 30, 2016	**$ 90,399**	**$ 2,021**	**$ —**	**$ 92,420**	**4.07%**
December 31, 2015	101,000	2,292	—	103,292	3.99%

	Mortgage-Backed Securities — Held-to-Maturity				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
June 30, 2016	**$ 29,613**	**$ 728**	**$ —**	**$ 30,341**	**3.80%**
December 31, 2015	34,142	840	—	34,982	3.69%

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 June 30, 2016. 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 375 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 six months of 2016 and the average preferred stock dividend rate was 2.00% for the full year in 2015.

Notes to Consolidated Financial Statements

Common Stock

Farm Credit West issues the following classes of common stock: class C common stock, class F participation certificates, and under certain circumstances, nonvoting class A common stock. 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 June 30, 2016, the required common investment was $1 thousand per voting 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 June 30, 2016, Farm Credit West's permanent capital, total surplus, and core surplus ratios were 16.98%, 13.16%, and 13.16%, respectively.

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

(in thousands)	Unrealized Gains on Investments Available for Sale	Pension and Other Plans	Accumulated Other Comprehensive Gain (Loss)
Balance at December 31, 2015	**$ 2,292**	**$ (5,573)**	**$ (3,281)**
Other comprehensive income (loss) before reclassifications	**(271)**	**524**	**253**
Amounts reclassified from other comprehensive income (loss)	—	—	—
Net current period comprehensive income	**(271)**	**524**	**253**
Balance at June 30, 2016	**$ 2,021**	**$ (5,049)**	**$ (3,028)**

(in thousands)	Unrealized Gains on Investments Available for Sale	Pension and Other Plans	Accumulated Other Comprehensive Gain (Loss)
Balance at December 31, 2014	$ 3,546	$ (2,559)	$ 987
Other comprehensive income (loss) before reclassifications	(395)	251	(144)
Amounts reclassified from other comprehensive income (loss)	—	—	—
Net current period comprehensive income	(395)	251	(144)
Balance at June 30, 2015	$ 3,151	$ (2,308)	$ 843

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 2015 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.

	Fair Value Measurement Using			Total
(in thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Assets held in trusts for nonqualified benefit plans				
June 30, 2016	**$ 3,157**			$ 3,157
December 31, 2015	$ 3,513			$ 3,513
Investment securities – available-for-sale				
June 30, 2016			**$ 92,420**	**$ 92,420**
December 31, 2015			$103,292	$103,292

Notes to Consolidated Financial Statements

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

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Investment securities – available-for-sale	
(in thousands)	2016	2015
Balance at March 31,	**$ 97,010**	$ 116,902
Unrealized (losses) gains included in other comprehensive (loss) income	**(355)**	(624)
Settlements	**(4,235)**	(1,972)
Balance at June 30,	**$ 92,420**	$ 114,306

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Investment securities – available-for-sale	
(in thousands)	2016	2015
Balance at beginning of year	**$ 103,292**	$ 127,545
Unrealized (losses) gains included in other comprehensive (loss) income	**(271)**	(395)
Settlements	**(10,601)**	(12,844)
Balance at June 30,	**$ 92,420**	$ 114,306

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.

(in thousands)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Total Fair Value	Total (Losses)/Gains Incurred During the Year
Assets:			
Nonaccrual loans, net of related specific allowance			
June 30, 2016	**$ 34,528**	**$ 34,528**	**$ (2,149)**
December 31, 2015	21,852	21,852	(16,669)
Other property owned, appraised value			
June 30, 2016	**$ 4,540**	**$ 4,540**	**$ 218**
December 31, 2015	6,958	6,958	24

Valuation Techniques

As more fully discussed in Note 2 to the 2015 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 2015 Annual Report to Shareholders.

Assets held in Trust: Assets held in trust for nonqualified benefit plans are related to supplemental retirement plans and are generally classified under Level 1 and 2. The trust assets held by Farm Credit West include cash, money market funds and mutual funds that have quoted market prices in an active market and are therefore classified within Level 1.

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 and, as such, are not included here.

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 June 30, 2016, 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: 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.

Notes to Consolidated Financial Statements

Note 6 – Income Taxes

Farm Credit West, ACA conducts its business activities through its wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through the wholly-owned Farm Credit West, FLCA and Southwest, FLCA subsidiaries which are exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through the wholly-owned Farm Credit West, PCA subsidiary and Southwest, PCA subsidiary. As with the PCA subsidiaries, the Farm Credit West, ACA and Southwest, ACA holding companies are 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 August 3, 2016, which is the date the financial statements were issued. No subsequent event items met the criteria for disclosure.