Quarterly Report
June 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our stockholders' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590
(844) 426-6733
www.compeer.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The credit portfolio includes several large, diverse sectors in production agriculture. The United States Department of Agriculture (USDA) projects net farm income for 2019 at $69.4 billion, a $6.3 billion, or 10% increase from 2018. Additionally, net cash income, a measure of cash flow rather than accrual, is also projected up for 2019 by $4.3 billion, to $95.7 billion. The increase in farm income is based on higher price expectations for crop and animal production, trend crop yields, the trade-related Market Facilitation Program (MFP) payments to farmers, and only a modest change in cash expenses. While on an inflation-adjusted basis, Farm Income remains in the historical lower 25% of annual incomes, USDA still projects a 1.1% increase in Farm Equity.

A large portion of our income is generated from the primary industries of grain, dairy, and swine. Within these industries, several economic and agricultural conditions will cause profitability to vary widely in 2019. On the grain side, the varying impact of weather will result in a wide range of profit variability due to significant unplanted, or late planted, acres causing uncertain production. Late planted, and unplanted, acres occurred throughout significant portions of our service area. While it's still too early to predict the overall impact, early indications are that yields are likely to be below trend line in a number of areas. A near-term increase in prices will help those that generate trend line yields, and government programs shall attempt to mitigate those that do not. Despite a rise in feed costs, the protein segment has experienced an increase in prices domestically that in some cases offsets the cost of production. Solid domestic macroeconomic conditions helped the rural housing, energy, as well as food processing and distribution segments, which comprise a significant portion of the portfolio. Overall, our credit quality remains stable.

Underscoring the weather related challenges for spring planting, USDA estimated total planted crop acres of 309.3 million, down 10.3 million planted acres from 2018. Within our territory, Illinois planted acres are 481,000 below year ago, Minnesota acres are down 631,000, and Wisconsin plantings are 4,000 acres fewer. Surprisingly, USDA estimates corn planted acres up 2.9% from a year ago, with planted acres roughly flat across our territory. Soybean planted acres are estimated down 10.3% from a year ago, including a decline of over 1.5 million acres within our territory. The USDA crop progress report for July 8, 2019 indicates good to excellent condition on 37% of Illinois, 60% of Minnesota, and 59% of Wisconsin corn. Similarly, good to excellent soybean condition was reported on 38% of Illinois, 61% of Minnesota, and 64% of Wisconsin plantings. The July WASDE report estimates corn yields of 166 bushels per acre, down from the 176.4 bushels in 2018. Estimated average farm price for the 2019/20 crop is $3.70 per bushel, compared to $3.60 for 2018/19. As of July 17, the CME's December delivery of Corn No. 2 Yellow was $4.41 per bushel. The report also estimates soybean yield per acre at 48.5 bushels, down from 51.6 bushels in 2018. Estimated average farm price for the 2019/20 soybean crop is $8.40 per bushel, compared to $8.50 in 2018. The USDA also announced market facilitation program payments of $14.5 billion to be paid in three tranches, beginning in early August.

The profitability outlook for dairy remains elusive in 2019 as supply stabilizes, while feed costs increase. Domestic demand remains solid though trade issues continue to slow exports. Increased productivity per cow is driving production growth as milk cow numbers are down slightly from year ago levels. Milk basis levels have improved somewhat as supplies tightened and new capacity comes on line. The USDA forecasts an average price received by farmers for all milk of $18.20 per cwt in 2019, which would be above the $16.18 received in 2018. We expect most dairy producers will be near breakeven for the year as prices were slow to improve and the improvement has been modest. Additionally, planting challenges are likely to yield increased feed costs for those that purchase their feedstuffs, squeezing margins. Potential resolution to trade issues with Mexico and Canada could improve price prospects if enacted. The new farm bill contains provisions that implemented new risk management tools for producers to enhance margin protection.

China continues to struggle with the impact of African Swine Fever (ASF), providing volatility to pork markets, and lessening global demand for feedstuffs. The demand impact of ASF has led to a rise in futures contract prices, but also significant volatility in the commodity. Lean Hog contracts peaked at 94.5 cents/lb in April – a multiyear high. The disease continues to spread throughout Asia and Europe, hitting China particularly hard. To date, the disease has killed millions of pigs in China, which raises about half the world's hogs and accounts for half of the world's consumption.

