Quarterly Report
June 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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.

COVID-19 PANDEMIC

As domestic public health measures were implemented to limit the spread of the virus, including the availability of vaccines, many locations across the United States (U.S.) were able to lift many or all restrictions as of the end of the quarter. While the emergence of COVID-19 variants may negatively impact economic conditions going forward, the overall economy was continuing to recover as of June 30, 2021, and the outlook was positive for many sectors, including agriculture. Our business continuity response allowed us to continue to serve our mission, and now all of our office buildings have re-opened and employees have returned to the office on a full-time or hybrid basis.

AGRICULTURAL AND ECONOMIC CONDITIONS

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 lock in profitability.

Through the midpoint of 2021, profitability across commodity segments remained largely intact from the strength at year end 2020. Export activity largely remained strong, even though tighter inventory levels have led to moderation resulting from elevated commodity prices. Vaccination progress, within the U.S., led to an accelerated reopening and return toward pre-pandemic activities as virus infection rates declined. As such, supply chains have come under more stress due to the rapid bounce back in demand, further fueled, in part, by continued low interest rates. While agricultural commodity supplies are tight, non-agricultural industries are also experiencing supply chain issues. Expectations are that it will take at least several quarters for supply chains to readjust capacity. With inconsistent global vaccination rates, volatility in supplies of goods is likely to remain prevalent through at least year end 2021.

While pandemic restrictions eased, allowing resumption of activity to near normal levels as of June 30, 2021, weather impacts have emerged as a risk driver in 2021. Widespread weather impacts have created uncertainty for crop production. Whether sufficient and timely precipitation allows for yields near forecast levels remains a significant unknown for grain and livestock producers alike. Below average yields will certainly drive prices upward, raising profits for those able to harvest a crop, and tightening margins for those feeding grain to livestock. The coming weeks and months will be closely monitored as progress reports continue to drive markets.

In the July 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. Strength in expected demand is offset by strong forecast production, resulting in lower ending stocks. While ending stocks were raised by 75 million bushels, expected seasonal prices were lowered only $0.10 to $5.60 per bushel. The estimates did not include a yield adjustment, though the USDA noted that precipitation in major growing areas was below normal. The USDA adjusted soybean demand,

lowering exports, crush, and residual, leaving ending stocks flat. Tight ending stocks continue to promote strong overall prices, with a forecast season price of $11.05 per bushel. Both crop forecasts remain sensitive to weather impact, with continuation of dry conditions in the western Corn Belt of utmost concern. The June 2021 USDA Milk Production report estimates U.S. production increased year-over-year by 4.6%. Production increases were attributed to increases in production per cow and number of cows in production. The Class III Milk price forecast is near break-even, after the USDA reduced the expected annual average to $16.80 per hundredweight (cwt) produced. The WASDE report also estimates a 2021 all-milk price of $18.30 per cwt, compared to $18.24 per cwt in 2020. While prices remain generally favorable overall, Class IV milk (butter/dry products) continues to significantly lag Class III. The current Class IV forecast for 2021 is $15.40 per cwt, or $1.40 per cwt below Class III, though it is roughly $0.90 above the 2020 Class IV price. The all-milk price forecast for 2021 continues to suggest producers in aggregate should break-even for the year. Coupled with advancing adoption of revenue and margin protection products, Compeer clients practicing risk management appear to have sufficient ability to cover 2021 production costs.

U.S. pork production, as of June 2021, consisted of 75.7 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 year-over-year market and breeding hogs, though inventories rose from the previous quarter. In forecasting the June-to-August quarter, the USDA expects farrowing of 3.11 million sows, which is down 4% from year-ago levels. African Swine Fever continues to impact global supply/demand, hampering foreign pork producers and driving demand for U.S. pork. China, in particular, continues to grapple with new outbreaks of the disease, even as the country attempts to aggressively rebuild its breeding herd.

