

Taming Agricultural Risk



Outside the Commerce Building in Washington



Titled: "Taming Commerce"

Outside My Office in Fresno, California



Titled: "Taming Agricultural Risk"

Bank of the West

- One of the few US banks with a dedicated Agribusiness Division
- 3rd Largest Commercial Bank lender to Agriculture in the United States
- Driven by steady growth for 27 consecutive years

Top 5 Commercial Ag Banks

(000's)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Wells Fargo	3,878	5,685	6,108	6,797	6,697	8,384	8,569	9,164	9,427	8,937
Robobank	-	680	1,051	1,516	1,722	1,818	2,089	2,600	2,953	3,792
Bank of the West	1,035	1,416	1,567	2,017	2,370	2,744	2,965	2,997	3,171	3,525
Bank of America	2,634	2,564	2,538	2,880	2,852	3,221	3,327	2,540	2,257	2,365
First National of Omaha	529	606	669	711	827	810	719	886	1,645	1,907

* Production Ag Loans only. Excludes Food Processing.

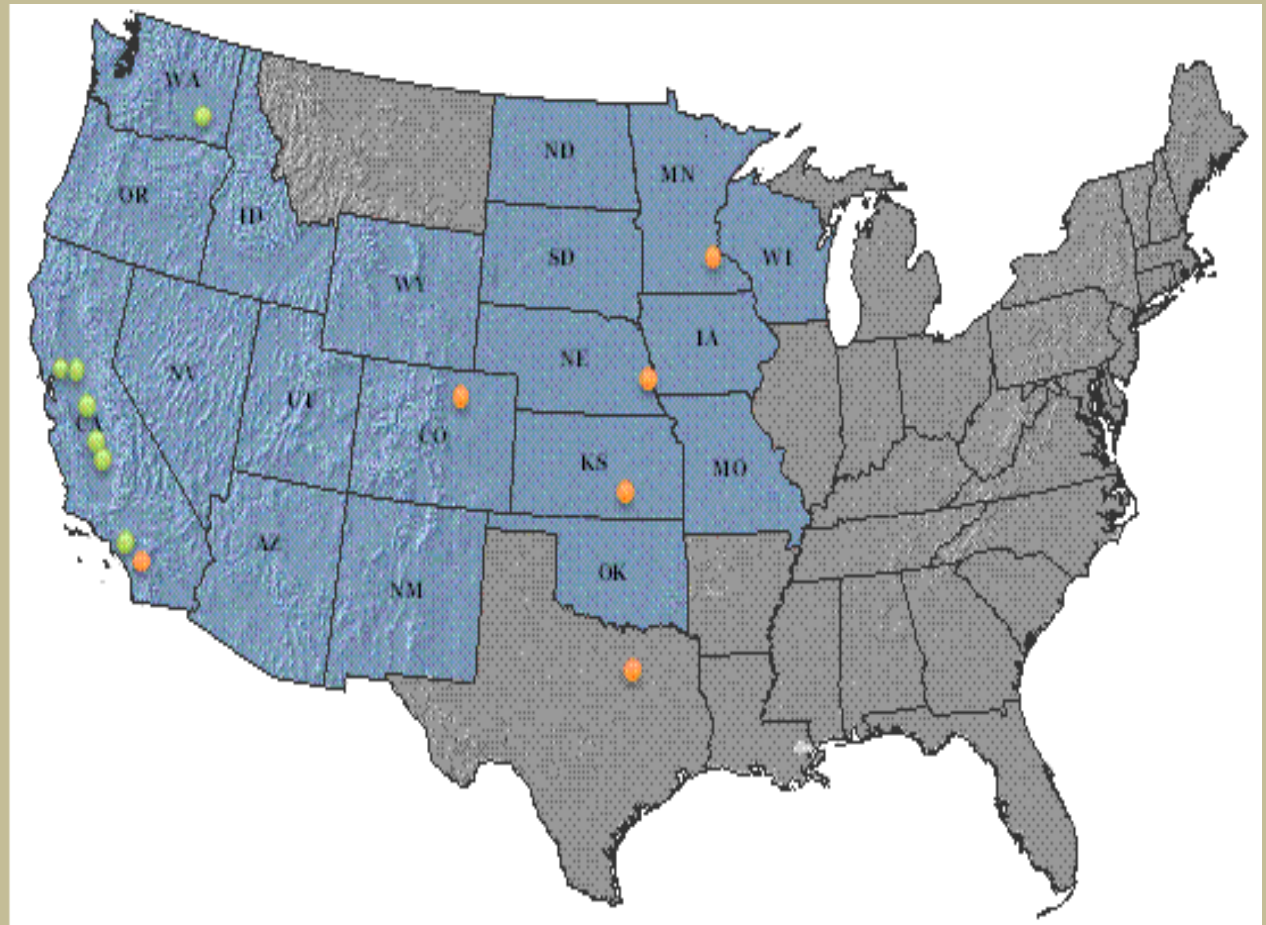
Bank of the West

Legacy Offices

Fresno, CA
Modesto, CA
Napa, CA
Sacramento, CA
Visalia, CA
Corona, CA

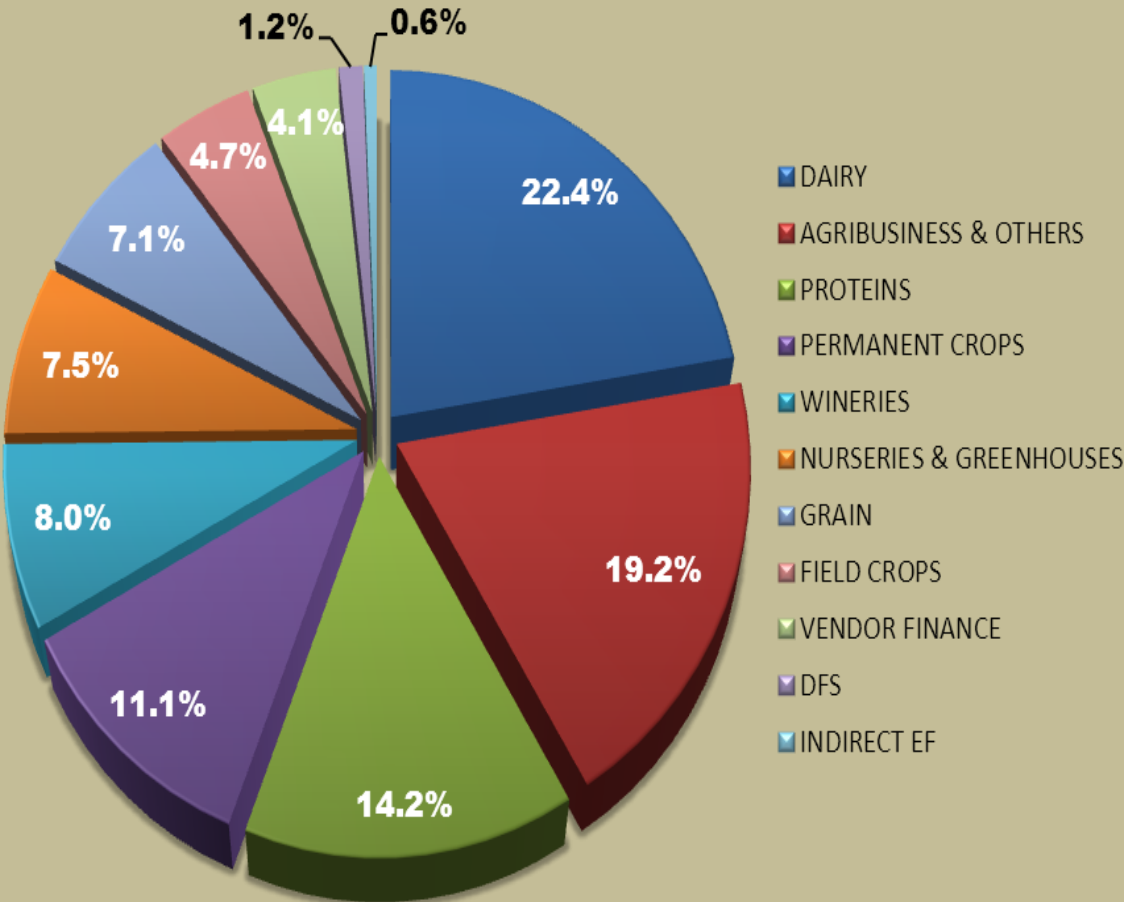
2006-Present

Dallas, TX
Fort Collins, CO
Minneapolis, MN
Omaha, NE
Temecula, CA
Wichita, KS



Bank of the West

BANK WIDE AG EXPOSURE



	Commitments (1,000's)
Agribusiness Banking Division	\$6,094,339
All Other Divisions	\$539,907
Vendor Finance	\$289,118
Dealer Financial Services	\$81,757
Indirect Equipment Finance	\$44,917
Total	\$7,050,038