Among U.S. farms, as of June 2019, there were 75.5 million hogs and pigs, up 4% from a year ago, according to the Quarterly Hogs and Pigs report published by USDA's National Agricultural Statistics Service. Hog producers intended to farrow 3.2 million sows during the June-August 2019 quarter, down slightly from the same period a year ago. Exports play a noteworthy role in the marginal contribution to producers, and the industry relies considerably on a growing U.S. export market. In addition to possible resolution of the U.S.-China trade quarrel, a replacement of NAFTA with the new U.S.-Mexico-Canada (USMC) trade agreement could also be a positive step if enacted. This will ease tariffs and is expected to lead to margin improvement for hogs. Currently, the expectation is for a lower value of U.S. exports. The USDA lowered the aggregate value of 2019 U.S. exports by $4.5 billion from their February forecast to $137 billion, citing both trade and ASF as primary reasons for the decline. Enactment of USMCA, resolution of trade negotiations, and/or an increase in Chinese purchases of pork products could improve export prospects for the remainder of 2019.

A portion of our portfolio is comprised of industries not directly affected by agricultural conditions, but rather by factors influencing the general economy. In particular, economic and secular conditions remain favorable to the housing market. According to the CoreLogic HPI, home prices nationwide increased 3.6% year over year (May 2019). CoreLogic expects appreciation to pick up over the coming year to 5.6% as interest rate reductions boost demand. However, U.S. home ownership remains low at 64.2%, slightly above the 50-year low, and the Millennial generation is approaching home-formation age, which may indicate a pent-up demand for homes. Food processing and distribution is benefiting from trends in personal spending and consumption, as well as the strong levels of employment. The national unemployment rate remains near historic lows at 3.7% per the U.S. Bureau of Labor Statistics. While still significantly underserved, rural power and telecommunication segments have benefitted from strong national economic growth. The U.S. Congressional Budget Office forecasts real gross domestic product (GDP) growth of 2.3 percent in 2019.

We continue to see relatively low delinquencies and the credit quality remains sound across the portfolio. All the same, some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $19.1 billion at June 30, 2019, an increase of $304.8 million from December 31, 2018. The increase in total loans was primarily driven by growth in the capital markets and food/agribusiness sectors, offset by a decrease in the swine sector.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2018. Adversely classified loans increased slightly to 3.5% of the portfolio at June 30, 2019, from 3.0% of the portfolio at December 31, 2018. The increase was due to a continued overall downturn in the agricultural economy, led by stress in the grain and dairy sectors. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2019, $1.3 billion of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 154,410**	$ 114,894
Accruing restructured	**10,684**	11,278
Accruing loans 90 days or more past due	**10,042**	7,427
Total risk loans	**175,136**	133,599
Other property owned	**138**	167
Total risk assets	**$ 175,274**	$ 133,766
Total risk loans as a percentage of total loans	**0.9%**	0.7%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**45.9%**	36.4%
Total delinquencies as a percentage of total loans	**0.9%**	0.8%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to stress within the grain and dairy sectors, as noted above. Even with these slight increases, nonaccrual loans remained at an acceptable level at June 30, 2019.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	June 30 2019	December 31 2018
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**47.6%**	52.2%
Total risk loans	**41.9%**	44.9%

The increase in our allowance for loan losses from December 31, 2018, was due to provision expense recorded primarily to reflect the increase in risk assets noted above. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2019.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, which is a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or homes that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by third party investors. At June 30, 2019, the volume in this program was $32.6 million, a $14.1 million increase from December 31, 2018. The increase was the result of our originations of new loans held for sale.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the six months ended June 30	2019	2018
Net income	**$ 194,733**	$ 191,376
Return on average assets	**1.9%**	2.0%
Return on average equity	**10.6%**	11.1%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands)

For the six months ended June 30	2019	2018	Increase (decrease) in net income
Net interest income	**$ 240,192**	$ 233,411	**$ 6,781**
Provision for loan losses	**13,632**	9,123	**(4,509)**
Patronage income	**63,583**	48,410	**15,173**
Other income, net	**49,917**	52,023	**(2,106)**
Operating expenses	**141,214**	128,161	**(13,053)**
Provision for income taxes	**4,113**	5,184	**1,071**
Net income	**$ 194,733**	$ 191,376	**$ 3,357**

Changes in Net Interest Income

(in thousands) For the six months ended June 30		**2019 vs 2018**
Changes in volume	**$**	**14,591**
Changes in interest rates		**(4,831)**
Changes in asset securitization		**69**
Changes in nonaccrual income and other		**(3,048)**
Net change	**$**	**6,781**

The increase in the provision for loan losses was primarily due to additional provision expense recorded primarily to reflect overall growth in the portfolio, along with continued deterioration in the grain, dairy, and food/agribusiness sectors of our portfolio.

