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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA (the Association or Compeer) 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, 2020 (2020 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:

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## **FORWARD-LOOKING INFORMATION**

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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 2020 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.

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## **COVID-19 PANDEMIC**

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The spread of COVID-19 during 2020 created a global public-health crisis that stifled the world-wide economy, created disruptions in liquidity in fixed income and equity markets, significantly increased unemployment levels and scrambled global supply and demand chains. Unprecedented actions were taken by governments, businesses, and individuals to slow or contain the spread of COVID-19. Industries across nearly all economic sectors, including agriculture, were in uncharted territory throughout 2020. While U.S. agriculture was appropriately deemed "essential" to the country and a national asset, the sector was not immune to wildly fluctuating markets caused by the reactions to the pandemic.

While the overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, favorable recent conditions have driven optimism for the remainder of 2021. Progress in vaccination programs has led states to begin to reopen. The loosening of restrictions has led to increased demand in agricultural products. Assuming continued success in vaccination and subsequent lessening of restrictions, which vary greatly by state, it will take time to fully resume all activities.

The extent to which the COVID-19 pandemic continues to impact Compeer will depend on future developments that are highly uncertain and cannot be predicted; however, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. 2021 will bring more Compeer employees back to the office. We have not had any significant changes to internal controls over financial reporting due to working remotely.

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## **AGRICULTURAL AND ECONOMIC CONDITIONS**

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Strength in the current agricultural environment will likely lead to profitability for many farmers throughout 2021. Generally strong agricultural export activity that started in late 2020 has carried forward into and through the first quarter of 2021. This export strength, across several agricultural commodities, continues to support broad profitability improvement. In addition, the U.S. government passed legislation providing material economic support to the American farmer in late 2020 that was paid in early 2021. Progress in vaccination programs and the subsequent loosening of restrictions have led the supply chain toward a gradual transition back to a more normalized structure and subsequent flow of goods, including food service demand and travel (fuel/ethanol demand). These favorable recent conditions and optimistic outlook have put Compeer's diverse portfolio (spanning production agriculture, processing, rural infrastructure, and related industries) into a solid position, allowing us to take advantage of the opportunities present in the marketplace.

As pandemic restrictions ease, the impact across portfolio commodities and industries is varied. Resumption of activity has benefitted ethanol as gasoline demand reacts to increased travel. The food services industry, which experienced initial headwinds due to widespread closures, has seen a rebound from

restaurants, schools, and events. In particular, greater consumer activity is positive news for products with heavy reliance on food services, such as bacon or fluid milk. While industries have not fully returned to normal, food distribution channels, which adjusted to meet the realities of pandemic lockdowns, are transitioning toward normal operation. This transition includes processing facilities, supply chains, and distribution channels that previously altered operations to meet pandemic realities.

Compeer generates a significant portion of its income from grain, dairy, and swine sectors of production agriculture. Each industry has experienced stronger margins since the initial onset of the pandemic, largely fueled by export demand. Resultant price increases, throughout the second half of 2020, have allowed producers greater risk management options for 2021 by providing higher floors to mitigate risk.

In its April 2021 World Agricultural Supply and Demand Estimate (WASDE), the United States Department of Agriculture (USDA) significantly increased expected corn demand from feed, ethanol, and exports, resulting in lower ending stocks. While ending stocks were lowered by 150 million bushels, expected seasonal prices were held at \$4.30 per bushel. The USDA adjusted soybean demand, raising exports, and lowering crush, residual, and seed usage while leaving ending stocks flat. That ending stock forecast, of 120 million bushels, remains tight, leading to a slight increase in expected season price to \$11.25 per bushel. For both crops, continuation of strong export activity is holding stocks lower, resulting in strong expected producer returns.

The March 2021 USDA Milk Production report estimates U.S. production increased year-over-year, after accounting for the 2020 leap year, by 2.0%. Production increases were attributed to lower production per cow, but from a larger number of cows in production. The Class III Milk price forecast is largely favorable, albeit roughly a \$1 per hundredweight (cwt) below 2020, at \$17.10 per cwt produced. The WASDE report also estimates a 2021 all-milk price of \$18.40 per cwt, compared to \$18.32 per cwt in 2020. While prices remain generally favorable overall, Class IV milk (butter/dry products) has lagged Class III significantly. The current Class IV forecast for 2021 is \$15.15 per cwt, nearly \$2 per cwt below Class III, though it is roughly \$1.65 above the 2020 Class IV price. The all-milk price forecast for 2021 continues to suggest producers should at least break-even for the year. Coupled with advancing adoption of revenue and margin protection products, Compeer clients practicing risk management appear to have ample tools to cover costs in 2021.