Key Risks

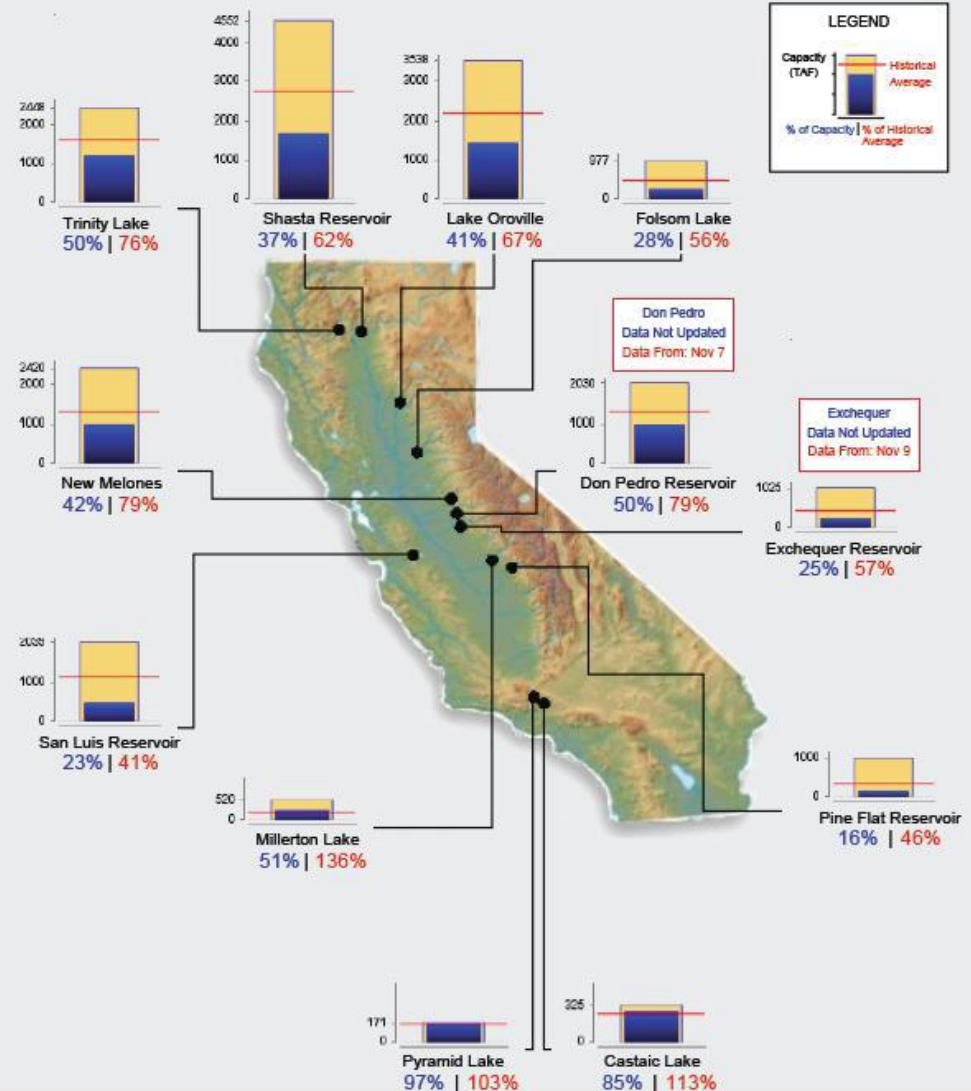
- Nature
 - Weather
 - Disease
 - Pest
 - Water
- Stroke-Of-The-Pen
 - Government Support
 - Trade Restrictions
 - Environmental & Bio Ops
 - Immigration Reform
- Economic
 - High Interest Rates
 - Availability of Labor
 - High Energy Costs
 - Strength of US Dollar
 - Land Values
- Business Risk
 - Price Volatility
 - Liquidity Risk
 - Concentration Risk
 - Management Succession
 - Information Risk

