Quarterly Report
September 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 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 the AgriBank or the AgriBank District 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
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30 East 7th Street, Suite 1600
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MERGER ACTIVITY

We are committed to the success of agriculture, rural communities and most importantly, our client-owners. Every day, we partner with our clients to deliver the insights and expert guidance they have come to expect and count on from their financial services provider. To be that trusted advisor, we are consistently looking for ways to better serve our clients and return value to our stockholders. It's a business objective we've been committed to for the long haul and one we believe matches the strides of our clients – constantly evolving and growing to better our operation.

In August 2016, the Boards of Directors of 1st Farm Credit Services, ACA (1st FCS), AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA (Badgerland) unanimously voted in favor of recommending a merger to our client-owners. A merger application was filed with our regulator, the Farm Credit Administration (FCA), in the third quarter of 2016. On April 7, 2017, our stockholders approved the proposed merger. Effective May 1, 2017, the Board of Directors of 1st FCS, AgStar, and Badgerland approved to operate under joint management where AgStar's CEO, Rod Hebrink, served as CEO of all three associations. The FCA granted final approval in June and the merger was effective July 1, 2017. The merged Association is operating under the name of Compeer Financial, ACA with the headquarters located in Sun Prairie, Wisconsin. The merger of these three organizations strengthens our commitment to the agricultural and rural communities we serve. Visit www.compeer.com for more information.

1st FCS served the northern 42 counties of Illinois. Badgerland served the southern 33 Wisconsin counties; and AgStar served 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on client relationships and commitment to rural communities and agriculture are closely aligned.

The effects of the merger with 1st FCS and Badgerland are included in our financial position, results of operations and related metrics beginning July 1, 2017. Prior year results have not been restated to reflect the impact of the merger. Results of operations and equity reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Upon the closing of the merger, loans increased $9.1 billion, assets increased by $9.9 billion, liabilities increased by $7.9 billion, and equity increased by $2.0 billion. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

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 2016 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

We serve many sectors in agriculture including our primary industries of grain, dairy, and swine. Additionally, we serve the rural housing, energy, and food processing and distribution segments. Economic and agricultural conditions changed very little in the first three quarters of 2017. Profitability prospects remain challenging, particularly for grain producers. While many grain clients enjoy large equity positions, tight margins are taking their toll on client financial positions. Future deterioration could occur particularly if lower grain margins persist beyond 2017.

Within the October 12, 2017, World Agricultural Supply and Demand Estimates (WASDE), the United States Department of Agriculture (USDA) projects 2017/18 U.S. corn production at 14.3 billion bushels, or 5.7% fewer than the estimated 2016/17 production, on an estimated 6% decline in harvested acreage. Wet weather in the central and eastern Corn Belt boosted soil moisture but ultimately slowed pre-planting fieldwork in March. Overall, the contiguous United States experienced its eleventh wettest spring during the 123-year period of record. Projected average yields are 171.8 bushels per acre, down 1.6% from last season. Production is expected to be marginally higher compared to the USDA projection of the second quarter on expectations for a larger crop. Estimates for 2017/18 season-average corn price received by producers is $2.80 to $3.60 per bushel, slightly lower than three months ago, and compares to an estimated $3.25 to $3.45 for the previous crop year. The USDA projection for 2017/18 soybean production is 4.4 billion bushels, also higher than the second quarter estimate. While yields are projected down 5% to 49.5 bushels per acre, the amount of harvested acres is estimated to be up 8%. Ending stocks are projected at 430 million bushels, and if realized, relative to use would be the highest since 2006/07. The 2017/18 season-average soybean price is projected at $8.35 to $10.05 per bushel surrounding the estimated $9.47 per bushel for the previous crop year.

