COMPEER FINANCIAL

**Quarterly Report**
**September 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:


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

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


## FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 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 have been implemented to limit the spread of COVID-19, including the availability of vaccines, many or all restrictions have been lifted across the United States (U.S.). While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture. Most recently, the federal government has announced a vaccine mandate/testing mandate for certain employers and we expect this mandate will apply to our Association. 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 the grain, dairy, and swine sectors of production agriculture. While pandemic impacts vary, margins across each of these industries have largely remained positive since the initial onset of the pandemic, fueled by solid domestic and export demand. As a result of generally favorable prices, producer risk management options provided significant opportunities to lock in profits for 2021 production.

Through the end of the third quarter, 2021 largely remains a profitable year across numerous commodity segments. Favorable commodity prices have led to a slight reduction or moderation of export demand from previous levels. Tight inventory levels have kept prices at these above-average levels, limiting downside market risk. Conversely, the upward potential of these favorable prices has been similarly limited by supply chain, transportation, and labor issues driving inflation upward and cutting into profit margins. International supply chain issues have been complicated by variability in pandemic response, which has constrained supplies of goods at times. While expectations remain that the impact will be temporary, forecasts suggest it may be several quarters before these issues resolve.

While domestic pandemic restrictions have eased and allowed resumption of activity to near normal levels, weather emerged as a significant headwind for 2021 crop production. From drought to excess rain, widespread weather events created significant variability across a significant portion of the U.S. Fortunately, strong spring prices provided producers risk management opportunities in the form of favorable crop insurance revenue guarantees. More favorable growing conditions toward the end of summer allowed national yields to remain near trend line, though ending stocks may remain tight into 2022. This is positive news for those with grain to sell, yet it would tighten margins for those feeding grain to livestock or most other users.

In the October 2021 World Agricultural Supply and Demand Estimate (WASDE), the United States Department of Agriculture (USDA) adjusted corn export demand upward slightly, but lowered expected demand for feed and residual use. The slightly weaker expected aggregate demand, coupled with a slight boost in expected production, results in a 92 million bushel increase in corn ending stocks. Nevertheless, higher expected ending stocks did not result in a movement of seasonal prices as they remained unchanged at $5.45 per bushel. The USDA adjusted soybean demand slightly, forecasting stable exports and a higher than expected usage. Despite the marginal increase in demand, forecast ending stocks were 135 million bushels higher, as the USDA moved expected production upward by 0.9 bushels per acre. While ending stocks remain relatively tight, the USDA did lower the season average price to $12.35 per bushel on the expected inventory increase.

The September 2021 USDA Milk Production report estimates U.S. production increased year-over-year, by 1.1%. Production increase was largely driven by greater cow numbers, as production per cow declined slightly. For Class III Milk, the WASDE report increased the expected annual average to $17.05 per hundredweight (cwt) produced, which suggests producers should break-even for 2021. The 2022 Class III forecast is similar, at $17.10 per cwt. The WASDE report also estimates a 2021 all-milk price of $18.45 per cwt, compared to $18.24 per cwt in 2020 and $19.20 per cwt in 2022. 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 $15.70 per cwt (or $1.35 per cwt below Class III), though it is $2.21 above the 2020 Class IV price, and the lag in price is expected to disappear in 2022 ($17.15 per cwt expected). 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 September 2021, consisted of 75.4 million head, a 4% 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 market hog inventory rose from the previous quarter. In forecasting the September-to-November quarter, the USDA expects farrowing of 3 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. Asia, in particular, continues to grapple with outbreaks of the disease, even as countries attempt to rebuild breeding herds.

In September, the USDA updated its net farm income forecast to $113 billion, an $18.5 billion increase over 2020. The update also estimated net cash income for 2021 at $134.7 billion, a $23.8 billion year-over-year increase. The forecast assumes strong crop receipts, driven largely by corn and soybeans, and animal/animal product (hogs, beef cattle, chicken) revenues more than offset a $17.7 billion decline in government payments. While revenue growth remains strong, farm expenses are also forecast to increase by $26.1 billion as inflation is expected across most expense categories.