Scenario	Allocation
Wet/ Minimal Fish Cuts	60-65%
Wet/Moderate Fish Cuts	40-45%
Average/Minimal Fish Cuts	35-40%
Average/Moderate Fish Cuts	25-30%
Dry/Minimal Fish Cuts	0-5%



Ending At Midnight - November 10, 2013

CURRENT RESERVOIR CONDITIONS

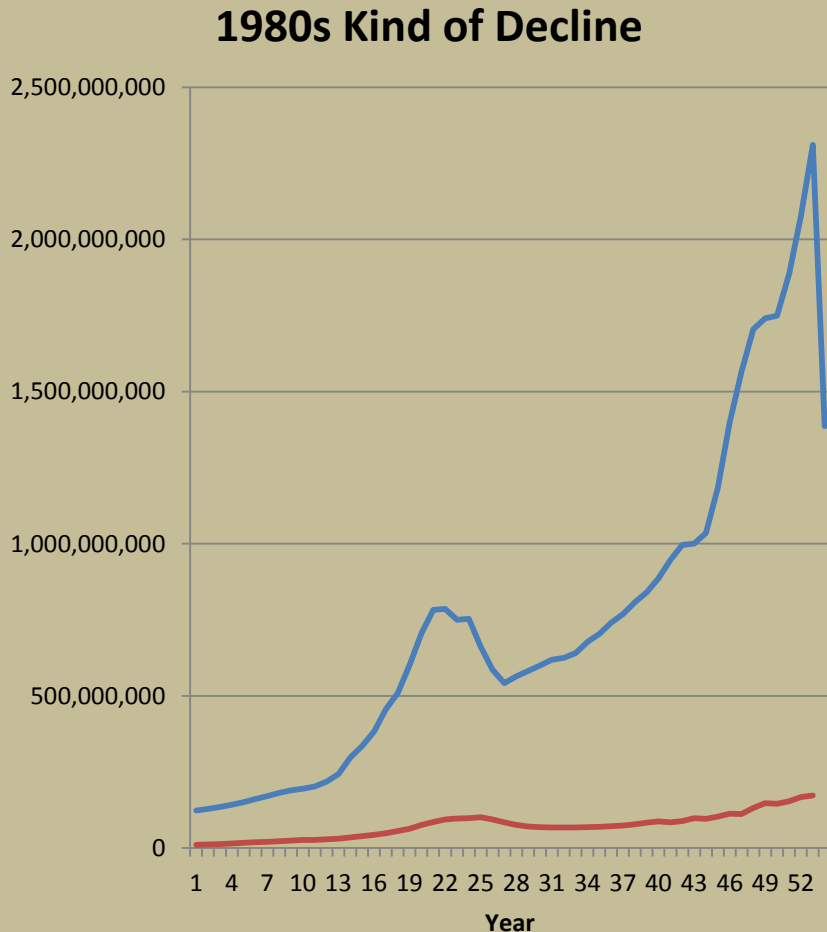


Graph Updated 11/11/2013 09:45 AM

Mitigation:

- Water Budget
- Water Plan
- Restrict Crop Loan
- Just Don't Do It!