Weather conditions and some lack of maturity has slowed harvest in a number of areas across the United States. By October 15, only 47% of Illinois corn acres were harvested, compared to 71% a year ago. Only 7% of Minnesota acres were harvested compared to 29% a year ago, and an average of 38% between 2012 and 2016. In Wisconsin, 70% of the corn acreage is deemed mature compared to 95% of a year ago. The Illinois, Wisconsin, and Minnesota corn crop is rated 63%, 72%, and 81% good to excellent, respectively. The pace of the 2017 U.S. soybean harvest is also slower than normal, although it has not fallen behind as dramatically as corn. Illinois and Wisconsin appear on historical track for soybean harvest, whereas Minnesota remains well behind its historical pace. Conditions in soybeans align with that of corn.

On the dairy side, milk production as of September in the 23 major dairy states is up 2.1% compared to a year ago, on a slightly more rapid pace of growth in milk per cow. Production per cow in those states averaged 1,948 pounds for last August, 26 pounds above a year earlier. This is the highest production per cow for the month of August since the USDA 23 State series began in 2003. WASDE forecasts that milk production across the country is expected to increase 3.8 billion pounds in 2017 and an additional 4.2 billion in 2018. In the same periods, imports are forecasted down slightly over one billion cumulatively, and exports up near an equivalent amount. Domestic commercial use and exports are expected to slightly outpace growth in domestic commercial supply through 2018. The USDA estimates an average price received by farmers for all milk of $17.75 to $17.85 per cwt in 2017, up significantly from the $16.30 received in 2016. Offsetting the higher price, tight processor capacity is resulting in lower basis payments, particularly in segments of the Upper Midwest. We expect many dairy operators will be around break-even in 2017 unless the spot price of milk materially improves/declines.

The USDA expects a continuing trend in pork production with 3.5% and 4% increases in 2017 and 2018, respectively. Despite seeing an increase in domestic per capita consumption and a growth in exports, the USDA does not forecast demand to rise as fast as expected production. Hog margins were unfavorable for much of 2016. While they have rebounded with higher hog prices in the first half of 2017, margins remain average despite new processing capacity that has begun to come online, and even went negative at the end of the third quarter. As of September 1, there were 73.5 million hogs and pigs on U.S. farms, up 2.5% from a year ago according to the Quarterly Hogs and Pigs report published by the National Agricultural Statistics Service. Hog producers intend to farrow 3.1 million sows during the September to November 2017 period, up slightly from the same period a year ago. Pork exports out of the United States are up 9% year-to-date, and export demand is expected to increase through 2018, particularly to Mexico. The industry continues to monitor the progress of discussions of U.S. Trade Representatives as it relates to the North American Free Trade Agreement.

Following a period of more than 25 years of steadily increasing values, farmland prices are enduring a period of moderation. Farmland values in the upper Midwest have experienced modest declines, with some areas seeing sequential declines over the past three years. Moderation across the region is expected to continue as we progress through 2017 in response to lower commodity prices. According to a USDA August 2017 survey, the U.S. farm real estate value, a measurement of the value of all land and buildings on farms, increased 2.3% from 2016 values, and cropland remained flat. Cropland values in the Corn Belt declined 0.6% with a 1.3% decline in Illinois, the second year in a row of 1.3% decline. Minnesota values increased 1.1%, and Wisconsin jumped 6.1%. Given solid net worth positions and conservative borrowing characteristics, U.S. agriculture is well positioned to handle a decline in land values without enduring significant financial stress and hardship. Additionally, the moderation in land values has the potential to lead to declines in cash rents. According to USDA, cash rents for non-irrigated cropland in Illinois declined 1.4% and Minnesota declined by 2.4%. Wisconsin rents increased 1.5% in 2017.