In February, the USDA updated its net farm income forecast to $111.4 billion, a $9.8 billion decrease over 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 a decline in government payments will offset stronger commodity revenue. 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 5.9% continues a recent trend of stable-to-slow improvement. Despite the unemployment level remaining above pre-pandemic levels, job openings are robust. As such, 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 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 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 $21.5 billion at June 30, 2021, a decrease of $1.1 billion from December 31, 2020. The decrease was primarily due to $1.6 billion of loans being reclassified as loans held for sale as of June 30, 2021. In previous periods we sold to AgriBank participation interests in primarily real estate loans as part of pool programs. Refer to the 2020 Annual Report for additional discussions on these pool programs. On July 1, 2021, we purchased the loans totaling $1.1 billion from these prior pool programs back from AgriBank at fair value. Additionally, on the same day, we sold AgriBank participations of $1.6 billion, representing a 10% participation across most of our loan portfolio. The net impact of these participation transactions was a decrease to our loans held to maturity of $587.4 million, with no significant impact to credit quality. The asset pool programs continue to be done to optimize the amount of capital at the District and Association level. For the purposes of portfolio analysis as more fully disclosed in Note 2, the impact of these two participation transactions was excluded.

Excluding the impact of the transactions on July 1, our loan portfolio grew mostly within our Agri-Access sector, along with smaller increases within our food and agribusiness sector. Real estate mortgage, including loans in our Agri-Access sector, and agribusiness increases are primarily due to conditions with the grain markets and increased export demand, while production loans decreased during the period due to normal seasonality and pandemic impacts from 2020.

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 when certain requirements are fulfilled, loan forgiveness. As of June 30, 2021, we had successfully processed $328.1 million in PPP loans for customers with primarily production and intermediate-term type loans, of which $168.3 million were processed during the first half of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans, and $121.6 million has been forgiven as of June 30, 2021.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2020. Adversely classified loans decreased to 2.4% of the portfolio at June 30, 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 June 30, 2021, $1.5 billion of our loans were, substantially, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ 149,215**	$ 137,350
Accruing restructured	**8,575**	9,071
Accruing loans 90 days or more past due	**2,792**	3,151
Total risk loans	**160,582**	149,572
Other property owned	**312**	3,040
Total risk assets	**$ 160,894**	$ 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	**41.7%**	62.2%
Total delinquencies as a percentage of total loans	**0.6%**	0.5%

Note: Accruing loans include accrued interest receivable. In addition, the total loans used to calculate the above ratios included $1.6 billion of loans reclassified as held for sale as of June 30, 2021.

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.

Nonaccrual loans remained at an acceptable level at June 30, 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 June 30, 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.

The decrease in other property owned is primarily due to the sale of properties during 2021.

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 six months ended June 30, 2021, which subsequently decreased both the balance in our allowance for loan losses account and allowance ratios shown below.

Allowance Coverage Ratios

As of:	**June 30, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.3%**	0.4%
Nonaccrual loans	**52.8%**	64.9%
Total risk loans	**49.0%**	59.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 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 June 30, 2021, the volume in this program was $47.7 million, a $3.8 million decrease from December 31, 2020. The decrease was the result of loans being sold to and securitized by third party investors, which were partially offset by loans held for sale being originated.

We sold loans in the secondary market totaling $112.6 million through June 30, 2021, compared to $142.1 million for the same period in 2020. While loan origination and conversions increased significantly throughout all of 2020 due to the low interest rate environment, that activity has now slowed in 2021. As a result, the amount of those loans sold in the secondary market has decreased along with the slight decreases in origination and conversion activity.