U.S. pork production, as of March 2021, consisted of 74.8 million head, a 2% decrease from the same period in 2020. The USDA Hogs and Pigs report indicates the decrease was driven by both fewer market and breeding hogs, with decline in inventory both year-over-year and from the previous quarter. In forecasting the March to May quarter, the USDA expects farrowing of 3.07 million sows, which is down 3% from year-ago levels. African Swine Fever (ASF) continues to impact global supply/demand, hampering foreign pork producers, and driving demand for U.S. pork. Imports to China, in particular, remain strong as it seeks to replace lost production from its domestic ASF outbreak, while continuing to aggressively rebuild its breeding herd.

In February 2021, the USDA updated its net farm income forecast to \$111.4 billion, a \$9.8 billion decrease from 2020. The update also estimated net cash income for 2021 at \$128.3 billion, a \$7.9 billion year-over-year decrease. The forecast assumes stronger commodity revenue, offset by a decline in government payments. Estimated government payment revenue is projected to be \$25.3 billion, a decrease of \$21.0 billion largely due to the assumption of no further COVID-19 disaster relief support.

Along with the production agriculture portfolio, Compeer maintains a robust rural housing portfolio. This sector relies upon the health of the overall economy, interest rates, and general employment. The most recent U.S. Bureau of Labor Statistics unemployment rate of 6.0% continues a recent trend of stable-to-slow improvement. Despite the elevated unemployment level, the Compeer housing portfolio continues to perform. Home mortgage rates (though having edged up recently) remain near historic lows, continuing to drive strength in new home purchases and refinance activity. Where necessary, Compeer remains in line with guidance by the Federal Home Mortgage agencies and the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act in continuing to provide assistance, including forbearance, to both on-balance sheet and serviced loans of clients financially impacted by the COVID-19 pandemic.

The Compeer portfolio continues to experience relatively low delinquencies and is navigating this period from a position of sound credit quality. Several core portfolio industries have experienced significant improvement in overall conditions, creating solid market opportunities for producers. Our core credit objectives of working with clients to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies remain unchanged. Compeer also remains committed to being an advocate for positive legislative changes that improve prospects for agriculture and rural America.

## **LOANS HELD TO MATURITY**

### **Loans Held to Maturity**

Loans held to maturity were \$23.0 billion at March 31, 2021, an increase of \$422.0 million from December 31, 2020. See Note 2 for a breakdown of this increase. Real estate mortgage and agribusiness increases are primarily due to market conditions within the grain markets, while production loans decreased during the period due to normal seasonality.

The Paycheck Protection Program (PPP), is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and under limited circumstances, loan forgiveness. As of March 31, 2021, we had successfully processed \$292.4 million in PPP loans for customers with primarily production and intermediate-term type loans, of which \$132.6 million were processed during the first quarter of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans, and \$44.5 million has been forgiven as of March 31, 2021.

### **Portfolio Credit Quality**

The credit quality of our portfolio improved slightly from December 31, 2020. Adversely classified loans decreased to 2.6% of the portfolio at March 31, 2021, from 2.8% of the portfolio at December 31, 2020. 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 March 31, 2021, \$1.5 billion of our loans were, to some level, guaranteed under these government programs.

## Risk Assets

<b>Components of Risk Assets</b>		
(dollars in thousands)	<b>March 31,</b>	December 31,
As of:	<b>2021</b>	2020
Loans:		
Nonaccrual	\$ 148,666	\$ 137,350
Accruing restructured	8,555	9,071
Accruing loans 90 days or more past due	5,536	3,151
Total risk loans	162,757	149,572
Other property owned	978	3,040
Total risk assets	\$ 163,735	\$ 152,612
Total risk loans as a percentage of total loans	0.7%	0.7%
Nonaccrual loans as a percentage of total loans	0.6%	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	56.8%	62.2%
Total delinquencies as a percentage of total loans	0.5%	0.5%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2020, 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.