Patronage Income

(in thousands) For the six months ended June 30		**2019**		2018
Wholesale patronage				
Cash	**$**	**15,709**	$	27,815
Stock		**26,573**		--
Pool program patronage		**19,735**		19,338
AgDirect partnership distribution		**1,566**		1,257
Total patronage income	**$**	**63,583**	$	48,410

The increase in patronage income was primarily due to an increase in wholesale patronage. In total wholesale patronage increased primarily as a result of a higher patronage rate for the first six months of 2019 compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage and AgDirect partnership distributions are paid in cash. As discussed in our Annual Report, AgriBank will pay patronage in the form of allocated stock as necessary to meet all regulatory capital requirements, while optimizing capital throughout the District. The amount of stock patronage may vary from quarter-to-quarter as AgriBank updates their forecasts for the year, and the final amount of stock patronage will be determined at the end of the year.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $4.5 million in 2019, compared to $10.9 million in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. This $6.4 million decrease in other income, net, caused by our AIRA distribution, was then offset by an increase of $5.0 million due to the fees earned from our servicing of ProPartners Financial loans. Prior to the sale of this portfolio in December 2018, the expenses related to the ProPartners Financial loans were shared among the participating Associations and we recognized only our proportionate share of the expenses. After the sale of the portfolio, a servicing fee is charged to AgriBank and recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. Refer to the 2018 Annual Report for additional information about the FCSIC. We originated rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $40.9 million through June 30, 2019, compared to $54.2 million for the same period in 2018. The fee income from this activity totaled $287 thousand for the six months ended June 30, 2019, compared to $298 thousand for the same period of 2018.

The change in operating expenses was primarily related to increases in salary expenses and equipment expenses.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on September 30, 2021, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2019, or December 31, 2018.

Total equity increased $152.3 million from December 31, 2018, primarily due to net income for the period, partially offset by patronage distribution accruals and preferred stock dividend accruals. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 13 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 11 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.6%**	14.7%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.1%**	15.2%	6.0%	2.5%*	8.5%
Total capital ratio	**15.6%**	15.6%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.5%**	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.0%**	15.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.3%**	14.2%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of Compeer Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mark W. Cade

Mark W. Cade
Chairperson of the Board
Compeer Financial, ACA

Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

August 9, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA
(in thousands)
(Unaudited)

As of:	June 30 2019	December 31 2018
ASSETS		
Loans held to maturity	$ 19,058,418	$ 18,753,659
Allowance for loan losses	73,445	59,928
Net loans held to maturity	18,984,973	18,693,731
Loans held for sale	32,626	18,496
Net loans	19,017,599	18,712,227
Unrestricted cash	2,300	2,300
Investment securities	1,186,266	995,140
Assets held for lease, net	51,401	46,974
Accrued interest receivable	191,608	171,220
Investment In AgriBank, FCB	599,219	567,596
Premises and equipment, net	75,200	70,697
Other property owned	138	167
Other assets	163,431	187,916
Total assets	$ 21,287,162	$ 20,754,237
LIABILITIES		
Note payable to AgriBank, FCB	$ 17,155,104	$ 16,739,126
Accrued interest payable	121,724	110,302
Deferred tax liabilities, net	2,340	4,839
Patronage distribution payable	138,712	151,710
Other liabilities	114,960	146,281
Total liabilities	17,532,840	17,152,258
Contingencies and commitments (Note 5)		
EQUITY		
Preferred stock	100,000	100,000
Capital stock and participation certificates	32,658	33,062
Additional paid-in capital	1,780,603	1,780,603
Allocated surplus	426,583	426,776
Unallocated surplus	1,424,840	1,272,556
Accumulated other comprehensive loss	(10,362)	(11,018)
Total equity	3,754,322	3,601,979
Total liabilities and equity	$ 21,287,162	$ 20,754,237

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA
(in thousands)
(Unaudited)

