Outside the Commerce Building in Washington

*Title: “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

<table>
<thead>
<tr>
<th>Top 5 Commercial Ag Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(000's)</td>
</tr>
<tr>
<td>Wells Fargo</td>
</tr>
<tr>
<td>Robobank</td>
</tr>
<tr>
<td>Bank of the West</td>
</tr>
<tr>
<td>Bank of America</td>
</tr>
<tr>
<td>First National of Omaha</td>
</tr>
</tbody>
</table>

* 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

<table>
<thead>
<tr>
<th>Category</th>
<th>Commitment (1,000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness Banking Division</td>
<td>$6,094,339</td>
</tr>
<tr>
<td>All Other Divisions</td>
<td>$539,907</td>
</tr>
<tr>
<td>Vendor Finance</td>
<td>$289,118</td>
</tr>
<tr>
<td>Dealer Financial Services</td>
<td>$81,757</td>
</tr>
<tr>
<td>Indirect Equipment Finance</td>
<td>$44,917</td>
</tr>
<tr>
<td>Total</td>
<td>$7,050,038</td>
</tr>
</tbody>
</table>
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
<table>
<thead>
<tr>
<th>Scenario</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wet/ Minimal Fish Cuts</td>
<td>60-65%</td>
</tr>
<tr>
<td>Wet/Moderate Fish Cuts</td>
<td>40-45%</td>
</tr>
<tr>
<td>Average/Minimal Fish Cuts</td>
<td>35-40%</td>
</tr>
<tr>
<td>Average/Moderate Fish Cuts</td>
<td>25-30%</td>
</tr>
<tr>
<td>Dry/Minimal Fish Cuts</td>
<td>0-5%</td>
</tr>
</tbody>
</table>

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

- 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**
  - Cargill
  - JBS
  - National Beef

- **Grains**
  - Cargill
  - Gavilon

**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 See 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