Land Value Decline

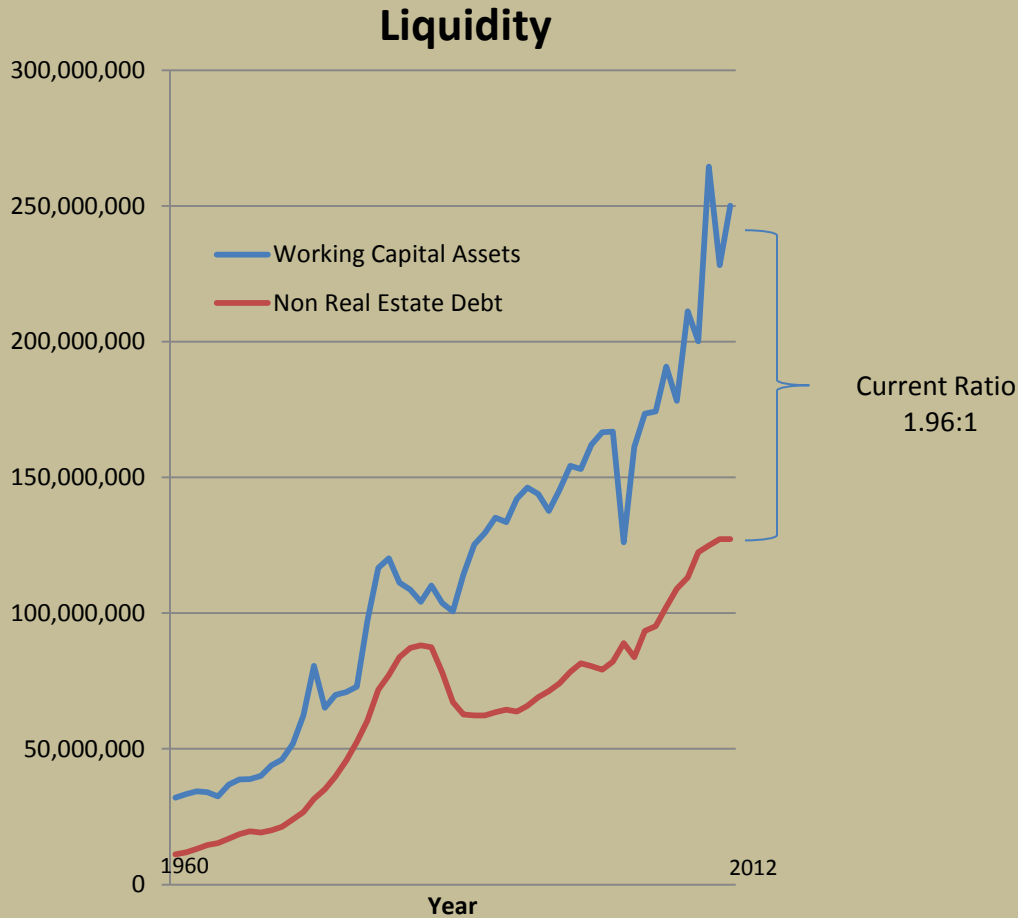


- Real Estate Debt to Land Value (12%)...very manageable.
- Biggest risk is out West.
- Farm booms always end. How they end is the concern.
- Farm Income – Golden Era or Fools Gold?

Mitigation:

- Limit the value (and therefore advance rate on almost all real estate transactions