		Three Months Ended			Six Months Ended		
For the period ended June 30		**2019**		2018		**2019**		2018
Interest income	**$**	**242,810**	$	213,039	**$**	**476,710**	$	418,018
Interest expense		**121,889**		97,619		**236,518**		184,607
Net interest income		**120,921**		115,420		**240,192**		233,411
Provision for loan losses		**4,285**		5,450		**13,632**		9,123
Net interest income after provision for loan losses		**116,636**		109,970		**226,560**		224,288
Other income								
Patronage income		**37,552**		24,107		**63,583**		48,410
Net operating lease income		**744**		509		**1,438**		959
Financially related services income		**10,726**		10,781		**22,997**		22,469
Allocated Insurance Reserve Accounts distribution		**--**		--		**4,468**		10,938
Fee and miscellaneous income, net		**10,714**		9,204		**21,014**		17,657
Total other income		**59,736**		44,601		**113,500**		100,433
Operating expenses								
Salaries and employee benefits		**45,153**		42,804		**89,714**		86,430
Farm Credit System insurance		**3,803**		3,537		**7,491**		7,001
Other operating expenses		**22,586**		17,340		**44,009**		34,730
Total operating expenses		**71,542**		63,681		**141,214**		128,161
Income before income taxes		**104,830**		90,890		**198,846**		196,560
Provision for income taxes		**3,325**		2,492		**4,113**		5,184
Net income	**$**	**101,505**	$	88,398	**$**	**194,733**	$	191,376
Other comprehensive income								
Employee benefit plans activity	**$**	**328**	$	238	**$**	**656**	$	475
Total other comprehensive income		**328**		238		**656**		475
Comprehensive income	**$**	**101,833**	$	88,636	**$**	**195,389**	$	191,851

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA
(in thousands)
(Unaudited)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balance at December 31, 2017	$ 100,000	$ 34,213	$ 1,780,603	$ 523,252	$ 980,818	$ (7,249)	$ 3,411,637
Net income	--	--	--	--	191,376	--	191,376
Other comprehensive income	--	--	--	--	--	475	475
Redemption of allocated patronage	--	--	--	(43,750)	32	--	(43,718)
Preferred stock dividend	--	--	--	--	(3,375)	--	(3,375)
Other distribution	--	--	--	--	--	--	--
Unallocated surplus designated for patronage distributions	--	--	--	--	(37,445)	--	(37,445)
Cumulative effect of change in accounting principle	--	--	--	--	--	--	--
Capital stock and participation certificates issued	--	1,263	--	--	--	--	1,263
Capital stock and participation certificates retired	--	(1,464)	--	--	--	--	(1,464)
Balance at June 30, 2018	$ 100,000	$ 34,012	$ 1,780,603	$ 479,502	$ 1,131,406	$ (6,774)	$ 3,518,749
Balance at December 31, 2018	$ 100,000	$ 33,062	$ 1,780,603	$ 426,776	$ 1,272,556	$ (11,018)	$ 3,601,979
Net income	**--**	**--**	**--**	**--**	**194,733**	**--**	**194,733**
Other comprehensive income	**--**	**--**	**--**	**--**	**--**	**656**	**656**
Redemption of allocated patronage	**--**	**--**	**--**	**(193)**	**33**	**--**	**(160)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(3,375)**	**--**	**(3,375)**
Other distribution and adjustments	**--**	**--**	**--**	**--**	**440**	**--**	**440**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(39,425)**	**--**	**(39,425)**
Cumulative effect of change in accounting principle	**--**	**--**	**--**	**--**	**(122)**	**--**	**(122)**
Capital stock and participation certificates issued	**--**	**1,323**	**--**	**--**	**--**	**--**	**1,323**
Capital stock and participation certificates retired	**--**	**(1,727)**	**--**	**--**	**--**	**--**	**(1,727)**
Balance at June 30, 2019	**$ 100,000**	**$ 32,658**	**$ 1,780,603**	**$ 426,583**	**$ 1,424,840**	**$ (10,362)**	**$ 3,754,322**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Compeer Financial, ACA (the Association) and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows. The adoption of this guidance resulted in recording of a cumulative effect adjustment to unallocated surplus of $122 thousand.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	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 inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2019**		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$ 9,330,226**	**48.9%**	$ 9,199,249	49.1%
Production and intermediate-term	**3,675,486**	**19.3%**	3,984,347	21.2%
Agribusiness	**3,983,855**	**20.9%**	3,632,104	19.4%
Other	**2,068,851**	**10.9%**	1,937,959	10.3%
Total	**$ 19,058,418**	**100.0%**	$ 18,753,659	100.0%

The other category is primarily composed of rural infrastructure, agricultural export finance, and rural residential real estate related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