In addition, as of June 30, 2021, we also had loans held for sale of $1.6 billion related to the sale of participation interests in certain loans to AgriBank. The sale of these participation interests occurred on July 1, 2021.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2021**	2020
Net income	**$ 261,315**	$ 200,950
Return on average assets	**2.1%**	1.8%
Return on average equity	**12.6%**	10.4%

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 six months ended June 30	**2021**	2020	**Increase (decrease) in net income**
Net interest income	**$ 275,296**	$ 246,802	**$ 28,494**
(Reversal of) provision for loan losses	**(10,439)**	30,000	**40,439**
Non-interest income	**155,028**	136,360	**18,668**
Non-interest expense	**169,547**	146,723	**(22,824)**
Provision for income taxes	**9,901**	5,489	**(4,412)**
Net income	**$ 261,315**	$ 200,950	**$ 60,365**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2021 vs 2020**
Changes in volume	**$ 28,905**
Changes in interest rates	**223**
Changes in asset securitization	**50**
Changes in nonaccrual income and other	**(684)**
Net change	**$ 28,494**

(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 six months ended June 30, 2021. It has become clear that the initially-anticipated negative economic impact of the pandemic on Compeer's loan portfolio has not materialized to date. Despite total risk loans remaining stable, overall credit quality has continued to increase, and net loan charge-offs remain at historically low levels. As a result of these factors, our June 30, 2021 allowance for loan losses calculation resulted in a decrease from the December 31, 2020 calculation. 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 due to increases in fees collected from the SBA for originating PPP loans. During the first half of 2021, SBA PPP fees totaled $18.4 million, as compared to $6.2 million during 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.

Patronage Income

(in thousands)

For the six months ended June 30	2021	2020
Patronage from AgriBank	**$ 75,895**	$ 70,762
AgDirect partnership distribution	**1,574**	1,590
Other patronage	**797**	--
Total patronage income	**$ 78,266**	$ 72,352

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 six months ended June 30, 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 due to an increase in Farm Credit System insurance, other operating expense, salaries and employee benefits expense, and other non-interest expense.

Farm Credit System Insurance: 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 half 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.

Other Operating Expense: The increase in other operating expense was driven by strategic investments in software, innovation projects, and professional consulting fees.

Salaries and Employee Benefits: The increase in salaries and employee benefits was due to our variable compensation expenses. Our variable compensation accrual was increased due to record profitability and new business levels in 2021.

Other Non-Interest Expense: The increase in other non-interest expense was due to issuance costs incurred as part of Compeer's subordinated debt offering in May 2021. See Note 4 for further discussion on this issuance.

Provision for Income Taxes

The change in provision for income taxes was primarily related to our estimate of taxes based on taxable income.

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 June 30, 2021, or December 31, 2020.

We issued $200.0 million of aggregate principal amount of unsecured subordinated notes and $100.0 million of Series B-1 non-cumulative perpetual preferred stock during the second quarter of 2021. Additional information is included in Notes 4 and 5.

Total equity increased $288.8 million from December 31, 2020, primarily due to net income for the year and the issuance of preferred stock, which was 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.

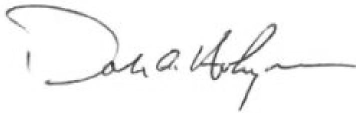
Regulatory Capital Requirements and Ratios

As of:	**June 30, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**13.7%**	14.3%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**14.3%**	14.7%	6.0%	2.5%	8.5%
Total capital ratio	**15.1%**	15.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**14.9%**	15.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**14.3%**	14.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.2%**	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.

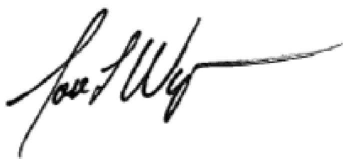
CERTIFICATION

The undersigned have reviewed the June 30, 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

August 6, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA
(in thousands)
(Unaudited)