Liquidity is Strong Today



- Very Liquid Position
- Large Build-Up in Financial Assets

Decline in Commodity Values Will Impact Liquidity

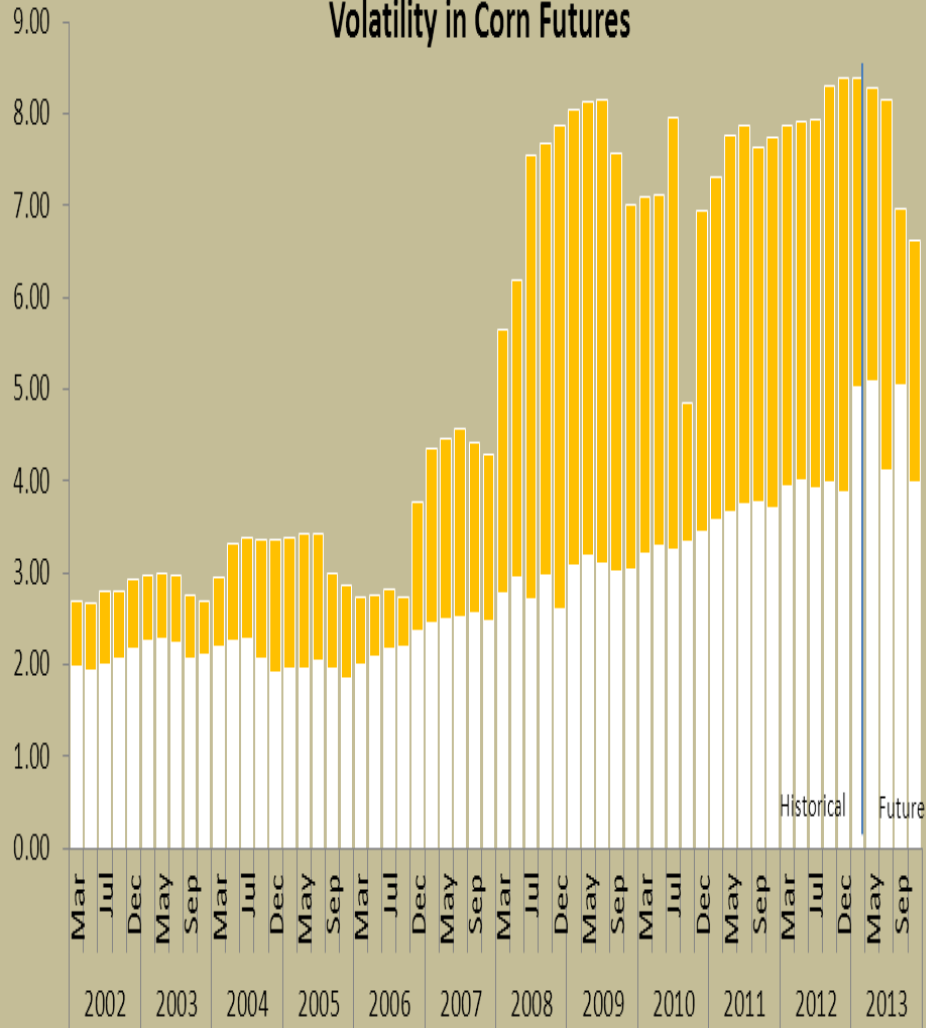
Reduced Liquidity



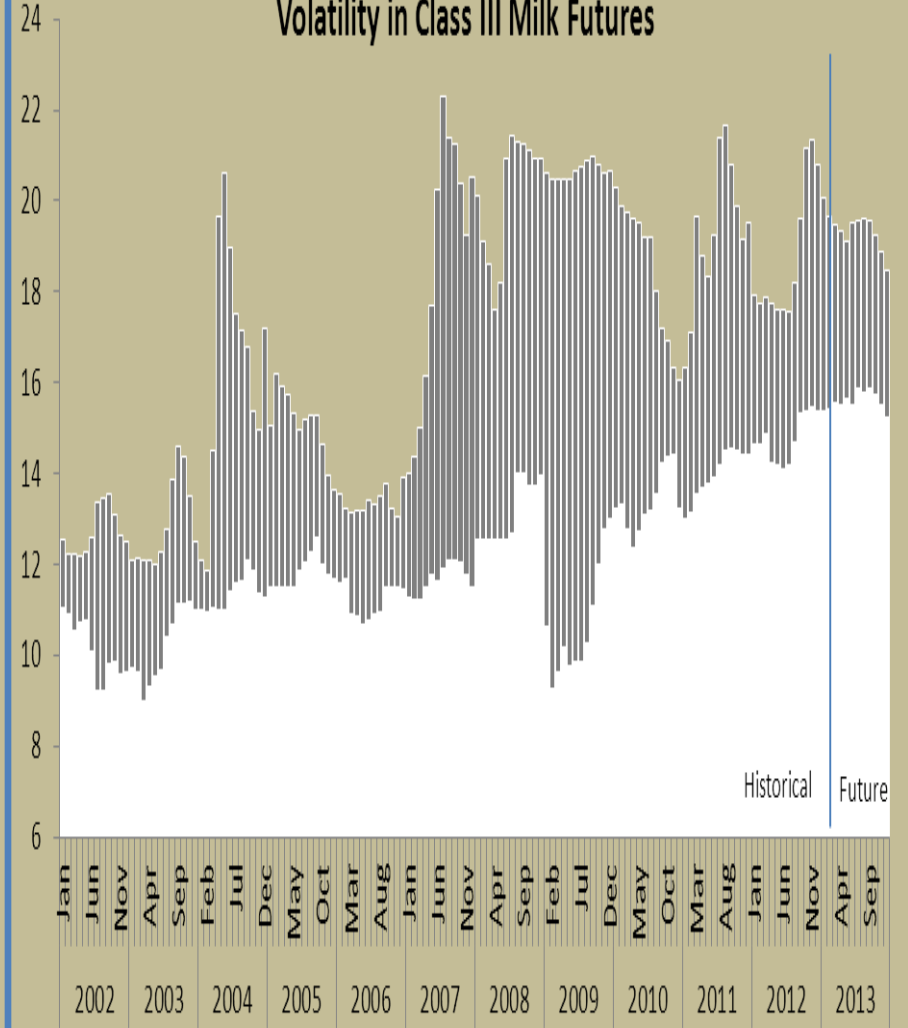
- Drive Increased Borrowing
- This is the range when things start tipping over
- Biggest risk in the Midwest