We have implemented a borrower relief program related to the COVID-19 global pandemic. The program is generally for borrowers with acceptable credit quality and who have experienced COVID-19 related financial difficulty. The relief comes in a variety of ways, but most predominantly payment deferrals and maturity extensions. To date, there have not been significant actions taken under this program. However, our program may continue to evolve and is dependent on the prolonged nature of the economic disruption. Lastly, we continue to work with each borrower on a case-by-case basis, which may involve loan restructurings outside the COVID-19 relief program.

The increase in nonaccrual loans was primarily due to the movement of one large grain customer's loans to nonaccrual status. Nonaccrual loans remained at an acceptable level at March 31, 2021, and December 31, 2020.

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 as of March 31, 2021, and December 31, 2020, were adequately secured and in the process of collection, and as a result, 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 upon our quarterly allowance for loan losses calculation. This calculation is based upon our evaluation of factors and assumptions such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. The allowance for loan losses is decreased by charge-offs and reversals of provision for loan losses, while it is increased by loan recoveries and provision for loan losses.

See the (Reversal of) Provision for Loan Losses sub-section (within the Results of Operations section) for a discussion on the decrease in provision for loan losses during the three months ended March 31, 2021, which subsequently decreased both the balance in our allowance for loan losses account and allowance ratios shown below.

<b>Allowance Coverage Ratios</b>		
As of:	<b>March 31,</b>	December 31,
	<b>2021</b>	2020
Allowance as a percentage of:		
Loans	0.4%	0.4%
Nonaccrual loans	56.7%	64.9%
Total risk loans	51.8%	59.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2021. We will continue to monitor the allowance for loan losses and allowance coverage ratios on an ongoing basis and adjust levels as necessary based on the above factors, assumptions, and charge-off activity.

## 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 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, Farmer Mac and Freddie Mac. At March 31, 2021, the volume in this program was \$41.6 million, a \$10.0 million decrease from December 31, 2020. The decrease was the result of loans being sold to and securitized by third party investors, Farmer Mac and Freddie Mac, which were partially offset by loans held for sale being originated.

We sold loans in the secondary market totaling \$84.8 million through March 31, 2021, compared to \$49.6 million for the same period in 2020. This increase in sold loans was due to higher volumes of loan originations and conversions in the current interest rate environment. See the Fee and Other Non-Interest Income sub-section (within the Results of Operations section) for discussion on the impact these increases had on fee income.

## RESULTS OF OPERATIONS

### Profitability Information

(dollars in thousands)

For the three months ended March 31

	2021	2020
Net income	\$ 135,687	\$ 107,123
Return on average assets	2.2%	1.9%
Return on average equity	13.3%	11.2%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loans Held to Maturity and Loans Held for Sale sections
- Changes in capital discussed in the Funding, Liquidity, and Capital section

### Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	2021	2020	Increase (decrease) in net income
Net interest income	\$ 136,150	\$ 122,286	\$ 13,864
(Reversal of) provision for loan losses	(4,907)	3,177	8,084
Non-interest income	78,131	63,036	15,095
Non-interest expense	78,601	72,570	(6,031)
Provision for income taxes	4,900	2,452	(2,448)
Net income	\$ 135,687	\$ 107,123	\$ 28,564

## Net Interest Income

### Changes in Net Interest Income

(in thousands)

For the three months ended March 31

	2021 vs 2020
Changes in volume	\$ 15,337
Changes in interest rates	(291)
Changes in asset securitization	25
Changes in nonaccrual income and other	(1,207)
Net change	\$ 13,864

## (Reversal of) Provision for Loan Losses

The change in the (reversal of) provision for loan losses is based upon the calculated change to our allowance for loan losses during the three months ended March 31, 2021. The March 31, 2021, allowance for loan losses calculation resulted in a decrease from the December 31, 2020, calculation. These overall decreases were due to both decreases in loan loss reserves on impaired loans, and decreases in the general loan loss reserves for the core grain sector. The necessary decrease to the allowance for loan losses is booked as a reversal of provision for loan losses expense.

## Non-Interest Income

The change in non-interest income was primarily due to an increase in fee and other non-interest income and patronage income, which was partially offset by a decrease in Allocated Insurance Reserve Accounts distribution.

**Fee and Other Non-Interest Income:** The increase in fee and other non-interest income was primarily due to fees collected from the SBA for originating PPP loans during the first three months of 2021. No SBA PPP loan fees were collected during the first three months of 2020. Additionally, we originated rural home

loans for resale in the secondary market, as more fully explained in the Loans Held for Sale section. The fee income from this activity totaled \$1.1 million for the three months ended March 31, 2021, compared to \$265 thousand for the same period of 2020.