The economy continues to generate a number of positive economic signals for the housing market. Home ownership in the U.S. is now 63.7%, which is just off 50-year lows. According to the CoreLogic Home Pricing Index (HPI), home prices nationwide increased by 6.7% year over year in July 2017. The overall HPI has increased on a year-over-year basis every month since February 2012, but prices are still 0.5% below the April 2006 peak. Home prices have risen 49.1% since bottoming out in March 2011, and are expected to increase by 5% from July 2017 to July 2018. Additionally, the U.S. Bureau of Labor Statistics reports that the national unemployment rate remains near a multi-year low at 4.4%. The current economy, low interest rates, and housing prices have made the environment good for new home buyers.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $16.9 billion at September 30, 2017, an increase of $8.8 billion from December 31, 2016. The increase was primarily due to the merger with 1st FCS and Badgerland, which was partially offset by the sale of participation interests in real estate loans of $446.1 million to the AgriBank Asset Pool program on September 1, 2017. As a result of asset pool sale, we were required to purchase additional AgriBank stock in order to maintain the required investment equal to 8.0% of the loans we have sold under this program. The Consumer Mortgage Asset Pool program, began during the third quarter of 2017 with an initial sale of $107.8 million of consumer real estate loans on September 1, 2017, which also offset the increase in loans. This program provides a source of funding for consumer mortgage products offered to eligible borrowers. These consumer loans will be originated by Compeer and

periodically sold as a 90.0% participation to AgriBank. We are required to hold AgriBank stock equal to 8.0% of the quarter end balance of loans originated in our territory and placed in the Consumer Mortgage Asset Pool program.

Portfolio Credit Quality

Adversely classified loans decreased to 2.4% of the portfolio at September 30, 2017, from 2.9% of the portfolio at December 31, 2016. The decrease in adversely classified loans was primarily due to the merger with 1st FCS and Badgerland. As of June 30, 2017, 1.5% and 2.2% of the 1st FCS and Badgerland portfolios, respectively, were adversely classified. 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 government agency guarantee programs are used to reduce the risk of loss. At September 30, 2017, $1.3 billion of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2017**	December 31 2016
Loans:		
Nonaccrual	**$ 95,369**	$ 60,861
Accruing restructured	**11,911**	24,417
Accruing loans 90 days or more past due	**5,391**	738
Total risk loans	**112,671**	86,016
Other property owned	**1,413**	840
Total risk assets	**$ 114,084**	$ 86,856
Total risk loans as a percentage of total loans	**0.7%**	1.0%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**45.5%**	54.4%
Total delinquencies as a percentage of total loans	**0.6%**	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets increased from December 31, 2016, primarily due to the merger with 1st FCS and Badgerland, but remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to the acquisition of $54.3 million nonaccrual loans in conjunction with the merger with 1st FCS and Badgerland, which was partially offset by the upgrading of an account in our dairy portfolio and the payoff of certain accounts in our grain, cattle, and landlords portfolios during the first six months of 2017. Nonaccrual loans remained at an acceptable level at September 30, 2017, and December 31, 2016.

The decrease in accruing restructured loans was primarily the result of refinancing the loans of certain accounts in our communications and dairy portfolios.

The increase in accruing loans 90 days or more past due was primarily due to one loan that is 100% guaranteed by the USDA. 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, all loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**September 30 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.4%
Nonaccrual loans	**47.0%**	59.2%
Total risk loans	**39.8%**	41.9%

The increase in allowance for loan losses from December 31, 2016, was related to provision expense recorded to reflect the deterioration in our grain portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2017.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, which is a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or homes that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. At September 30, 2017, the volume in this program was $33.8 million, a $6.4 million increase from December 31, 2016. The increase was the result of our originations of new loans held for sale.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the nine months ended September 30		2017		2016
Net income	**$**	**161,953**	$	92,216
Return on average assets		**1.8%**		1.4%
Return on average equity		**10.6%**		9.7%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

(in thousands)

For the nine months ended September 30		2017		2016		Increase (decrease) in net income
Net interest income	**$**	**228,591**	$	153,490	**$**	**75,101**
Provision for loan losses		**8,409**		7,134		**(1,275)**
Patronage income		**46,586**		17,936		**28,650**
Other income, net		**38,558**		31,665		**6,893**
Operating expenses		**135,313**		101,812		**(33,501)**
Provision for income taxes		**8,060**		1,929		**(6,131)**
Net income	**$**	**161,953**	$	92,216	**$**	**69,737**

