



# 2020 Capital Plan

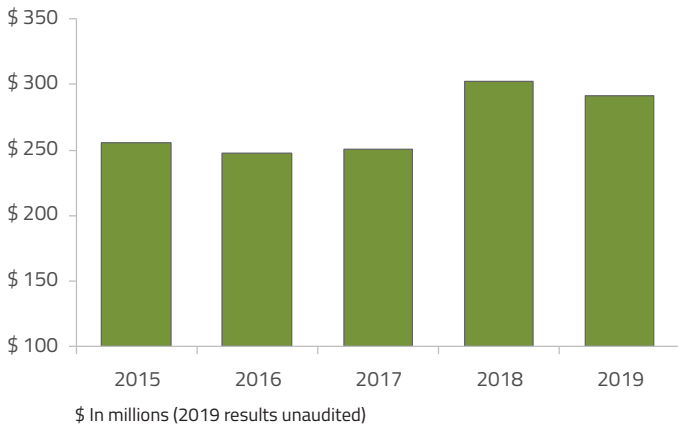
Northwest Farm Credit Services is a \$13 billion cooperative providing financing and related services to farmers, ranchers, agribusinesses, commercial fishermen, timber producers, rural homeowners and crop insurance customer-members primarily in Idaho, Oregon, Washington, Montana and Alaska. Northwest FCS has a strong financial foundation, balancing capital and risk management with our purpose to help customer-members grow. Northwest FCS is committed to being a knowledgeable financial service provider that is even-handed through industry cycles and returns substantial value through our patronage program.

The association's annual business plan is developed under the direction of the Northwest FCS Board of Directors who are primarily elected by and represent the association's voting stockholders. The business plan includes the following strategies related to capital:

### Build capital through earnings

Strong, durable core earnings are built through disciplined lending, focused portfolio management and reasonable expense controls. Earnings replenish the allowance for credit losses, build capital and are the first buffer against losses.

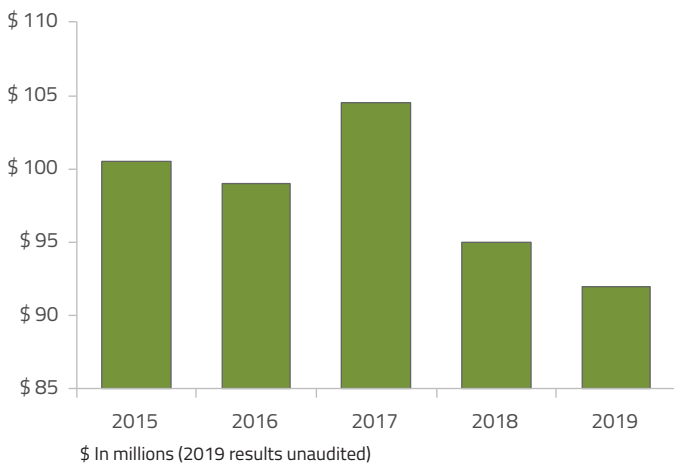
#### Earnings



### Reserve adequately for credit losses

After earnings, our allowance for credit losses is the second financial line of defense against credit losses. The allowance reflects expected losses in the loan portfolio and is determined using management's estimates.

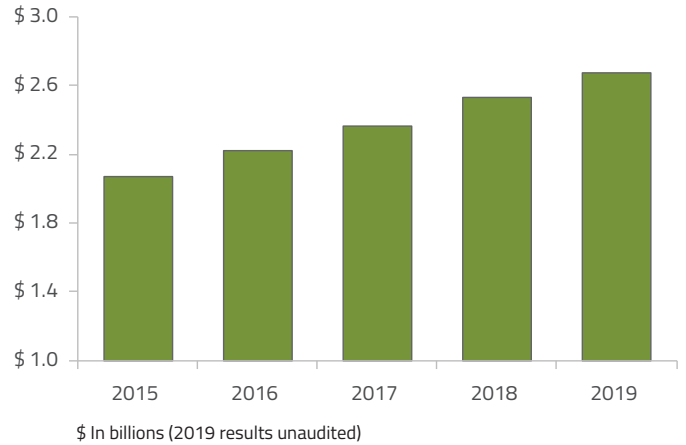
#### Allowance for Credit Losses



### Maintain a strong capital base

Northwest FCS maintains a strong capital base, which is comprised almost entirely of unallocated retained earnings. This allows us to support customer-members through volatile market cycles, absorb unexpected losses and maintain long-term financial stability.

#### Capital



### Manage risk through a disciplined approach

Maintaining a reliable earnings engine, adequate reserves and strong capital levels requires sound risk management practices. Our risk management program safeguards Northwest FCS through disciplined evaluation and proactive management of key risks and opportunities. Acceptable levels of risk are identified, scenarios are modeled, then action is taken to provide reasonable assurance that strategic initiatives balance risk with reward and Northwest FCS' value continues to grow.