As of:		June 30, 2021		December 31, 2020
ASSETS				
Loans held to maturity (Note 2)	**$**	**21,524,434**	$	22,585,104
Allowance for loan losses		**78,736**		89,157
Net loans held to maturity		**21,445,698**		22,495,947
Loans held for sale (Note 2)		**1,689,115**		51,541
Net loans		**23,134,813**		22,547,488
Unrestricted cash		**2,400**		2,300
Investment securities		**1,110,509**		1,149,438
Assets held for lease, net		**96,927**		93,015
Accrued interest receivable		**168,169**		171,798
Investment in AgriBank, FCB		**687,986**		662,203
Premises and equipment, net		**78,120**		76,711
Other assets		**249,042**		239,318
Total assets	**$**	**25,527,966**	$	24,942,271
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**20,540,480**	$	20,458,004
Subordinated debt		**200,000**		--
Accrued interest payable		**69,347**		66,806
Deferred tax liabilities, net		**28,165**		26,720
Patronage distribution payable		**211,673**		203,758
Other liabilities		**163,256**		160,735
Total liabilities		**21,212,921**		20,916,023
Contingencies and commitments (Note 6)				
EQUITY				
Preferred stock		**200,000**		100,000
Capital stock and participation certificates		**34,110**		33,842
Capital stock and participation certificates receivable		**(6,112)**		(5,576)
Additional paid-in capital		**1,780,603**		1,780,603
Allocated surplus		**320,264**		321,115
Unallocated surplus		**2,002,220**		1,813,294
Accumulated other comprehensive loss		**(16,040)**		(17,030)
Total equity		**4,315,045**		4,026,248
Total liabilities and equity	**$**	**25,527,966**	$	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)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2021**	2020	**2021**	2020
Interest income	**$ 208,967**	$ 213,130	**$ 414,885**	$ 446,143
Interest expense	**69,821**	88,614	**139,589**	199,341
Net interest income	**139,146**	124,516	**275,296**	246,802
(Reversal of) provision for loan losses	**(5,532)**	26,823	**(10,439)**	30,000
Net interest income after (reversal of) provision for loan losses	**144,678**	97,693	**285,735**	216,802
Non-interest income				
Patronage income	**41,708**	37,245	**78,266**	72,352
Net operating lease income	**1,030**	804	**1,959**	1,700
Financially related services income	**11,518**	11,572	**24,232**	23,501
Allocated Insurance Reserve Accounts distribution	**--**	--	**--**	4,268
Fee and other non-interest income	**22,641**	23,703	**50,571**	34,539
Total non-interest income	**76,897**	73,324	**155,028**	136,360
Non-interest expense				
Salaries and employee benefits	**55,902**	51,894	**106,102**	101,188
Farm Credit System insurance	**8,048**	3,712	**16,047**	7,237
Other operating expense	**22,875**	17,373	**42,731**	36,622
Other non-interest expense	**4,121**	1,174	**4,667**	1,676
Total non-interest expense	**90,946**	74,153	**169,547**	146,723
Income before income taxes	**130,629**	96,864	**271,216**	206,439
Provision for income taxes	**5,001**	3,037	**9,901**	5,489
Net income	**$ 125,628**	$ 93,827	**$ 261,315**	$ 200,950
Other comprehensive income				
Employee benefit plans activity	**$ 495**	$ 340	**$ 990**	$ 680
Total other comprehensive income	**495**	340	**990**	680
Comprehensive income	**$ 126,123**	$ 94,167	**$ 262,305**	$ 201,630

