



**Quarterly Report  
June 30, 2022**

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

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA (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, 2021 (2021 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 2021 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

## **AGRICULTURAL AND ECONOMIC CONDITIONS**

Production agriculture comprises a significant portion of the overall Compeer portfolio, especially the grain, dairy, and swine industry segments. Supply chain, labor, and inflationary impacts have varied across these commodity segments, though overall margins have largely remained positive throughout the last several quarters. This generally favorable price environment has allowed producers greater ability to leverage risk management options to lock in profits throughout 2022.

The profitability outlook remains largely favorable across commodity segments through mid-year. While the Russian and Ukrainian conflict continues to affect global supply chains and feedstuffs, its impact to production agriculture has mainly been felt in input price increases (fertilizer, in particular) and elevated grain prices. International commodity flows continue to adjust to the evolving conflict, as well as related sanctions, which appear unlikely to be lifted in the near term. Producer margins are widely expected to remain positive, though the impacts from inflationary pressure, labor constraints, and transportation bottlenecks will ultimately dictate the level of individual profitability.

In its July 2022 World Agricultural Supply and Demand Estimate (WASDE), the United States Department of Agriculture (USDA) shifted corn production significantly from their recent acreage reporting due to greater planted and harvested acres. Overall ending stocks are forecast at 1.47 billion bushels on planted acres of 89.9 million. This level of planted acres is in contrast to the Prospective Plantings report (released in March), which forecasted 89.5 million planted acres. In all, tight remaining ending stocks for corn are expected to yield strong prices, as the current USDA forecasted annual average farm price is \$6.65 per bushel. For soybeans, USDA adjusted ending stocks lower on 2.6 million fewer harvested acres. Lower estimated production is partially offset by reductions in usage, though not enough to fully offset the impact to ending inventories. Already constricted ending soybean stocks are forecast to further tighten, with an expected season average price of \$14.40 per bushel.

The June 2022 USDA Milk Production report estimates U.S. production decreased year-over-year by 0.7%. This production decrease was largely driven by fewer cow numbers, as production per cow increased. The Class III Milk price forecast for 2022 remains favorable, with USDA forecasting an expected annual average of \$22.80 per hundredweight (cwt) produced. The WASDE report also estimates a 2022 all-milk price of \$26.15 per cwt, compared to \$18.53 per cwt in 2021 and \$18.13 per cwt in 2020. Benefiting from the strength in prices, Class IV milk (butter/dry products) slightly outperforms Class III, at \$24.70 per cwt. This represents a strong gain in Class IV from 2021, when it averaged \$16.09 per cwt. Strength across 2022 milk price forecasts sets producers up for a strong year, despite increased cost structure.

U.S. pork production as of June 2022 consisted of 72.5 million head, a 1% decrease from the same period in 2021. The USDA Hogs and Pigs report indicates the decrease was driven by both fewer year-over-year market and breeding hogs, though breeding hog inventory rose from the previous quarter. In forecasting the June-to-August quarter, USDA expects farrowing of 3.02 million sows, which is down 1% from year-ago levels. Ongoing issues related to

African Swine Fever continue to impact global supply and demand, hamper foreign pork producers, and drive demand for U.S. pork. Asia and Europe, in particular, continue to grapple with outbreaks of the disease, even as countries attempt to rebuild breeding herds.

In February 2022, USDA updated its net farm income forecast to \$113.7 billion, a \$5.4 billion decrease over 2021. The update also estimated net cash income for 2022 at \$136.1 billion, a \$1.9 billion year-over-year increase. The forecast assumes strength in crop, animal and animal product receipts that offset a \$15.5 billion decline in government payments. While revenue remains strong, farm expenses are also forecast to increase by \$20.1 billion, as inflation is expected across most expense categories, but particularly within feed and fertilizer expenditures.

Along with our 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 3.6% continues a trend of labor supply tightness. The strong labor market continues to benefit from a robust demand environment. As such, the Compeer housing portfolio continues to perform. While the quality of the portfolio remains sound, mortgage rates have seen upward momentum as the Federal Reserve has aggressively targeted inflation.