Credit Quality

We utilize the Farm Credit Administration (FCA) Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at June 30, 2019, or December 31, 2018.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of June 30, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 8,700,992**	**92.3%**	**$ 395,393**	**4.2%**	**$ 332,245**	**3.5%**	**$ 9,428,630**	**100.0%**
Production and intermediate-term	**3,273,121**	**87.8%**	**243,714**	**6.5%**	**211,117**	**5.7%**	**3,727,952**	**100.0%**
Agribusiness	**3,855,182**	**96.3%**	**91,786**	**2.3%**	**54,636**	**1.4%**	**4,001,604**	**100.0%**
Other	**1,996,494**	**96.2%**	**8,125**	**0.4%**	**71,371**	**3.4%**	**2,075,990**	**100.0%**
Total	**$ 17,825,789**	**92.7%**	**$ 739,018**	**3.8%**	**$ 669,369**	**3.5%**	**$ 19,234,176**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 8,648,844	93.2%	$ 332,990	3.6%	$ 300,429	3.2%	$ 9,282,263	100.0%
Production and intermediate-term	3,665,198	90.8%	196,454	4.9%	172,787	4.3%	4,034,439	100.0%
Agribusiness	3,534,012	97.0%	38,292	1.0%	74,655	2.0%	3,646,959	100.0%
Other	1,896,884	97.6%	28,982	1.5%	18,187	0.9%	1,944,053	100.0%
Total	$ 17,744,938	93.8%	$ 596,718	3.2%	$ 566,058	3.0%	$ 18,907,714	100.0%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2019**		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$**	**49,867**	**$**	**46,234**	**$**	**96,101**	**$**	**9,332,529**	**$**	**9,428,630**	**$**	**1,933**
Production and intermediate-term		**31,310**		**31,319**		**62,629**		**3,665,323**		**3,727,952**		**2,748**
Agribusiness		**456**		**911**		**1,367**		**4,000,237**		**4,001,604**		**--**
Other		**11,557**		**7,261**		**18,818**		**2,057,172**		**2,075,990**		**5,361**
Total	**$**	**93,190**	**$**	**85,725**	**$**	**178,915**	**$**	**19,055,261**	**$**	**19,234,176**	**$**	**10,042**

As of December 31, 2018		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	38,799	$	37,346	$	76,145	$	9,206,118	$	9,282,263	$	194
Production and intermediate-term		28,911		28,440		57,351		3,977,088		4,034,439		646
Agribusiness		202		901		1,103		3,645,856		3,646,959		--
Other		7,560		7,933		15,493		1,928,560		1,944,053		6,587
Total	$	75,472	$	74,620	$	150,092	$	18,757,622	$	18,907,714	$	7,427

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		**June 30 2019**		December 31 2018
Volume with specific allowance	**$**	**53,109**	$	37,103
Volume without specific allowance		**122,027**		96,496
Total risk loans	**$**	**175,136**	$	133,599
Total specific allowance	**$**	**21,963**	$	14,031
For the six months ended June 30		**2019**		2018
Income on accrual risk loans	**$**	**525**	$	552
Income on nonaccrual loans		**1,683**		3,911
Total income on risk loans	**$**	**2,208**	$	4,463
Average risk loans	**$**	**152,742**	$	123,188

Note: Accruing loans include accrued interest receivable. In addition, risk loans include purchased credit-impaired loans.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2019.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Six months ended June 30	2019 Pre-modification	2019 Post-modification	2018 Pre-modification	2018 Post-modification
Production and intermediate-term	$ --	$ --	$ 896	$ 896
Agribusiness	--	--	6,857	6,857
Total	$ --	$ --	$ 7,753	$ 7,753

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

The primary types of modification included interest rate reduction below market and extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Six Months Ended June 30

(in thousands)	2019	2018
Real estate mortgage	$ 286	$ --
Production and intermediate-term	--	95
Total	$ 286	$ 95

TDRs Outstanding

(in thousands) As of:	June 30 2019	December 31 2018
Accrual status:		
Real estate mortgage	$ 9,931	$ 10,337
Production and intermediate-term	753	941
Agribusiness	--	--
Other	--	--
Total TDRs in accrual status	$ 10,684	$ 11,278
Nonaccrual status:		
Real estate mortgage	$ 834	$ 1,114
Production and intermediate-term	443	525
Agribusiness	3,763	4,547
Other	64	64
Total TDRs in nonaccrual status	$ 5,104	$ 6,250
Total TDRs:		
Real estate mortgage	$ 10,765	$ 11,451
Production and intermediate-term	1,196	1,466
Agribusiness	3,763	4,547
Other	64	64
Total TDRs	$ 15,788	$ 17,528