**Patronage Income:** We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

<b>Patronage Income</b>			
(in thousands)			
For the three months ended March 31		2021	2020
Patronage from AgriBank	\$	34,934	\$ 34,249
AgDirect partnership distribution		827	858
Other patronage		797	--
Total patronage income	\$	36,558	\$ 35,107

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage distributions from AgriBank are in the form of either cash or AgriBank stock and determined based on actual financial results, projections, and long-term capital goals.

**Allocated Insurance Reserve Accounts Distribution:** The change in the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of \$4.3 million during the three months ended March 31, 2020, and no distribution during the same period of 2021. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2% of insured debt. Refer to the 2020 Annual Report for additional information about the FCSIC.

#### **Non-Interest Expense**

The change in non-interest expense was primarily related to an increase in Farm Credit System insurance expense. The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by FCSIC on accrual loans. The premium rate, which is primarily impacted by System growth, was 16 basis points for the first quarter of 2021, compared to a premium rate of 8 basis points during the same period in 2020. This premium rate increase is due to higher than anticipated growth within the Farm Credit System's insured debt obligations for 2020 of about 9.9%. This increase will also allow the insurance fund to remain at the 2% secured base amount, after taking into account this System-wide growth. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

#### **FUNDING, LIQUIDITY, AND CAPITAL**

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on September 30, 2023. We intend to renegotiate the note payable no later than the maturity date. 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 March 31, 2021, or December 31, 2020.

Total equity increased \$100.6 million from December 31, 2020, primarily due to net income for the year partially offset by patronage distribution accruals.

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 8 in our 2020 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

As of:	March 31, 2021	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	13.5%	14.3%	4.5%	2.5%	7.0%
Tier 1 capital ratio	13.9%	14.7%	6.0%	2.5%	8.5%
Total capital ratio	14.4%	15.2%	8.0%	2.5%	10.5%
Permanent capital ratio	14.2%	15.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	14.0%	14.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	14.0%	14.6%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loans Held to Maturity section, and off-balance sheet commitments, as disclosed in Note 12 in our 2020 Annual Report.

**CERTIFICATION**

The undersigned have reviewed the March 31, 2021, 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.



Dale Holmgren  
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

May 4, 2021

# CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

(Unaudited)

As of:	March 31, 2021	December 31, 2020
<b>ASSETS</b>		
Loans held to maturity	\$ 23,007,137	\$ 22,585,104
Allowance for loan losses	84,240	89,157
Net loans held to maturity	22,922,897	22,495,947
Loans held for sale	41,560	51,541
Net loans	22,964,457	22,547,488
Unrestricted cash	2,400	2,300
Investment securities	1,148,211	1,149,438
Assets held for lease, net	97,226	93,015
Accrued interest receivable	160,640	171,798
Investment in AgriBank, FCB	679,498	662,203
Premises and equipment, net	76,602	76,711
Other assets	224,699	239,318
Total assets	\$ 25,353,733	\$ 24,942,271
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 20,829,982	\$ 20,458,004
Accrued interest payable	69,377	66,806
Deferred tax liabilities, net	26,573	26,720
Patronage distribution payable	179,735	203,758
Other liabilities	121,257	160,735
Total liabilities	21,226,924	20,916,023
Contingencies and commitments (Note 4)		
<b>EQUITY</b>		
Preferred stock	100,000	100,000
Capital stock and participation certificates	33,848	33,842
Capital stock and participation certificates receivable	(5,873)	(5,576)
Additional paid-in capital	1,780,603	1,780,603
Allocated surplus	321,085	321,115
Unallocated surplus	1,913,681	1,813,294
Accumulated other comprehensive loss	(16,535)	(17,030)
Total equity	4,126,809	4,026,248
Total liabilities and equity	\$ 25,353,733	\$ 24,942,271

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA

(in thousands)

(Unaudited)