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 \$24.8 billion at June 30, 2022, an overall increase of \$266.4 million since December 31, 2021. This six-month growth was led by our capital markets sector, followed by overall growth within our food and agribusiness sector. These sector increases were offset by decreases within our core markets and swine sectors. The overall 2022 loan increase of \$266.4 million was made up of an increase in loans during the first quarter, offset by a decrease in loans during the second quarter. Factors contributing to the quarterly decrease include the normal seasonality and patterns of loan activity, with operating loans being paid down by clients as a result of grain sales. In addition, real estate mortgage loan growth slowed as a result of a broad-based slowing of land sales activity due to market uncertainty and higher interest rates.

### Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2021. Adversely classified loans decreased to 1.8% of the portfolio at June 30, 2022, from 1.9% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2022, \$1.3 billion of our loans were substantially guaranteed under these government programs.

### Risk Assets

#### Components of Risk Assets

(dollars in thousands)	June 30, 2022	December 31, 2021
As of:		
Loans:		
Nonaccrual	\$ 105,318	\$ 114,423
Accruing restructured	9,294	6,931
Accruing loans 90 days or more past due	10,833	9,091
Total risk loans	125,445	130,445
Other property owned	1,225	10,342
Total risk assets	\$ 126,670	\$ 140,787
Total risk loans as a percentage of total loans	0.5%	0.5%
Nonaccrual loans as a percentage of total loans	0.4%	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	72.0%	70.9%
Total delinquencies as a percentage of total loans	0.5%	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2021, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The overall decrease in nonaccrual loans was driven by broad-based activity on loans within the real estate and production portfolios, as well as a limited number of larger core markets and agribusiness loans being moved back to accrual status. Those decreases were offset by the movement of a limited number of swine sector loans to nonaccrual status. Nonaccrual loans remained at an acceptable level at June 30, 2022, and December 31, 2021.

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, 2022, and December 31, 2021, 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 various properties that had been associated with one food and agribusiness customer (whose loans were charged off in 2021). See the Fee and Other Non-Interest Income sub-section (within the Results of Operations section) for a discussion on the loss recognized on this sale.

### 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 loan balances as of the current date, as well as charge-offs and recoveries for the period. In addition, the calculation is based on a significant number of assumptions made by management. These assumptions include factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. Significant downturns in circumstances related to loan quality and economic conditions could result in the requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction (reversal) in the required allowance. The required level of allowance for loan losses is adjusted through the provision for loan losses expense. Provision for loan losses expense increases the allowance, while reversals of provision for loan losses expense decrease the allowance.

<b>Allowance Coverage Ratios</b>	<b>June 30,</b>	December 31,
As of:	<b>2022</b>	2021
Allowance as a percentage of:		
Loans	<b>0.2%</b>	0.3%
Nonaccrual loans	<b>52.3%</b>	55.7%
Total risk loans	<b>43.9%</b>	48.8%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2022. 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 rural residential mortgage program will be sold to and securitized by third party investors, Farmer Mac and Freddie Mac.

We sold loans originated under this program in the secondary market totaling \$60.7 million through June 30, 2022, compared to \$112.6 million for the same period in 2021. As of June 30, 2022, we had loans held for sale of \$30.4 million, compared to \$24.9 million as of December 31, 2021. While the amount of loans held increased when comparing these two dates, the amounts of loans both originated and sold under this program decreased during 2022 due to the rising interest rate environment.

### RESULTS OF OPERATIONS

#### Profitability Information

(dollars in thousands)

For the six months ended June 30	<b>2022</b>	2021
Net income	<b>\$ 251,742</b>	\$ 261,315
Return on average assets	<b>1.8%</b>	2.1%
Return on average equity	<b>11.2%</b>	12.6%

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)			Increase (decrease) in net income
For the six months ended June 30	2022	2021	
Net interest income	\$ 298,025	\$ 275,296	\$ 22,729
Reversal of provision for loan losses	(8,329)	(10,439)	(2,110)
Non-interest income	140,117	155,028	(14,911)
Non-interest expense	184,816	169,547	(15,269)
Provision for income taxes	9,913	9,901	(12)
Net income	<u>\$ 251,742</u>	<u>\$ 261,315</u>	<u>\$ (9,573)</u>

#### Net Interest Income

Net interest income increased as a result of overall loan growth during the six months ended June 30, 2022. See the Loans Held to Maturity section for discussion on this growth.