### Support our customer-members and rural communities

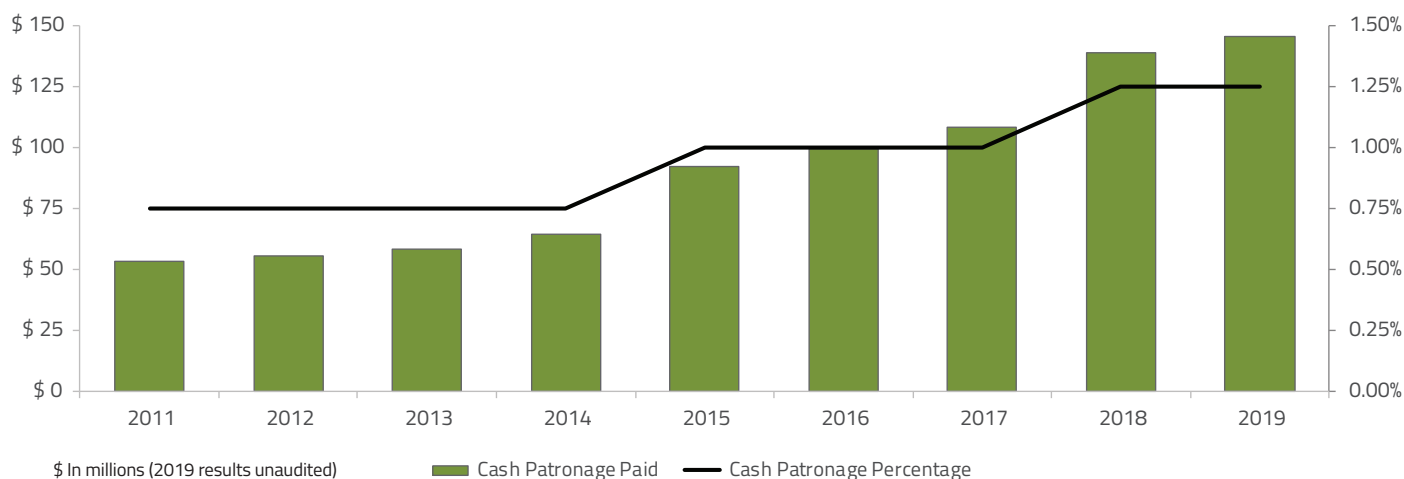
Earnings from operations are used to cover expenses, build organizational capacity and provide numerous benefits and services to our customer-members. This includes investments in customer-member educational opportunities, management and family business resources and contributions to numerous youth, community, industry and university programs and charities.

### Ensure a responsible return on stockholder investment

A key element of our value proposition is providing a reasonable rate of return on the customer-members' capital we steward. That is accomplished through our cash patronage program. Since we started paying patronage in 2000, the association has returned approximately \$1.1 billion to our customer-members.

This institution is an equal opportunity provider and employer.

## Cash Patronage Paid in Dollars and as a Percent of Customers' Eligible Average Daily Loan Balances



## About the Capital Plan

### *How does the board determine the annual capital plan?*

As part of the annual planning process, the Northwest FCS Board of Directors approves a capital plan supporting the short- and long-term financial goals of the association based on projected growth, earnings, economic conditions, possible credit losses/other contingencies, and reasonable reinvestment in our business. The board sets target capital ranges, which are periodically reviewed. The plan mandates Northwest FCS will, at all times, exceed the minimum capital levels specified by the Farm Credit Administration (FCA).

### *What is the stock requirement for customers?*

Each stockholder owns an investment in the association of \$1,000 or 2 percent of their total loan balance, whichever is less. Customer-members not eligible to hold voting stock are issued participation certificates.

### *What are cash patronage distributions and who receives them?*

A key cooperative principle is returning a portion of net earnings in the form of cash to stockholders based upon their use of the cooperative. At Northwest FCS, cash patronage is allocated among customer-members based on their eligible average daily loan balance. Cash patronage is distributed in the first quarter for the previous calendar year's activity. Cash patronage is taxable to stockholders as described in 26 U.S. Code §1385.

For 2019, the Northwest FCS board approved a cash patronage of 1.25% on eligible average daily loan balances. Northwest FCS will pay a record \$145.1 million in 2019 patronage dividends to approximately 9,000 customer-members.

### *What are non-qualified written notices of allocation?*

Northwest FCS' stockholders who receive patronage also receive a non-qualified written notice of allocation (as defined in 26 U.S. Code §1388(d)). Amounts in the written notices reflect stockholders' share of net patronage income for the previous calendar year retained by and for the permanent use of Northwest FCS. This amount is subject to income taxes at the association level and should not be included in a stockholder's taxable income or financial statements. These notices are not subject to retirement, revolvement, redemption or other distribution, except in the unlikely event of liquidation.

Please consult a tax advisor for any questions regarding the federal or state tax treatment of patronage.

### *Which transactions are ineligible to be included in a customer's patronage?*

The following products and services are not eligible for patronage:

- Leases
- Loans made and secured primarily by residential home mortgages
- Related services, including insurance sales
- Loans with unique pricing or risk characteristics that the association designates, in advance, as not eligible for patronage
- Loans for which the borrower has expressly waived patronage
- Any purchased loan that the lead Farm Credit entity has designated a non-patronage loan
- Loans classified as nonaccrual, as defined by FCA regulations

*For more information, refer to the annual reports for Northwest FCS and the Federal Farm Credit Banks Funding Corporation, the disclosure agent for the Farm Credit System. Questions regarding the Northwest FCS capital plan can be directed to EVP-Chief Administrative and Financial Officer Tom Nakano at 509-340-5490, tom.nakano@northwestfcs.com*