For the period ended March 31	Three Months Ended	
	2021	2020
<b>Interest income</b>	\$ 205,918	\$ 233,013
<b>Interest expense</b>	69,768	110,727
Net interest income	136,150	122,286
<b>(Reversal of) provision for loan losses</b>	(4,907)	3,177
Net interest income after (reversal of) provision for loan losses	141,057	119,109
<b>Non-interest income</b>		
Patronage income	36,558	35,107
Net operating lease income	929	896
Financially related services income	12,714	11,929
Allocated Insurance Reserve Accounts distribution	--	4,268
Fee and other non-interest income	27,930	10,836
Total non-interest income	78,131	63,036
<b>Non-interest expense</b>		
Salaries and employee benefits	50,200	49,294
Farm Credit System insurance	7,999	3,525
Other operating expense	19,856	19,249
Other non-interest expense	546	502
Total non-interest expense	78,601	72,570
Income before income taxes	140,587	109,575
<b>Provision for income taxes</b>	4,900	2,452
Net income	\$ 135,687	\$ 107,123
<b>Other comprehensive income</b>		
Employee benefit plans activity	\$ 495	\$ 340
Total other comprehensive income	495	340
Comprehensive income	\$ 136,182	\$ 107,463

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 and Receivable, Net	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2019	\$ 100,000	\$ 32,737	\$ 1,780,603	\$ 373,898	\$ 1,531,824	\$ (11,652)	\$ 3,807,410
Net income	--	--	--	--	107,123	--	107,123
Other comprehensive income	--	--	--	--	--	340	340
Redemption of prior year allocated patronage	--	--	--	82	(10)	--	72
Preferred stock dividend	--	--	--	--	(1,688)	--	(1,688)
Other distribution	--	--	--	--	--	--	--
Unallocated surplus designated for patronage distributions	--	--	--	--	(30,158)	--	(30,158)
Capital stock and participation certificates issued	--	777	--	--	--	--	777
Capital stock and participation certificates retired	--	(777)	--	--	--	--	(777)
Capital stock and participation certificates receivable, net	--	(5,000)	--	--	--	--	(5,000)
<b>Balance at March 31, 2020</b>	<b>\$ 100,000</b>	<b>\$ 27,737</b>	<b>\$ 1,780,603</b>	<b>\$ 373,980</b>	<b>\$ 1,607,091</b>	<b>\$ (11,312)</b>	<b>\$ 3,878,099</b>
Balance at December 31, 2020	\$ 100,000	\$ 28,266	\$ 1,780,603	\$ 321,115	\$ 1,813,294	\$ (17,030)	\$ 4,026,248
Net income	--	--	--	--	135,687	--	135,687
Other comprehensive income	--	--	--	--	--	495	495
Redemption of prior year allocated patronage	--	--	--	(30)	3	--	(27)
Preferred stock dividend	--	--	--	--	(1,688)	--	(1,688)
Other distribution	--	--	--	--	(1,680)	--	(1,680)
Unallocated surplus designated for patronage distributions	--	--	--	--	(31,935)	--	(31,935)
Capital stock and participation certificates issued	--	1,202	--	--	--	--	1,202
Capital stock and participation certificates retired	--	(1,196)	--	--	--	--	(1,196)
Additions to capital stock and participation certificates receivable, net	--	(297)	--	--	--	--	(297)
<b>Balance at March 31, 2021</b>	<b>\$ 100,000</b>	<b>\$ 27,975</b>	<b>\$ 1,780,603</b>	<b>\$ 321,085</b>	<b>\$ 1,913,681</b>	<b>\$ (16,535)</b>	<b>\$ 4,126,809</b>

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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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 and reporting 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 three months ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. 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, 2020 (2020 Annual Report).

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

#### Significant Accounting Policies

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Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market related value of assets for the fixed-income pension assets. This change in accounting principle requires retrospective application. However, the financial statement impact was deemed immaterial to historical and current periods. Therefore, the change was recorded through earnings in the first quarter of 2021.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

#### Recently Issued or Adopted Accounting Pronouncements

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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. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 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 expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

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

**Loans by Type**

(dollars in thousands)

As of:	March 31, 2021		December 31, 2020	
	Amount	%	Amount	%
Real estate mortgage	\$ 12,072,222	52.4%	\$ 11,708,049	51.9%
Production and intermediate-term	3,821,135	16.6%	4,069,993	18.0%
Agribusiness	4,868,214	21.2%	4,634,460	20.5%
Other	2,245,566	9.8%	2,172,602	9.6%
Total	<u>\$ 23,007,137</u>	<u>100.0%</u>	<u>\$ 22,585,104</u>	<u>100.0%</u>

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. Total loans include loans held to maturity, finance leases, and conditional sales leases (hereinafter collectively referred to as loans).