Price Volatility

Volatility in Corn Futures



Volatility in Class III Milk Futures



Price Volatility

- **Common Commodities**

- ❖ Grain & Fiber
- ❖ Dairy
- ❖ Cattle
- ❖ Swine

- **Mitigation**

- ❖ Hedging
- ❖ Options
- ❖ Forward Contracts
- ❖ Supply Agreements
- ❖ Natural Hedges
- ❖ Balance Sheet Strength
- ❖ Participate / Syndicate

- **Specialty Crops**

- ❖ Stone Fruit
- ❖ Fresh Market Grapes
- ❖ Berries
- ❖ Fresh Market Citrus
- ❖ Almonds & Pistachios
- ❖ Nursery / Greenhouse
- ❖ Forage Crops

- **Mitigation**

- ❖ Balance Sheet Strength
- ❖ 40% Rule
- ❖ Marketing Agreements
- ❖ Natural Hedges
- ❖ Accept but Diversify
- ❖ Participate / Syndicate

Concentration Risk – Sales Side

- Only a handful of buyers left. All have margin management “programs”

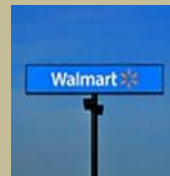
- ❖ Fresh Fruits, Citrus and Vegetables



- ❖ Nuts



- ❖ Nursery Greenhouse



Concentration Risk – Sales Side

❖ Beef/Hogs



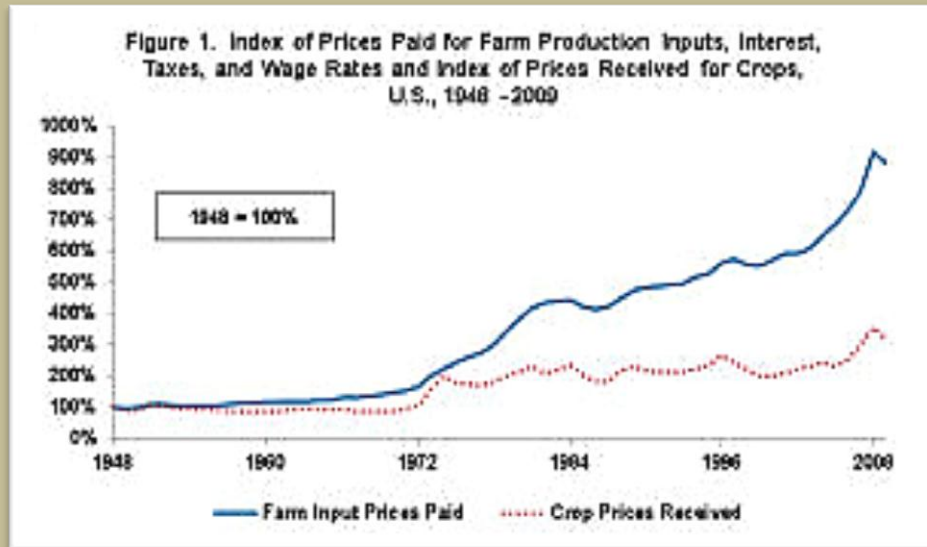
❖ Grains



Mitigation:

- ❖ Allow measured expansion
- ❖ Proactive management
- ❖ Better than average cost management
- ❖ Tight covenant package

Rising Concentration, Rising Input Costs



Farm input firms increased their market share through M&A activities.

Reasons:

- Emergence of new technologies
- Government regulations

In 2011, Largest firms R&D was larger than their share of sales

- Crop Seed biotechnology - 8 firms accounted for 76 % of all R&D spending
- Agricultural chemicals - 5 companies accounted for 74 % of the R&D.
- Farm machinery – 4 companies accounted for 57% of industry R&D.
- Animal health - 8 companies accounted for 66% of R&D.

Truth is, farmers will pay higher input prices if the gains in productivity outweigh the cost.

Management Succession and Lifestyle Choices

Lifestyle Investment

Machinery & Equipment

Land and Buildings