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 4.8% 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 remain near historic lows, continuing to drive strength in new home purchases and refinance activity. Where necessary during the last 18 months, when clients were financially impacted by the COVID-19 pandemic, Compeer followed guidance by the Federal Home Mortgage agencies and the Federal Coronavirus Aid, Relief, and Economic Security Act to provide assistance, including forbearance, to both on-balance sheet and serviced loans. Client requests for this assistance have become very low as we have progressed throughout 2021.

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 $22.9 billion at September 30, 2021, an increase of $343.0 million from December 31, 2020. The increase was driven by growth in our Agri-Access sector, offset by decreases in our swine, food, and agribusiness sectors. Real estate mortgage increases, including those within our Agri-Access sector, are primarily due to strong loan demand, as land sale activity has increased, and refinancing activity continues due to low interest rates. Production loans within our food and agribusiness sector decreased during the period due to normal seasonality.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and when certain requirements are fulfilled, loan forgiveness. Since inception of the program in 2020, we have successfully processed $328.1 million in PPP loans for customers with primarily production and intermediate-term type loans. After the forgiveness of a substantial portion of these PPP loans that already occurred, $62.1 million remained outstanding at September 30, 2021.

### Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2020. Adversely classified loans decreased to 2.3% of the portfolio at September 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 September 30, 2021, $1.4 billion of our loans were substantially guaranteed under these government programs.

### Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 133,874** | $ 137,350 |
| Accruing restructured | **7,243** | 9,071 |
| Accruing loans 90 days or more past due | **7,086** | 3,151 |
| Total risk loans | **148,203** | 149,572 |
| Other property owned | **662** | 3,040 |
| Total risk assets | **$ 148,865** | $ 152,612 |
| Total risk loans as a percentage of total loans | **0.6%** | 0.7% |
| Nonaccrual loans as a percentage of total loans | **0.6%** | 0.6% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **55.3%** | 62.2% |
| Total delinquencies as a percentage of total loans | **0.5%** | 0.5% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2020, and have remained at acceptable levels. 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 September 30, 2021, and December 31, 2020.

The increase in accruing loans 90 days or more past due was primarily due to two bonds originated under our mission related investment authority becoming more than 90 days past due; however, these loans were fully guaranteed under government programs. 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 September 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. These assumptions are reviewed on an ongoing basis as part of the preparation of the quarterly calculation and updated as necessary. 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 nine months ended September 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: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.3%** | 0.4% |
| Nonaccrual loans | **49.6%** | 64.9% |
| Total risk loans | **44.8%** | 59.6% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 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 September 30, 2021, the volume in this program was $37.2 million, a $14.3 million decrease from December 31, 2020. The decrease was the result of loans being sold to and securitized by third party investors, which was partially offset by loans held for sale being originated.

We sold loans in the secondary market totaling $173.0 million through September 30, 2021, compared to $223.9 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.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the nine months ended September 30 | **2021** | 2020 |
|---|---|---|
| Net income | **$ 381,072** | $ 326,932 |
| Return on average assets | **2.0%** | 1.9% |
| Return on average equity | **12.1%** | 11.1% |

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)<br>For the nine months ended September 30 | **2021** | 2020 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$ 410,132** | $ 382,434 | **$ 27,698** |
| (Reversal of) provision for loan losses | **(21,963)** | 29,808 | **51,771** |
| Non-interest income | **224,261** | 205,593 | **18,668** |
| Non-interest expense | **258,623** | 219,654 | **(38,969)** |
| Provision for income taxes | **16,661** | 11,633 | **(5,028)** |
| Net income | **$ 381,072** | $ 326,932 | **$ 54,140** |

### Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the nine months ended September 30 | **2021 vs 2020** |
|---|---|
| Changes in volume | **$ 38,006** |
| Changes in interest rates | **(6,158)** |
| Changes in asset securitization | **82** |
| Changes in nonaccrual income and other | **(4,232)** |
| Net change | **$ 27,698** |

As noted above, significant growth in our loan balances has driven the increase in net interest income for the year, which is slightly offset by the ongoing low interest rate environment and competition.