#### Non-Interest Income

The change in non-interest income was primarily due to the decrease in fee and other non-interest income, partially offset by increases in asset pool program patronage income and financially related services income.

**Fee and Other Non-Interest Income:** The decrease in fee and other non-interest income is primarily due to Paycheck Protection Program (PPP) fee income decreases. While we collected approximately \$18.4 million in fees during the six months ended June 30, 2021, as a PPP participating lender, this program has now ended, and as such, we had no fee income collected in association with this program during the same period of 2022. In addition, we had a \$4.9 million loss on the sale of other property owned during the six months ended June 30, 2022, which decreased "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

#### Non-Interest Expense

The change in non-interest expense was primarily due to increases in Farm Credit System insurance, other operating expense, and salaries and employee benefits.

**Farm Credit System Insurance:** The Farm Credit System insurance expense increased in 2022 due to a higher premium rate charged by the Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 20 basis points for the six months ended June 30, 2022, compared to a premium rate of 16 basis points for the first half of 2021. This premium rate increase is due to higher than anticipated growth within the Farm Credit System's insured debt obligations of about 10.2% in 2022. This increase will also allow the insurance fund to remain at the 2.0% 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:** Various items contributed to the overall increase in other operating expense. Our nonqualified pension restoration plan costs increased as a result of changes in assumptions related to the average remaining service years of plan participants. In addition, travel expenses increased due to gas and airline cost increases. Other items contributing to the overall operating expense increases included strategic investments in technology and increases in advertising costs.

**Salaries and Employee Benefits:** The "Salaries and employee benefits" expense line on the Consolidated Statements of Comprehensive Income includes salary, benefit, and variable compensation expenses. These expenses are all higher during the six months ended June 30, 2022, as compared to the same period during 2021, due to new employees brought on at the end of 2021 and throughout 2022 as the organization has grown.

### 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 sources of lendable funds are from equity and subordinated debt.

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, 2022, or December 31, 2021.

Total equity increased \$171.9 million from December 31, 2021, primarily due to net income for the period, which was partially offset by patronage distribution accruals, capital stock and participation certificates receivable, and preferred stock dividend 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 9 in our 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

**Regulatory Capital Requirements and Ratios**

As of:	June 30, 2022	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	13.3%	13.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	14.0%	14.6%	6.0%	2.5%	8.5%
Total capital ratio	15.0%	15.8%	8.0%	2.5%	10.5%
Permanent capital ratio	14.9%	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	14.1%	14.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	12.4%	14.7%	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 13 in our 2021 Annual Report.

**CERTIFICATION**

The undersigned have reviewed the June 30, 2022, 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.



David Peters  
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 5, 2022

# CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

(Unaudited)

As of:	June 30, 2022	December 31, 2021
<b>ASSETS</b>		
Loans held to maturity	\$ 24,756,530	\$ 24,490,167
Allowance for loan losses	55,124	63,700
Net loans held to maturity	24,701,406	24,426,467
Loans held for sale	30,431	24,896
Net loans	24,731,837	24,451,363
Unrestricted cash	2,400	2,400
Investment securities	1,128,870	1,125,961
Assets held for lease, net	126,359	119,515
Accrued interest receivable	191,091	170,502
Investment in AgriBank, FCB	766,287	751,956
Premises and equipment, net	87,393	84,411
Other assets	306,051	302,390
Total assets	\$ 27,340,288	\$ 27,008,498
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 21,986,893	\$ 21,900,691
Subordinated debt	200,000	200,000
Accrued interest payable	89,522	69,847
Deferred tax liabilities, net	53,863	47,261
Patronage distribution payable	222,270	209,319
Other liabilities	216,014	181,590
Total liabilities	22,768,562	22,608,708
Contingencies and commitments (Note 4)		
<b>EQUITY</b>		
Preferred stock	200,000	200,000
Capital stock and participation certificates	36,414	34,630
Capital stock and participation certificates receivable	(12,871)	(6,589)
Additional paid-in capital	1,780,603	1,780,603
Allocated surplus	267,697	267,939
Unallocated surplus	2,316,670	2,142,989
Accumulated other comprehensive loss	(16,787)	(19,782)
Total equity	4,571,726	4,399,790
Total liabilities and equity	\$ 27,340,288	\$ 27,008,498