**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 March 31, 2021, or December 31, 2020.

**Credit Quality of Loans**

(dollars in thousands) As of March 31, 2021	Acceptable		Special Mention		Substandard/ Doubtful		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 11,453,282	94.1%	\$ 352,521	2.9%	\$ 359,913	3.0%	\$ 12,165,716	100.0%
Production and intermediate-term	3,523,230	91.4%	174,964	4.5%	158,367	4.1%	3,856,561	100.0%
Agribusiness	4,634,197	94.9%	165,921	3.4%	83,303	1.7%	4,883,421	100.0%
Other	2,244,498	99.7%	2,105	0.1%	5,629	0.2%	2,252,232	100.0%
Total	<u>\$ 21,855,207</u>	<u>94.4%</u>	<u>\$ 695,511</u>	<u>3.0%</u>	<u>\$ 607,212</u>	<u>2.6%</u>	<u>\$ 23,157,930</u>	<u>100.0%</u>

  

As of December 31, 2020	Acceptable		Special Mention		Substandard/ Doubtful		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 11,036,529	93.5%	\$ 376,502	3.2%	\$ 388,037	3.3%	\$ 11,801,068	100.0%
Production and intermediate-term	3,752,161	91.3%	177,139	4.3%	182,422	4.4%	4,111,722	100.0%
Agribusiness	4,421,378	95.1%	158,853	3.4%	69,784	1.5%	4,650,015	100.0%
Other	2,170,517	99.6%	2,020	0.1%	5,819	0.3%	2,178,356	100.0%
Total	<u>\$ 21,380,585</u>	<u>94.1%</u>	<u>\$ 714,514</u>	<u>3.1%</u>	<u>\$ 646,062</u>	<u>2.8%</u>	<u>\$ 22,741,161</u>	<u>100.0%</u>

Note: Accruing loans include accrued interest receivable.

## Delinquency

### Aging Analysis of Loans

(in thousands)	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
<b>As of March 31, 2021</b>						
Real estate mortgage	\$ 37,404	\$ 23,987	\$ 61,391	\$ 12,104,325	\$ 12,165,716	\$ 1,329
Production and intermediate-term	18,435	34,169	52,604	3,803,957	3,856,561	1,134
Agribusiness	2,123	829	2,952	4,880,469	4,883,421	--
Other	4,440	3,956	8,396	2,243,836	2,252,232	3,073
Total	\$ 62,402	\$ 62,941	\$ 125,343	\$ 23,032,587	\$ 23,157,930	\$ 5,536
<b>As of December 31, 2020</b>						
Real estate mortgage	\$ 45,022	\$ 24,634	\$ 69,656	\$ 11,731,412	\$ 11,801,068	\$ 1,215
Production and intermediate-term	20,563	21,967	42,530	4,069,192	4,111,722	154
Agribusiness	458	829	1,287	4,648,728	4,650,015	--
Other	8,319	3,078	11,397	2,166,959	2,178,356	1,782
Total	\$ 74,362	\$ 50,508	\$ 124,870	\$ 22,616,291	\$ 22,741,161	\$ 3,151

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)	March 31, 2021	December 31, 2020
As of:		
Volume with specific allowance	\$ 47,090	\$ 53,132
Volume without specific allowance	115,667	96,440
Total risk loans	\$ 162,757	\$ 149,572
Total specific allowance	\$ 14,646	\$ 16,544
For the three months ended March 31	2021	2020
Income on accrual risk loans	\$ 221	\$ 215
Income on nonaccrual loans	885	1,958
Total income on risk loans	\$ 1,106	\$ 2,173
Average risk loans	\$ 160,337	\$ 168,243

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2021.

## 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 TDR, also known as a formally restructured loan for regulatory purposes. 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. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

**TDR Activity**

(in thousands)

Three months ended March 31	2021		2020	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	\$ --	\$ --	\$ 793	\$ 793
Production and intermediate-term	268	267	--	--
Total	\$ 268	\$ 267	\$ 793	\$ 793

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 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 deferral of principal and interest rate reduction below market.