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	--	--	--	--	200,950	--	200,950
Other comprehensive income	--	--	--	--	--	680	680
Redemption of allocated patronage	--	--	--	(70)	4	--	(66)
Preferred stock issued	--	--	--	--	--	--	--
Preferred stock dividend	--	--	--	--	(3,375)	--	(3,375)
Other distributions	--	--	--	--	--	--	--
Unallocated surplus designated for patronage distributions	--	--	--	--	(59,865)	--	(59,865)
Capital stock and participation certificates issued	--	1,900	--	--	--	--	1,900
Capital stock and participation certificates retired	--	(1,655)	--	--	--	--	(1,655)
Capital stock and participation certificates receivable, net	--	(5,233)	--	--	--	--	(5,233)
Balance at June 30, 2020	$ 100,000	$ 27,749	$ 1,780,603	$ 373,828	$ 1,669,538	$ (10,972)	$ 3,940,746
Balance at December 31, 2020	$ 100,000	$ 28,266	$ 1,780,603	$ 321,115	$ 1,813,294	$ (17,030)	$ 4,026,248
Net income	**--**	**--**	**--**	**--**	**261,315**	**--**	**261,315**
Other comprehensive income	**--**	**--**	**--**	**--**	**--**	**990**	**990**
Redemption of allocated patronage	**--**	**--**	**--**	**(851)**	**80**	**--**	**(771)**
Preferred stock issued	**100,000**	**--**	**--**	**--**	**(2,420)**	**--**	**97,580**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(3,375)**	**--**	**(3,375)**
Other distributions	**--**	**--**	**--**	**--**	**(3,360)**	**--**	**(3,360)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(63,314)**	**--**	**(63,314)**
Capital stock and participation certificates issued	**--**	**2,344**	**--**	**--**	**--**	**--**	**2,344**
Capital stock and participation certificates retired	**--**	**(2,076)**	**--**	**--**	**--**	**--**	**(2,076)**
Additions to capital stock and participation certificates receivable, net	**--**	**(536)**	**--**	**--**	**--**	**--**	**(536)**
Balance at June 30, 2021	**$ 200,000**	**$ 27,998**	**$ 1,780,603**	**$ 320,264**	**$ 2,002,220**	**$ (16,040)**	**$ 4,315,045**

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 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 six months ended June 30, 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

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 did not have a material impact on the financial statements.

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

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 ASU 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 amended 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.

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

As of June 30, 2021, we had total loans held to maturity of $23.2 billion, of which $1.6 billion was reclassified to loans held for sale (related to the sale of participation interests in certain loans to AgriBank), resulting in the $21.5 billion of loans shown as held to maturity on the Consolidated Statement of Condition. Total loans held to maturity presented throughout Note 2 include all loans held, prior to the reclassification of the $1.6 billion to loans held for sale. The sale of these participation interests occurred on July 1, 2021, and the fair value adjustment related to this transaction did not have a material impact on our financial condition or results of operations.

Loans by Type

(dollars in thousands) As of:	June 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Real estate mortgage	$ 12,393,447	53.5%	$ 11,708,049	51.9%
Production and intermediate-term	3,680,080	15.9%	4,069,993	18.0%
Agribusiness	4,741,868	20.5%	4,634,460	20.5%
Other	2,350,448	10.1%	2,172,602	9.6%
Total	$ 23,165,843	100.0%	$ 22,585,104	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. 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 June 30, 2021, or December 31, 2020.

Credit Quality of Loans

(dollars in thousands) **As of June 30, 2021**	Acceptable		Special Mention		Substandard/ Doubtful		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 11,889,784	95.2%	$ 286,758	2.3%	$ 318,114	2.5%	$ 12,494,656	100.0%
Production and intermediate-term	3,439,105	92.5%	125,173	3.4%	150,481	4.1%	3,714,759	100.0%
Agribusiness	4,518,114	94.9%	150,420	3.2%	89,151	1.9%	4,757,685	100.0%
Other	2,348,914	99.7%	1,680	0.1%	5,532	0.2%	2,356,126	100.0%
Total	$ 22,195,917	95.2%	$ 564,031	2.4%	$ 563,278	2.4%	$ 23,323,226	100.0%

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	$ 21,380,585	94.1%	$ 714,514	3.1%	$ 646,062	2.8%	$ 22,741,161	100.0%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2021**	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	$ 38,011	$ 20,705	$ 58,716	$ 12,435,940	$ 12,494,656	$ --
Production and intermediate-term	20,445	26,867	47,312	3,667,447	3,714,759	--
Agribusiness	28,102	706	28,808	4,728,877	4,757,685	--
Other	8,991	3,968	12,959	2,343,167	2,356,126	2,792
Total	$ 95,549	$ 52,246	$ 147,795	$ 23,175,431	$ 23,323,226	$ 2,792