Changes in Net Interest Income

(in thousands)

For the nine months ended September 30		2017 vs 2016
Changes in volume	**$**	**69,502**
Changes in interest rates		**(4,595)**
Changes in asset securitization		**147**
Changes in nonaccrual income and other		**10,047**
Net change	**$**	**75,101**

The change in interest rates was due to an increase in the cost of funds from a new pricing framework implemented by AgriBank, and mix change in our business. The increase in cost of funds from the additional margin required by the new AgriBank pricing framework was returned back to us in the form of patronage. We expect margins to compress due to this increase in cost of funds and may also be impacted if interest rates continue to rise, competition increases, and growth in our wholesale lending programs continues. We expect our loan and lease products to remain competitive in the market place in 2017.

The change in net interest income was primarily due to earnings on acquired loans due to the merger with 1st FCS and Badgerland.

The change in the provision for loan losses was primarily related to deterioration of credit quality in the grain portfolio.

The change in patronage income was primarily due to the following:

- An increase in patronage received from AgriBank due to a higher average balance on our note payable and a higher patronage rate compared to the prior year
- An increase in patronage income received on loans in the AgriBank Asset Pool Program due to a higher average balance on our portfolio in the AgriBank Asset Pool Program, compared to the prior year
- An increase in the wholesale spread on our note payable which is returned as patronage as noted above

The change in other income was primarily related to an increase in crop insurance income and loan origination fees. We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $34.4 million through September 30, 2017, compared to $41.2 million for the same

period in 2016. The fee income from this activity totaled $635 thousand for the nine months ended September 30, 2017, compared to $989 thousand for the same period of 2016.

The change in operating expenses was primarily related to an increase in salaries and employee benefits expense due to increased staffing levels as a result of the merger. In addition, operating expenses included merger related expenses.

The change in provision for income taxes was primarily related to an increase in income on our taxable entity.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Effective July 1, 2017, our note payable with AgriBank was for $18.0 billion with a maturity date of September 30, 2018. The note payable will be renegotiated 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 unallocated surplus.

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, 2017, or December 31, 2016.

Total equity increased $2.1 billion from December 31, 2016, primarily due to capital acquired through the merger with 1st FCS and Badgerland, net income for the period, partially offset by patronage distribution accruals and preferred stock dividend accruals.

The FCA Regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 6 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of September 30, 2017. Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

Patronage

AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings to its members in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

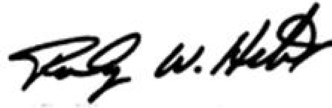
Purchased Services

During 2016, District associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District associations and AgriBank and will be named SunStream Business Services (SunStream). An application to form the service entity was submitted in May 2017 to the FCA for approval

CERTIFICATION

The undersigned have reviewed the September 30, 2017, Quarterly Report of Compeer Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mark Cade
Chairperson of the Board
Compeer Financial, ACA



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

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

November 6, 2017

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

(Unaudited)

As of:		September 30 2017		December 31 2016
ASSETS				
Loans held to maturity	$	**16,944,973**	$	8,152,435
Allowance for loan losses		**44,806**		36,018
Net loans held to maturity		**16,900,167**		8,116,417
Loans held for sale		**33,809**		27,370
Net loans		**16,933,976**		8,143,787
Unrestricted cash		**2,200**		2,200
Investment securities (including $23,992 and $0 at fair value)		**893,948**		473,248
Assets held for lease, net		**37,663**		36,598
Accrued interest receivable		**174,851**		64,904
Investment in AgriBank, FCB		**514,712**		180,812
Premises and equipment, net		**65,338**		17,633
Other property owned		**1,413**		840
Deferred tax assets, net		**6,768**		--
Other assets		**139,366**		60,645
Total assets	$	**18,770,235**	$	8,980,667
LIABILITIES				
Note payable to AgriBank, FCB	$	**15,118,311**	$	7,590,254
Accrued interest payable		**78,813**		31,954
Deferred tax liabilities, net		**--**		125
Patronage distribution payable		**58,211**		--
Other liabilities		**107,405**		42,866
Total liabilities		**15,362,740**		7,665,199
Contingencies and commitments (Note 7)				
EQUITY				
Preferred stock		**100,000**		100,000
Capital stock and participation certificates		**34,328**		15,934
Additional paid-in capital		**1,780,603**		--
Allocated surplus		**569,949**		441,122
Unallocated surplus		**922,615**		758,412
Total equity		**3,407,495**		1,315,468
Total liabilities and equity	$	**18,770,235**	$	8,980,667