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 June 30	Three Months Ended		Six Months Ended	
	2022	2021	2022	2021
<b>Interest income</b>	\$ 240,823	\$ 208,967	\$ 462,576	\$ 414,885
<b>Interest expense</b>	90,797	69,821	164,551	139,589
Net interest income	150,026	139,146	298,025	275,296
<b>Reversal of provision for loan losses</b>	(4,632)	(5,532)	(8,329)	(10,439)
Net interest income after reversal of provision for loan losses	154,658	144,678	306,354	285,735
<b>Non-interest income</b>				
Patronage income	42,040	41,708	81,192	78,266
Net operating lease income	2,226	1,030	3,604	1,959
Financially related services income	13,023	11,518	26,982	24,232
Fee and other non-interest income	16,798	22,641	28,339	50,571
Total non-interest income	74,087	76,897	140,117	155,028
<b>Non-interest expense</b>				
Salaries and employee benefits	55,448	55,902	110,041	106,102
Farm Credit System insurance	12,731	8,048	21,037	16,047
Other operating expense	24,166	22,875	47,064	42,731
Other non-interest expense	5,840	4,121	6,674	4,667
Total non-interest expense	98,185	90,946	184,816	169,547
Income before income taxes	130,560	130,629	261,655	271,216
<b>Provision for income taxes</b>	5,563	5,001	9,913	9,901
Net income	\$ 124,997	\$ 125,628	\$ 251,742	\$ 261,315
<b>Other comprehensive income</b>				
Employee benefit plans activity	\$ 1,497	\$ 495	\$ 2,995	\$ 990
Total other comprehensive income	1,497	495	2,995	990
Comprehensive income	\$ 126,494	\$ 126,123	\$ 254,737	\$ 262,305

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, 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)
<b>Balance at June 30, 2021</b>	<b>\$ 200,000</b>	<b>\$ 27,998</b>	<b>\$ 1,780,603</b>	<b>\$ 320,264</b>	<b>\$ 2,002,220</b>	<b>\$ (16,040)</b>	<b>\$ 4,315,045</b>
Balance at December 31, 2021	\$ 200,000	\$ 28,041	\$ 1,780,603	\$ 267,939	\$ 2,142,989	\$ (19,782)	\$ 4,399,790
Net income	--	--	--	--	251,742	--	251,742
Other comprehensive income	--	--	--	--	--	2,995	2,995
Redemption of allocated patronage	--	--	--	(242)	22	--	(220)
Preferred stock issued	--	--	--	--	--	--	--
Preferred stock dividend	--	--	--	--	(5,812)	--	(5,812)
Other distributions	--	--	--	--	(3,586)	--	(3,586)
Unallocated surplus designated for patronage distributions	--	--	--	--	(68,685)	--	(68,685)
Capital stock and participation certificates issued	--	5,433	--	--	--	--	5,433
Capital stock and participation certificates retired	--	(3,649)	--	--	--	--	(3,649)
Additions to capital stock and participation certificates receivable, net	--	(6,282)	--	--	--	--	(6,282)
<b>Balance at June 30, 2022</b>	<b>\$ 200,000</b>	<b>\$ 23,543</b>	<b>\$ 1,780,603</b>	<b>\$ 267,697</b>	<b>\$ 2,316,670</b>	<b>\$ (16,787)</b>	<b>\$ 4,571,726</b>

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 accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles 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, 2022, are not necessarily indicative of the results to be expected for the year ending December 31, 2022. 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, 2021 (2021 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.

#### 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 June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." 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. The development of our model to estimate credit losses for our loan portfolio is complete and a validation of the model was completed by an outside provider. Our processes and internal controls related to the model and the estimation of credit losses for loans are currently being designed. We are also evaluating the impact of the standard as it relates to our investment portfolio. We are in the process of drafting disclosures and accounting policies. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan and investment portfolios at the time of adoption.
In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance is effective at the same time that ASU 2016-13 is adopted.	This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings.	We intend to adopt the standard concurrently with the adoption of ASU 2016-13 as amended. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures required under ASU 2016-13.