### (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 nine months ended September 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 improve, and net loan charge-offs remain at historically low levels. These positive factors impacted the allowance for loan losses balance resulting from our September 30, 2021, allowance calculation, and also caused us to update qualitative assumptions utilized within the allowance model. In addition, the allowance for loan losses held on the loans sold to AgriBank as part of the vertical asset pool loan program on July 1, 2021, were removed at the time of the sale. As a result of these factors, our September 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 Expense

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

**Farm Credit System Insurance:** The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 16 basis points for the nine months ended September 30, 2021, compared to a premium rate of 8 basis points for the first half of 2020 and 11 basis points for the second half of

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 2.0% 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:** The increase in other operating expense was driven by strategic investments in software, innovation projects, and professional consulting fees.

**Other Non-Interest Expense:** The increase in other non-interest expense was due to fair value losses of $5.1 million on loans sold to AgriBank as part of the vertical asset pool loan program on July 1, 2021. In addition, non-interest expense increased due to issuance costs incurred as part of Compeer's subordinated debt offering in May 2021. See Note 4 for further information on the subordinated debt offering.

**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.

### 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 September 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 $369.3 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: | **September 30, 2021** | December 31, 2020 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **14.1%** | 14.3% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **14.9%** | 14.7% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **16.1%** | 15.2% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **16.0%** | 15.0% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **15.1%** | 14.8% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **15.0%** | 14.6% | 1.5% | N/A | 1.5% |

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

## CERTIFICATION

The undersigned have reviewed the September 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