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

CONSOLIDATED STATEMENTS OF INCOME

Compeer Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2017**	2016	**2017**	2016
Interest income	**$ 197,443**	$ 84,454	**$ 379,901**	$ 250,718
Interest expense	**78,759**	33,356	**151,310**	97,228
Net interest income	**118,684**	51,098	**228,591**	153,490
Provision for loan losses	**4,811**	2,778	**8,409**	7,134
Net interest income after provision for loan losses	**113,873**	48,320	**220,182**	146,356
Other income				
Patronage income	**31,595**	5,996	**46,586**	17,936
Net operating lease income	**444**	370	**1,238**	1,032
Financially related services income	**8,902**	4,799	**18,274**	14,871
Fee miscellaneous income, net	**9,701**	5,815	**19,046**	15,762
Total other income	**50,642**	16,980	**85,144**	49,601
Operating expenses				
Salaries and employee benefits	**46,310**	22,505	**89,323**	67,962
Farm Credit System insurance	**5,683**	3,257	**11,346**	8,940
Other operating expenses	**18,959**	8,751	**34,644**	24,910
Total operating expenses	**70,952**	34,513	**135,313**	101,812
Income before income taxes	**93,563**	30,787	**170,013**	94,145
Provision for (benefit from) income taxes	**4,970**	(3,709)	**8,060**	1,929
Net income	**$ 88,593**	$ 34,496	**$ 161,953**	$ 92,216

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA
(in thousands)
(Unaudited)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Total Equity
Balance at December 31, 2015	$ 100,000	$ 16,085	$ --	$ 406,758	$ 704,291	$ 1,227,134
Net income	--	--	--	--	92,216	92,216
Net surplus allocated under nonqualified patronage program	--	--	--	46,443	(46,443)	--
Redemption of prior year allocated patronage	--	--	--	(32,619)	--	(32,619)
Preferred stock dividend	--	--	--	--	(6,750)	(6,750)
Capital stock and participation certificates issued	--	991	--	--	--	991
Capital stock and participation certificates retired	--	(1,089)	--	--	--	(1,089)
Balance at September 30, 2016	$ 100,000	$ 15,987	$ --	$ 420,582	$ 743,314	$ 1,279,883
Balance at December 31, 2016	$ 100,000	$ 15,934	$ --	$ 441,122	$ 758,412	$ 1,315,468
Net income	**--**	**--**	**--**	**--**	**161,953**	**161,953**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**--**	**(41,286)**	**41,286**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**--**	**(26,317)**	**78**	**(26,239)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(6,750)**	**(6,750)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(32,364)**	**(32,364)**
Allocated surplus acquired in connection with merger	**--**	**--**	**--**	**196,430**	**--**	**196,430**
Equity issued in connection with merger	**--**	**18,555**	**1,780,603**	**--**	**--**	**1,799,158**
Capital stock and participation certificates issued	**--**	**1,255**	**--**	**--**	**--**	**1,255**
Capital stock and participation certificates retired	**--**	**(1,416)**	**--**	**--**	**--**	**(1,416)**
Balance at September 30, 2017	**$ 100,000**	**$ 34,328**	**$ 1,780,603**	**$ 569,949**	**$ 922,615**	**$ 3,407,495**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. 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, 2016 (2016 Annual Report).