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

#### Loans by Type

(dollars in thousands)

As of:	June 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Real estate mortgage	\$ 13,609,704	54.9%	\$ 13,410,996	54.8%
Production and intermediate-term	3,459,967	14.0%	4,115,583	16.8%
Agribusiness	5,214,225	21.1%	4,604,844	18.8%
Other	2,472,634	10.0%	2,358,744	9.6%
Total	\$ 24,756,530	100.0%	\$ 24,490,167	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 certain assets characterized as mission related investments. 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, 2022, or December 31, 2021.

### Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>As of June 30, 2022</b>								
Real estate mortgage	\$ 13,298,125	96.8%	\$ 158,524	1.2%	\$ 272,723	2.0%	\$ 13,729,372	100.0%
Production and intermediate-term	3,322,937	95.1%	81,783	2.3%	91,050	2.6%	3,495,770	100.0%
Agribusiness	5,012,581	95.8%	137,975	2.6%	84,240	1.6%	5,234,796	100.0%
Other	2,469,876	99.7%	2,399	0.1%	6,022	0.2%	2,478,297	100.0%
Total	\$ 24,103,519	96.7%	\$ 380,681	1.5%	\$ 454,035	1.8%	\$ 24,938,235	100.0%
<b>As of December 31, 2021</b>								
Real estate mortgage	\$ 12,982,494	96.1%	\$ 240,739	1.8%	\$ 290,393	2.1%	\$ 13,513,626	100.0%
Production and intermediate-term	3,936,362	94.8%	98,376	2.4%	115,329	2.8%	4,150,067	100.0%
Agribusiness	4,403,524	95.3%	155,827	3.4%	60,489	1.3%	4,619,840	100.0%
Other	2,357,109	99.7%	1,718	0.1%	5,677	0.2%	2,364,504	100.0%
Total	\$ 23,679,489	96.1%	\$ 496,660	2.0%	\$ 471,888	1.9%	\$ 24,648,037	100.0%

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 June 30, 2022</b>											
Real estate mortgage	\$ 42,662	\$ 15,105	\$ 57,767	\$ 13,671,605	\$ 13,729,372	\$ --					
Production and intermediate-term	7,818	10,637	18,455	3,477,315	3,495,770	886					
Agribusiness	90	1,847	1,937	5,232,859	5,234,796	--					
Other	30,102	10,864	40,966	2,437,331	2,478,297	9,947					
Total	\$ 80,672	\$ 38,453	\$ 119,125	\$ 24,819,110	\$ 24,938,235	\$ 10,833					
<b>As of December 31, 2021</b>											
Real estate mortgage	\$ 51,947	\$ 14,655	\$ 66,602	\$ 13,447,024	\$ 13,513,626	\$ --					
Production and intermediate-term	2,987	11,209	14,196	4,135,871	4,150,067	--					
Agribusiness	--	1,853	1,853	4,617,987	4,619,840	--					
Other	17,410	10,554	27,964	2,336,540	2,364,504	9,091					
Total	\$ 72,344	\$ 38,271	\$ 110,615	\$ 24,537,422	\$ 24,648,037	\$ 9,091					

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.

<b>Risk Loan Information</b>		
(in thousands)	June 30,	December 31,
As of:	2022	2021
Volume with specific allowance	\$ 32,216	\$ 46,287
Volume without specific allowance	93,229	84,158
Total risk loans	<u>\$ 125,445</u>	<u>\$ 130,445</u>
Total specific allowance	\$ 13,002	\$ 18,669
For the six months ended June 30	2022	2021
Income on accrual risk loans	\$ 429	\$ 395
Income on nonaccrual loans	4,158	2,397
Total income on risk loans	<u>\$ 4,587</u>	<u>\$ 2,792</u>
Average risk loans	\$ 131,780	\$ 160,918

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, 2022.

## 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 in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the six months ended June 30, 2022. We completed TDRs of certain production and intermediate-term loans during the six months ended June 30, 2021. Our recorded investment in these loans just prior to restructuring was \$702 thousand and immediately following the restructuring was \$552 thousand. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included interest rate reduction below market and deferral of principal.