November 4, 2021

# CONSOLIDATED STATEMENTS OF CONDITION

*Compeer Financial, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | | **September 30, 2021** | | December 31, 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans held to maturity | **$** | **22,928,136** | $ | 22,585,104 |
| Allowance for loan losses | | **66,444** | | 89,157 |
| Net loans held to maturity | | **22,861,692** | | 22,495,947 |
| Loans held for sale | | **37,238** | | 51,541 |
| Net loans | | **22,898,930** | | 22,547,488 |
| Unrestricted cash | | **2,400** | | 2,300 |
| Investment securities | | **1,095,228** | | 1,149,438 |
| Assets held for lease, net | | **100,768** | | 93,015 |
| Accrued interest receivable | | **202,094** | | 171,798 |
| Investment in AgriBank, FCB | | **731,287** | | 662,203 |
| Premises and equipment, net | | **81,069** | | 76,711 |
| Other assets | | **270,757** | | 239,318 |
| Total assets | **$** | **25,382,533** | $ | 24,942,271 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **20,412,847** | $ | 20,458,004 |
| Subordinated debt | | **200,000** | | -- |
| Accrued interest payable | | **69,752** | | 66,806 |
| Deferred tax liabilities, net | | **31,754** | | 26,720 |
| Patronage distribution payable | | **103,619** | | 203,758 |
| Other liabilities | | **169,055** | | 160,735 |
| Total liabilities | | **20,987,027** | | 20,916,023 |
| Contingencies and commitments (Note 6) | | | | |
| **EQUITY** | | | | |
| Preferred stock | | **200,000** | | 100,000 |
| Capital stock and participation certificates | | **34,331** | | 33,842 |
| Capital stock and participation certificates receivable | | **(6,388)** | | (5,576) |
| Additional paid-in capital | | **1,780,603** | | 1,780,603 |
| Allocated surplus | | **320,133** | | 321,115 |
| Unallocated surplus | | **2,082,372** | | 1,813,294 |
| Accumulated other comprehensive loss | | **(15,545)** | | (17,030) |
| Total equity | | **4,395,506** | | 4,026,248 |
| Total liabilities and equity | **$** | **25,382,533** | $ | 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 | | Nine Months Ended | |
|---|---|---|---|---|
| *For the period ended September 30* | **2021** | 2020 | **2021** | 2020 |
| **Interest income** | **$ 212,795** | $ 207,513 | **$ 627,680** | $ 653,656 |
| **Interest expense** | **77,959** | 71,881 | **217,548** | 271,222 |
| Net interest income | **134,836** | 135,632 | **410,132** | 382,434 |
| **(Reversal of) provision for loan losses** | **(11,524)** | (192) | **(21,963)** | 29,808 |
| Net interest income after (reversal of) provision for loan losses | **146,360** | 135,824 | **432,095** | 352,626 |
| **Non-interest income** | | | | |
| Patronage income | **42,499** | 41,194 | **120,765** | 114,632 |
| Net operating lease income | **1,379** | 1,066 | **3,338** | 2,766 |
| Financially related services income | **9,879** | 9,971 | **34,111** | 33,472 |
| Allocated Insurance Reserve Accounts distribution | **--** | -- | **--** | 4,268 |
| Fee and other non-interest income | **15,476** | 17,002 | **66,047** | 50,455 |
| Total non-interest income | **69,233** | 69,233 | **224,261** | 205,593 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **52,656** | 49,286 | **158,758** | 150,474 |
| Farm Credit System insurance | **7,535** | 5,063 | **23,582** | 12,300 |
| Other operating expense | **22,778** | 18,198 | **65,509** | 54,820 |
| Other non-interest expense | **6,107** | 384 | **10,774** | 2,060 |
| Total non-interest expense | **89,076** | 72,931 | **258,623** | 219,654 |
| Income before income taxes | **126,517** | 132,126 | **397,733** | 338,565 |
| **Provision for income taxes** | **6,760** | 6,144 | **16,661** | 11,633 |
| Net income | **$ 119,757** | $ 125,982 | **$ 381,072** | $ 326,932 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 495** | $ 339 | **$ 1,485** | $ 1,019 |
| Total other comprehensive income | **495** | 339 | **1,485** | 1,019 |
| Comprehensive income | **$ 120,252** | $ 126,321 | **$ 382,557** | $ 327,951 |

*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 | -- | -- | -- | -- | 326,932 | -- | 326,932 |
| Other comprehensive income | -- | -- | -- | -- | -- | 1,019 | 1,019 |
| Redemption of allocated patronage | -- | -- | -- | (238) | 23 | -- | (215) |
| Preferred stock issued | -- | -- | -- | -- | -- | -- | -- |
| Preferred stock dividend | -- | -- | -- | -- | (6,750) | -- | (6,750) |
| Other distributions | -- | -- | -- | -- | -- | -- | -- |
| Unallocated surplus designated for patronage distributions | -- | -- | -- | -- | (90,135) | -- | (90,135) |
| Capital stock and participation certificates issued | -- | 3,062 | -- | -- | -- | -- | 3,062 |
| Capital stock and participation certificates retired | -- | (2,402) | -- | -- | -- | -- | (2,402) |
| Capital stock and participation certificates receivable, net | -- | (5,628) | -- | -- | -- | -- | (5,628) |
| Balance at September 30, 2020 | $ 100,000 | $ 27,769 | $ 1,780,603 | $ 373,660 | $ 1,761,894 | $ (10,633) | $ 4,033,293 |
| Balance at December 31, 2020 | $ 100,000 | $ 28,266 | $ 1,780,603 | $ 321,115 | $ 1,813,294 | $ (17,030) | $ 4,026,248 |
| Net income | **--** | **--** | **--** | **--** | **381,072** | **--** | **381,072** |
| Other comprehensive income | **--** | **--** | **--** | **--** | **--** | **1,485** | **1,485** |
| Redemption of allocated patronage | **--** | **--** | **--** | **(982)** | **91** | **--** | **(891)** |
| Preferred stock issued | **100,000** | **--** | **--** | **--** | **(2,420)** | **--** | **97,580** |
| Preferred stock dividend | **--** | **--** | **--** | **--** | **(9,025)** | **--** | **(9,025)** |
| Other distributions | **--** | **--** | **--** | **--** | **(5,040)** | **--** | **(5,040)** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **--** | **--** | **(95,600)** | **--** | **(95,600)** |
| Capital stock and participation certificates issued | **--** | **3,280** | **--** | **--** | **--** | **--** | **3,280** |
| Capital stock and participation certificates retired | **--** | **(2,791)** | **--** | **--** | **--** | **--** | **(2,791)** |
| Additions to capital stock and participation certificates receivable, net | **--** | **(812)** | **--** | **--** | **--** | **--** | **(812)** |
| **Balance at September 30, 2021** | **$ 200,000** | **$ 27,943** | **$ 1,780,603** | **$ 320,133** | **$ 2,082,372** | **$ (15,545)** | **$ 4,395,506** |