Merger Activity

Effective July 1, 2017, 1st Farm Credit Services, ACA (1st FCS) and Badgerland Financial, ACA (Badgerland) merged into AgStar Financial Services, ACA (AgStar). AgStar acquired 100% of the assets and liabilities of 1st FCS and Badgerland. The merged Association operates under the name Compeer Financial, ACA (Compeer) and is headquartered in Sun Prairie, Wisconsin. The primary reason for the merger was to increase portfolio diversification, expand and sustain the essential infrastructure of human capital necessary to the delivery of excellent customer service and value, gain operating efficiencies of a larger association, and increase our capital base to meet the lending needs of our clients. The effects of the merger are included in the Association's results of operations, statement of condition, average balances and related metrics beginning July 1, 2017.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflects the merged balances as of September 30, 2017. The Consolidated Statements of Income and the Consolidated Statements of Changes in Equity reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Information in the Notes to the Consolidated Financial Statements for 2017 reflects balances of the merged Association as of September 30, or in the case of transactional activity, of the merged Association for the period July 1 to September 30.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. The common stock shares of 1st FCS and Badgerland stock were converted in the merger and into common stock shares of Compeer with identical rights and attributes. For this reason the conversion of 1st FCS and Badgerland stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each 1st FCS and Badgerland share were converted into one share of Compeer stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Compeer stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Compeer undertook a process to identify and estimate the acquisition-date fair value of 1st FCS and Badgerland's equity interests instead of the acquisition-date fair value of Compeer's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from 1st FCS and Badgerland, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimate and judgments could yield materially different results.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 805, Business Combinations (ASC 805)). Pursuant to these rules, Compeer acquired the assets and assumed the liabilities of 1st FCS and Badgerland at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($2.0 billion) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. A net increase of $2.0 billion was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to 1st FCS and Badgerland's net assets as of the acquisition date. There were no subsequent changes to these fair values.

Condensed Statement of Net Assets Acquired

(in thousands)

As of July 1, 2017	1st FCS	Badgerland	Total
Assets			
Net loans	$ 5,068,181	$ 4,044,377	$ 9,112,558
Accrued interest receivable	45,307	22,659	67,966
Other assets	560,876	168,032	728,908
Total assets	$ 5,674,364	$ 4,235,068	$ 9,909,432
Liabilities			
Notes payable	$ 4,529,652	$ 3,282,949	$ 7,812,601
Accrued interest payable	22,733	16,273	39,006
Other liabilities	25,152	37,085	62,237
Total liabilities	$ 4,577,537	$ 3,336,307	$ 7,913,844
Fair value of net assets acquired	$ 1,096,827	$ 898,761	$ 1,995,588

Fair value adjustments to 1st FCS and Badgerland's assets and liabilities included a $22.1 million decrease to loans and a $12.0 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans not considered to be purchased credit impaired, which totaled $9.3 billion at July 1, 2017.

Significant Accounting Policies

Purchased Credit-Impaired (PCI) Loans: Loans acquired through merger with evidence of credit deterioration since their origination and when it is probable that we will not collect all contractually required principal and interest payments are PCI loans. PCI loans are written down at acquisition to estimated fair value and an accretable yield may be established. The excess of cash flows expected to be collected over the carrying value is referred to as the accretable yield and is recognized in interest income using the effective yield method over the remaining life of the loan.

Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status. Acquired loans that meet our definition of risk loans are generally considered to be credit-impaired and are accounted for as individual loans. Accounting for PCI loans involves estimating fair value at acquisition using the cash flows expected to be collected. As we generally are unable to estimate the timing and amount of future cash flows, measurement is based on the net realizable value of the collateral underlying these loans.

Allowance for Loan Losses: For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, we record a provision for credit losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

Reclassification

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Compeer Financial, ACA and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA (the subsidiaries). 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 Farm Credit Funding Corporation and performance of the Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public effective date or aligned with other System institutions, whichever is earlier.