As of December 31, 2020	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	$ 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) As of:	**June 30, 2021**	December 31, 2020
Volume with specific allowance	**$ 64,966**	$ 53,132
Volume without specific allowance	**95,616**	96,440
Total risk loans	**$ 160,582**	$ 149,572
Total specific allowance	**$ 21,231**	$ 16,544
For the six months ended June 30	**2021**	2020
Income on accrual risk loans	**$ 395**	$ 443
Income on nonaccrual loans	**2,397**	2,828
Total income on risk loans	**$ 2,792**	$ 3,271
Average risk loans	**$ 160,918**	$ 161,117

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 June 30, 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) Six months ended June 30	**2021**		2020	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ 3,629	$ 3,779
Production and intermediate-term	**702**	**552**	1,930	1,729
Other	**--**	**--**	186	187
Total	**$ 702**	**$ 552**	$ 5,745	$ 5,695

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 six months ended June 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		**June 30, 2021**		December 31, 2020
Accrual status:				
Real estate mortgage	**$**	**7,963**	$	8,236
Production and intermediate-term		**612**		835
Other		**--**		--
Total TDRs in accrual status	**$**	**8,575**	$	9,071
Nonaccrual status:				
Real estate mortgage	**$**	**1,384**	$	1,541
Production and intermediate-term		**566**		510
Other		**172**		180
Total TDRs in nonaccrual status	**$**	**2,122**	$	2,231
Total TDRs:				
Real estate mortgage	**$**	**9,347**	$	9,777
Production and intermediate-term		**1,178**		1,345
Other		**172**		180
Total TDRs	**$**	**10,697**	$	11,302

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30		**2021**		2020
Balance at beginning of period	**$**	**89,157**	$	78,504
(Reversal of) provision for loan losses		**(10,439)**		30,000
Loan recoveries		**125**		200
Loan charge-offs		**(107)**		(7,886)
Balance at end of period	**$**	**78,736**	$	100,818

NOTE 3: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $1.1 billion at June 30, 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 $34.6 million as of June 30, 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 June 30, 2021, or December 31, 2020.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of June 30, 2021**		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average Yield
MBS and bonds	**$**	**727,769**	**$**	**23,017**	**$**	**(8,578)**	**$**	**742,208**	**3.6%**
ABS		**382,740**		**2,262**		**(3,264)**		**381,738**	**0.8%**
Total	**$**	**1,110,509**	**$**	**25,279**	**$**	**(11,842)**	**$**	**1,123,946**	**2.6%**

As of December 31, 2020		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average 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 $14.8 million and $19.9 million for the six months ended June 30, 2021, and 2020, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of June 30, 2021**		Amortized Cost
Less than one year	**$**	**567**
One to five years		**22,775**
Five to ten years		**268,078**
More than ten years		**819,089**
Total	**$**	**1,110,509**

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			
As of June 30, 2021		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
MBS and bonds	**$**	**215,701**	**$**	**(6,998)**	**$**	**22,838**	**$**	**(1,579)**
ABS		**67,008**		**(1,000)**		**152,258**		**(2,265)**
Total	**$**	**282,709**	**$**	**(7,998)**	**$**	**175,096**	**$**	**(3,844)**

	Less than 12 months				Greater than 12 months			
As of December 31, 2020		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
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: SUBORDINATED DEBT

In May 2021, we issued $150.0 million of aggregate principal amount of unsecured subordinated notes due on June 1, 2036, with an option to redeem all or some of the notes, at any time after a date 10 years from the closing date. The notes bear a fixed-to-floating interest rate of 3.375% per annum through May 31, 2031. Beginning June 1, 2031, the interest rate shall reset quarterly to an interest rate per annum equal to the then three-month term Secured Overnight Financing Rate (SOFR) plus 196.5 basis points. Concurrently, we issued $50.0 million of aggregate principal amount of unsecured subordinated notes due on June 1, 2031, with an option to redeem all or some of the notes, at any time after a date five years from the closing date. The notes bear a fixed-to-floating interest rate of 2.75% per annum through May 31, 2026. Beginning June 1, 2026, the interest rate shall reset quarterly to an interest rate per annum equal to the then three-month term SOFR plus 203.0 basis points. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of stock. Proceeds have increased our regulatory permanent capital and total capital ratios and position us for the future. The subordinated notes are not System-wide debt and are not an obligation of, nor guaranteed by any System entity. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund.