*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 nine months ended September 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

**Loans by Type**

(dollars in thousands)

| As of: | **September 30, 2021** | | December 31, 2020 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Real estate mortgage | **$ 12,702,531** | **55.4%** | $ 11,708,049 | 51.9% |
| Production and intermediate-term | **3,536,952** | **15.4%** | 4,069,993 | 18.0% |
| Agribusiness | **4,370,977** | **19.1%** | 4,634,460 | 20.5% |
| Other | **2,317,676** | **10.1%** | 2,172,602 | 9.6% |
| Total | **$ 22,928,136** | **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 September 30, 2021, or December 31, 2020.

**Credit Quality of Loans**

| (dollars in thousands) | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| **As of September 30, 2021** | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 12,296,218** | **95.8%** | **$ 226,606** | **1.8%** | **$ 313,615** | **2.4%** | **$ 12,836,439** | **100.0%** |
| Production and intermediate-term | **3,359,600** | **94.0%** | **88,773** | **2.5%** | **126,520** | **3.5%** | **3,574,893** | **100.0%** |
| Agribusiness | **4,173,844** | **95.2%** | **129,369** | **3.0%** | **80,975** | **1.8%** | **4,384,188** | **100.0%** |
| Other | **2,312,062** | **99.5%** | **6,400** | **0.3%** | **5,498** | **0.2%** | **2,323,960** | **100.0%** |
| Total | **$ 22,141,724** | **95.7%** | **$ 451,148** | **2.0%** | **$ 526,608** | **2.3%** | **$ 23,119,480** | **100.0%** |

| | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2020 | 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)<br>**As of September 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 | **$ 23,849** | **$ 18,869** | **$ 42,718** | **$ 12,793,721** | **$ 12,836,439** | **$ 260** |
| Production and intermediate-term | **3,146** | **14,208** | **17,354** | **3,557,539** | **3,574,893** | **52** |
| Agribusiness | **1,565** | **22,816** | **24,381** | **4,359,807** | **4,384,188** | **--** |
| Other | **14,475** | **8,153** | **22,628** | **2,301,332** | **2,323,960** | **6,774** |
| Total | **$ 43,035** | **$ 64,046** | **$ 107,081** | **$ 23,012,399** | **$ 23,119,480** | **$ 7,086** |

| 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)<br>As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Volume with specific allowance | **$ 56,696** | $ 53,132 |
| Volume without specific allowance | **91,507** | 96,440 |
| Total risk loans | **$ 148,203** | $ 149,572 |
| Total specific allowance | **$ 23,142** | $ 16,544 |
| For the nine months ended September 30 | **2021** | 2020 |
| Income on accrual risk loans | **$ 550** | $ 661 |
| Income on nonaccrual loans | **1,063** | 5,005 |
| Total income on risk loans | **$ 1,613** | $ 5,666 |
| Average risk loans | **$ 158,397** | $ 156,909 |