There were no TDRs that defaulted during the six months ended June 30, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

<b>TDRs Outstanding</b>		
(in thousands)	June 30,	December 31,
As of:	2022	2021
Accrual status:		
Real estate mortgage	\$ 8,157	\$ 6,514
Production and intermediate-term	1,137	417
Other	--	--
Total TDRs in accrual status	<u>\$ 9,294</u>	<u>\$ 6,931</u>
Nonaccrual status:		
Real estate mortgage	\$ 1,283	\$ 3,453
Production and intermediate-term	2,135	3,098
Other	137	148
Total TDRs in nonaccrual status	<u>\$ 3,555</u>	<u>\$ 6,699</u>
Total TDRs:		
Real estate mortgage	\$ 9,440	\$ 9,967
Production and intermediate-term	3,272	3,515
Other	137	148
Total TDRs	<u>\$ 12,849</u>	<u>\$ 13,630</u>

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2022.

## Allowance for Loan Losses

### Changes in Allowance for Loan Losses

(in thousands)		2022	2021
Six months ended June 30			
Balance at beginning of period	\$	63,700	\$ 89,157
Reversal of provision for loan losses		(8,329)	(10,439)
Loan recoveries		286	125
Loan charge-offs		(533)	(107)
Balance at end of period	\$	55,124	\$ 78,736

### NOTE 3: INVESTMENT SECURITIES

We held investment securities of \$1.1 billion at June 30, 2022, and December 31, 2021. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal revenue bonds and corporate debt securities (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 of our investment securities, except \$48.6 million at June 30, 2022, compared to \$55.2 million at December 31, 2021, 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, 2022, or December 31, 2021.

#### Additional Investment Securities Information

(dollars in thousands)	Amortized	Unrealized	Unrealized	Fair	Weighted
As of June 30, 2022	Cost	Gains	Losses	Value	Average
					Yield
MBS and bonds	\$ 674,055	\$ 1,047	\$ (48,412)	\$ 626,690	3.4%
ABS	454,815	114	(23,996)	430,933	0.8%
Total	\$ 1,128,870	\$ 1,161	\$ (72,408)	\$ 1,057,623	2.4%

  

As of December 31, 2021	Amortized	Unrealized	Unrealized	Fair	Weighted
	Cost	Gains	Losses	Value	Average
					Yield
MBS and bonds	\$ 741,708	\$ 11,357	\$ (13,441)	\$ 739,624	3.9%
ABS	384,253	2,712	(3,611)	383,354	0.6%
Total	\$ 1,125,961	\$ 14,069	\$ (17,052)	\$ 1,122,978	2.8%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled \$13.2 million and \$14.8 million for the six months ended June 30, 2022, and 2021, respectively.

#### Contractual Maturities of Investment Securities

(in thousands)	
As of June 30, 2022	Amortized Cost
Less than one year	\$ 15,062
One to five years	23,194
Five to ten years	313,983
More than ten years	776,631
Total	\$ 1,128,870

Actual maturity of the 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 June 30, 2022</b>				
MBS and bonds	\$ 380,569	\$ (22,810)	\$ 199,704	\$ (25,602)
ABS	310,664	(15,089)	115,734	(8,907)
Total	\$ 691,233	\$ (37,899)	\$ 315,438	\$ (34,509)
	Less than 12 months		Greater than 12 months	
As of December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and bonds	\$ 275,664	\$ (7,370)	\$ 115,138	\$ (6,071)
ABS	105,618	(1,862)	110,123	(1,749)
Total	\$ 381,282	\$ (9,232)	\$ 225,261	\$ (7,820)

Unrealized losses greater than 12 months associated with 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.

Refer to Note 13 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

#### 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 2021 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 \$30.4 million and \$24.9 million as of June 30, 2022, and December 31, 2021, respectively, which were valued using Level 3 inputs. Total fair value losses related to these loans were \$88 thousand for the six months ended June 30, 2022, compared to a gain of \$23 thousand for the same period of 2021, 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 \$11.3 million and \$8.5 million as of June 30, 2022, and December 31, 2021, 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 \$1.1 million and \$300 thousand for the six months ended June 30, 2022, and 2021, respectively, which were recognized 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, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 20,175	\$ 20,175
Other property owned	--	--	1,241	1,241

  

As of December 31, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 28,999	\$ 28,999
Other property owned	--	--	15,876	15,876

### NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 5, 2022, 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.