NOTE 5: CAPITAL

In May 2021, we issued $100.0 million of Series B-1 non-cumulative perpetual preferred stock, representing 100,000 shares at $1,000 per share par value. Costs of $2.4 million incurred with this preferred stock issuance are presented as a direct deduction of capital in the Consolidated Financial Statements. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used

the net proceeds from the Series B-1 preferred stock issuance to increase our permanent capital, tier 1 capital, and total capital ratios and for general corporate purposes, including to pay down a portion of our outstanding note payable to AgriBank.

Dividends on the Series B-1 preferred stock, if declared by the board of directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2021. Dividends will accrue at a fixed annual rate of 4.875% from the date of issuance through August 14, 2026, and beginning on August 15, 2026 will accrue at an annual rate equal to the five-year treasury rate, reset quarterly, plus 4.10%. The Series B-1 preferred stock is not mandatorily redeemable at any time. However, the Series B-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2026. In addition, the Series B-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series B-1 preferred stockholders do not have any voting rights, but along with Series A-1 preferred stockholders may appoint two board observers after six unpaid dividend payments.

The Series B-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 and B-1 preferred stock have the same ranking and are senior to outstanding Class B, C, or D common stock, Class E participation certificates, and patronage equities.

NOTE 6: 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.

In June 2021, we signed an agreement guaranteeing the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. The term of the line of credit is 36 months and may be extended. The guarantee is in effect until any outstanding balance is paid in full. While we are primarily liable for our pro-rata portion of SunStream's indebtedness to AgriBank, we are jointly and severally liable with certain other owners of SunStream. In the event of default by SunStream, we are responsible for the prompt and full payment of amounts outstanding. However, we may seek reimbursement from the remaining owners of SunStream subject to the guarantee agreement. There was no outstanding balance on the SunStream line of credit at June 30, 2021. At this time we believe it is unlikely that we will be required to make payment under this guarantee.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of June 30, 2021, our total commitment was $104.5 million of which $71.6 million was unfunded, with varying commitment end dates through December 2030. Certain commitments may have an option to extend under certain circumstances.

NOTE 7: 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 Basis

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 $1.7 billion and $51.5 million as of June 30, 2021, and December 31, 2020, respectively, which were valued using Level 3 inputs. A portion of these loans held for sale related to the July 1, 2021, sale of participation interests to AgriBank. Total fair value gains related to these loans were $23 thousand and $1.1 million for the six months ended June 30, 2021, and 2020, respectively, 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 $12.0 million and $62.8 million as of June 30, 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 $300 thousand for the six months ended June 30, 2021, compared to a loss of $2.8 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 Basis

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)

As of June 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 45,922**	**$ 45,922**
Other property owned	**--**	**--**	**303**	**303**

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

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 6, 2021, which is the date the Consolidated Financial Statements were available to be issued.

In previous periods we sold to AgriBank participation interests in primarily real estate loans as part of pool programs. Refer to the 2020 Annual Report for additional discussions on these pool programs. On July 1, 2021, we purchased the loans totaling $1.1 billion from these prior pool programs back from AgriBank at fair value. Additionally, we sold AgriBank participation interests totaling $1.6 billion. These participation interests represent a 10% participation across most of our loan portfolio. As a result, we had loans held for sale of $1.6 billion related to the sale of participation interests in certain loans to AgriBank on our Consolidated Statements of Condition at June 30, 2021. For further information see Note 2 in the Notes to Consolidated Financial Statements.

There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.