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

**TDR Activity**

| (in thousands)<br>Nine months ended September 30 | **2021** | | 2020 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 1,490** | **$ 2,165** | $ 3,912 | $ 4,062 |
| Production and intermediate-term | **3,974** | **3,451** | 1,930 | 1,729 |
| Other | **--** | **--** | 186 | 187 |
| Total | **$ 5,464** | **$ 5,616** | $ 6,028 | $ 5,978 |

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

**TDRs Outstanding**

| (in thousands)<br>As of: | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$ 6,844** | $ 8,236 |
| Production and intermediate-term | **399** | 835 |
| Other | **--** | -- |
| Total TDRs in accrual status | **$ 7,243** | $ 9,071 |
| Nonaccrual status: | | |
| Real estate mortgage | **$ 3,675** | $ 1,541 |
| Production and intermediate-term | **3,215** | 510 |
| Other | **151** | 180 |
| Total TDRs in nonaccrual status | **$ 7,041** | $ 2,231 |
| Total TDRs: | | |
| Real estate mortgage | **$ 10,519** | $ 9,777 |
| Production and intermediate-term | **3,614** | 1,345 |
| Other | **151** | 180 |
| Total TDRs | **$ 14,284** | $ 11,302 |

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

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Nine months ended September 30 | **2021** | 2020 |
|---|---|---|
| Balance at beginning of period | **$ 89,157** | $ 78,504 |
| (Reversal of) provision for loan losses | **(21,963)** | 29,808 |
| Loan recoveries | **168** | 333 |
| Loan charge-offs | **(918)** | (10,878) |
| Balance at end of period | **$ 66,444** | $ 97,767 |

## NOTE 3: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $1.1 billion at September 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 $39.6 million as of September 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 September 30, 2021, or December 31, 2020.

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

| (dollars in thousands)<br>**As of September 30, 2021** | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Weighted Average Yield |
|---|---|---|---|---|---|
| MBS and bonds | **$ 724,060** | **$ 16,702** | **$ (10,559)** | **$ 730,203** | **4.1%** |
| ABS | **371,168** | **2,603** | **(3,767)** | **370,004** | **0.6%** |
| Total | **$ 1,095,228** | **$ 19,305** | **$ (14,326)** | **$ 1,100,207** | **2.9%** |

| 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 $24.2 million and $28.1 million for the nine months ended September 30, 2021, and 2020, respectively.

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

| (in thousands)<br>**As of September 30, 2021** | Amortized Cost |
|---|---|
| Less than one year | **$ 15,321** |
| One to five years | **13,815** |
| Five to ten years | **258,001** |
| More than ten years | **808,091** |
| Total | **$ 1,095,228** |

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 September 30, 2021** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| MBS and bonds | **$ 261,338** | **$ (8,474)** | **$ 37,593** | **$ (2,084)** |
| ABS | **110,819** | **(1,158)** | **136,375** | **(2,610)** |
| Total | **$ 372,157** | **$ (9,632)** | **$ 173,968** | **$ (4,694)** |

| | 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 Business Services (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 September 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 September 30, 2021, our total commitment was $104.5 million of which $62.9 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 $37.2 million and $51.5 million as of September 30, 2021, and December 31, 2020, respectively, which were valued using Level 3 inputs. Total fair value losses related to these loans were $11 thousand for the nine months ended September 30, 2021, compared to a gain of $288 thousand for the same period of 2020, which were recognized in “Fee and other non-interest income” in the Consolidated Statements of Comprehensive Income.

**Derivatives:** If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $13.5 million and $62.8 million as of September 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 $141 thousand for the nine months ended September 30, 2021, compared to a loss of $3.7 million for the same period of 2020, 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 September 30, 2021** | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans | **$ --** | **$ --** | **$ 35,232** | **$ 35,232** |
| 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 November 4, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.