There were no TDRs that defaulted during the three months ended March 31, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

(in thousands)

As of:	March 31, 2021	December 31, 2020
Accrual status:		
Real estate mortgage	\$ 7,981	\$ 8,236
Production and intermediate-term	574	835
Other	--	--
Total TDRs in accrual status	\$ 8,555	\$ 9,071
Nonaccrual status:		
Real estate mortgage	\$ 1,460	\$ 1,541
Production and intermediate-term	503	510
Other	175	180
Total TDRs in nonaccrual status	\$ 2,138	\$ 2,231
Total TDRs:		
Real estate mortgage	\$ 9,441	\$ 9,777
Production and intermediate-term	1,077	1,345
Other	175	180
Total TDRs	\$ 10,693	\$ 11,302

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$342 thousand at March 31, 2021.

**Allowance for Loan Losses****Changes in Allowance for Loan Losses**

(in thousands)

Three months ended March 31	2021	2020
Balance at beginning of period	\$ 89,157	\$ 78,504
(Reversal of) provision for loan losses	(4,907)	3,177
Loan recoveries	48	27
Loan charge-offs	(58)	(743)
Balance at end of period	\$ 84,240	\$ 80,965

**NOTE 3: INVESTMENT SECURITIES**

We had held-to-maturity investment securities of \$1.1 billion at March 31, 2021, and December 31, 2020. 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 a 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 \$24.2 million as of March 31, 2021, and \$19.2 million as of December 31, 2020, were fully guaranteed by Farmer Mac, SBA, or USDA.

The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at March 31, 2021, or December 31, 2020.

#### Additional Held-to-Maturity Investment Securities Information

(dollars in thousands)	Amortized	Unrealized	Unrealized	Fair	Weighted
	Cost	Gains	Losses	Value	Average
<b>As of March 31, 2021</b>					Yield
MBS and bonds	\$ 756,916	\$ 25,722	\$ (10,338)	\$ 772,300	3.6%
ABS	391,295	1,634	(4,036)	388,893	0.8%
Total	\$ 1,148,211	\$ 27,356	\$ (14,374)	\$ 1,161,193	2.7%
<b>As of December 31, 2020</b>					Yield
MBS and bonds	\$ 776,082	\$ 38,817	\$ (1,676)	\$ 813,223	3.7%
ABS	373,356	639	(4,944)	369,051	0.9%
Total	\$ 1,149,438	\$ 39,456	\$ (6,620)	\$ 1,182,274	2.8%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled \$7.4 million and \$10.8 million for the three months ended March 31, 2021, and 2020, respectively.

#### Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands)	Amortized Cost
<b>As of March 31, 2021</b>	
Less than one year	\$ 520
One to five years	18,403
Five to ten years	262,148
More than ten years	867,140
Total	\$ 1,148,211

Actual maturity of the held-to-maturity investment securities may be less than contractual maturity due to prepayments.

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

(in thousands)	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>As of March 31, 2021</b>				
MBS and bonds	\$ 225,003	\$ (9,557)	\$ 12,079	\$ (781)
ABS	109,548	(1,675)	147,544	(2,361)
Total	\$ 334,551	\$ (11,232)	\$ 159,623	\$ (3,142)
<b>As of December 31, 2020</b>				
MBS and bonds	\$ 108,234	\$ (1,429)	\$ 5,732	\$ (247)
ABS	223,290	(3,299)	66,958	(1,645)
Total	\$ 331,524	\$ (4,728)	\$ 72,690	\$ (1,892)

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.

#### NOTE 4: 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.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of March 31, 2021, our total commitment is \$104.5 million of which \$73.0 million is unfunded, with varying commitment end dates through December 2030. Certain commitments may have an option to extend under certain circumstances.

#### NOTE 5: 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 2020 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 \$41.6 million and \$51.5 million as of March 31, 2021, and December 31, 2020, respectively, which were valued using Level 3 inputs. Total fair value losses related to these loans were \$94 thousand for the three months ended March 31, 2021, compared to gains of \$389 thousand for the same period of 2020, which were recognized in "Fee and other non-interest income" 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 \$22.3 million and \$62.8 million as of March 31, 2021, and December 31, 2020, 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. 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 gain of \$538 thousand for the three months ended March 31, 2021, compared to a loss of \$2.3 million for the same period of 2020, which were included in "Fee and other non-interest income" 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 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 of foreclosed assets measured 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)

<b>As of March 31, 2021</b>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 34,066	\$ 34,066
Other property owned	--	--	956	956

  

<b>As of December 31, 2020</b>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 38,417	\$ 38,417
Other property owned	--	--	4,106	4,106

**NOTE 6: SUBSEQUENT EVENTS**

We have evaluated subsequent events through May 4, 2021, 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.