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $355 thousand at June 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	2019	2018
Balance at beginning of period	$ 59,928	$ 48,849
Provision for loan losses	13,632	9,123
Loan recoveries	287	833
Loan charge-offs	(402)	(1,556)
Balance at end of period	$ 73,445	$ 57,249

NOTE 3: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $1.2 billion at June 30, 2019, and $995.1 million at December 31, 2018. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal revenue bonds and corporate debt security (Bonds)

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be composed of either MBS or ABS. All our held-to-maturity investments, except $5.6 million as of June 30, 2019, and $5.5 million as of December 31, 2018, were fully guaranteed by Farmer Mac, SBA, or USDA.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of June 30, 2019**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 958,662**	**$ 22,232**	**$ (3,161)**	**$ 977,733**	**4.3%**
ABS	**213,624**	**542**	**(2,683)**	**211,483**	**4.1%**
Bonds	**13,980**	**330**	**--**	**14,310**	**5.1%**
Total	**$ 1,186,266**	**$ 23,104**	**$ (5,844)**	**$ 1,203,526**	**4.3%**

As of December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 925,480	$ 3,696	$ (15,728)	$ 913,448	4.2%
ABS	58,495	166	(1,414)	57,247	4.2%
Bonds	11,165	53	(75)	11,143	5.0%
Total	$ 995,140	$ 3,915	$ (17,217)	$ 981,838	4.2%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $21.0 million and $17.1 million for the six months ended June 30, 2019, and 2018, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of June 30, 2019**	Amortized Cost
Less than one year	**$ 995**
One to five years	**22,747**
Five to ten years	**111,410**
More than ten years	**1,051,114**
Total	**$ 1,186,266**

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of June 30, 2019	Fair Value	Losses	Fair Value	Losses
MBS	**$ 7,737**	**$ (114)**	**$ 83,862**	**$ (3,047)**
ABS	**92,100**	**(1,356)**	**19,743**	**(1,327)**
Bonds	**--**	**--**	**--**	**--**
Total	**$ 99,837**	**$ (1,470)**	**$ 103,605**	**$ (4,374)**
	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2018	Fair Value	Losses	Fair Value	Losses
MBS	$ 57,337	$ (551)	$ 613,364	$ (15,177)
ABS	14,527	(458)	27,460	(956)
Bonds	--	--	6,246	(75)
Total	$ 71,864	$ (1,009)	$ 647,070	$ (16,208)

Unrealized losses greater than 12 months associated with held-to-maturity investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by Farmer Mac, SBA, or USDA. However, the premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee.

We had no outstanding available-for-sale investment securities at June 30, 2019, or December 31, 2018.

Additional Available-for-Sale Investment Securities Information

Six months ended June 30	**2019**	2018
Proceeds from sales	**$ 18,892**	$ 34,101
Realized losses on sales, net	**(251)**	(211)

The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired as of June 30, 2019, or December 31, 2018.

NOTE 4: OTHER INVESTMENTS

We held non-controlling investments in junior capital funds in "Other assets" in the Consolidated Statements of Condition of $2.5 million at June 30, 2019, and December 31, 2018. These investments represent our stake in junior capital funds focused on the needs of rural start-up companies. We had no remaining commitment at June 30, 2019, or December 31, 2018. To date, no income has been distributed from the funds. We received no distributions from the funds during the six months ended June 30, 2019, and 2018. These investments were evaluated for impairment. For the six months ended June 30, 2019, and 2018 we did not recognize any impairment on these investments.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $39.5 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $16.5 million at June 30, 2019, and $13.4 million at December 31, 2018. The investments were evaluated for impairment. No investments were impaired as of June 30, 2019, or December 31, 2018.

NOTE 5: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

Recurring

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $32.6 million and $18.5 million as of June 30, 2019, and December 31, 2018, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans were $564 thousand and $27 thousand for the six months ended June 30, 2019, and 2018, respectively, which were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had no outstanding available-for-sale investment securities at June 30, 2019, or December 31, 2018. During the six months ended June 30, 2019, and 2018 we sold available-for-sale investment securities with total sales proceeds of $18.9 million and $34.1 million, resulting in a loss of $251 thousand and $211 thousand, respectively, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $46.8 million and $28.0 million as of June 30, 2019, and December 31, 2018, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss in of $687 thousand for the six months ended June 30, 2019, compared to a net gain of $783 thousand for the same period of 2018. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Non-Recurring

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of June 30, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 32,703**	**$ 32,703**
Other property owned	**--**	**--**	**158**	**158**
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 24,226	$ 24,226
Other property owned	--	--	210	210

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.