Standard	Description	Effective date and financial statement impact
In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost."	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	The guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. We are currently evaluating the impact of the guidance on our results of operations and financial statement disclosures. The guidance will have no impact on the financial condition or cash flows.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments – Credit Losses."	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.	The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020, including interim periods within those annual periods. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for public entities for the first interim reporting periods within the annual reporting periods beginning after December 15, 2017. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

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

As a result of the merger we acquired $9.1 billion in loans, of which 94.9% were categorized as having acceptable credit quality and 99.3% were current in payment status. A portion of the acquired loans were considered to be credit-impaired. However, they are not significant to the financial statements as a whole.

Loans by Type

(dollars in thousands)

As of:	**September 30, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 8,414,518**	**49.7%**	$ 4,054,633	49.7%
Production and intermediate term	**4,125,348**	**24.3%**	2,019,030	24.8%
Agribusiness	**2,708,858**	**16.0%**	1,200,684	14.7%
Other	**1,696,249**	**10.0%**	878,088	10.8%
Total	**$ 16,944,973**	**100.0%**	$ 8,152,435	100.0%

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

Credit Quality

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

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – 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, 2017, or December 31, 2016.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of September 30, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 7,995,060**	**93.9%**	**$ 294,649**	**3.5%**	**$ 222,286**	**2.6%**	**$ 8,511,995**	**100.0%**
Production and intermediate term	**3,801,686**	**91.0%**	**231,880**	**5.5%**	**144,900**	**3.5%**	**4,178,466**	**100.0%**
Agribusiness	**2,668,720**	**98.2%**	**28,436**	**1.0%**	**20,996**	**0.8%**	**2,718,152**	**100.0%**
Other	**1,652,309**	**97.1%**	**20,288**	**1.2%**	**29,150**	**1.7%**	**1,701,747**	**100.0%**
Total	**$ 16,117,775**	**94.2%**	**$ 575,253**	**3.4%**	**$ 417,332**	**2.4%**	**$ 17,110,360**	**100.0%**

As of December 31, 2016	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 3,844,164	94.0%	$ 116,011	2.8%	$ 131,021	3.2%	$ 4,091,196	100.0%
Production and intermediate term	1,867,608	91.7%	88,035	4.3%	81,030	4.0%	2,036,673	100.0%
Agribusiness	1,189,413	98.8%	4,621	0.4%	9,598	0.8%	1,203,632	100.0%
Other	828,007	94.1%	36,453	4.1%	15,898	1.8%	880,358	100.0%
Total	$ 7,729,192	94.1%	$ 245,120	3.0%	$ 237,547	2.9%	$ 8,211,859	100.0%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2017**	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	**$ 28,501**	**$ 13,599**	**$ 42,100**	**$ 8,469,895**	**$ 8,511,995**	**$ 957**
Production and intermediate term	**10,278**	**32,201**	**42,479**	**4,135,987**	**4,178,466**	**1,935**
Agribusiness	**--**	**3,098**	**3,098**	**2,715,054**	**2,718,152**	**--**
Other	**7,464**	**4,450**	**11,914**	**1,689,833**	**1,701,747**	**2,499**
Total	**$ 46,243**	**$ 53,348**	**$ 99,591**	**$ 17,010,769**	**$ 17,110,360**	**$ 5,391**

As of December 31, 2016	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	$ 11,554	$ 10,614	$ 22,168	$ 4,069,028	$ 4,091,196	$ 97
Production and intermediate term	8,608	10,844	19,452	2,017,221	2,036,673	577
Agribusiness	1,359	55	1,414	1,202,218	1,203,632	--
Other	2,920	2,117	5,037	875,321	880,358	64
Total	$ 24,441	$ 23,630	$ 48,071	$ 8,163,788	$ 8,211,859	$ 738

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**September 30 2017**	December 31 2016
Volume with specific allowance	**$ 24,202**	$ 8,731
Volume without specific allowance	**88,469**	77,285
Total risk loans	**$ 112,671**	$ 86,016
Total specific allowance	**$ 10,089**	$ 3,218
For the nine months ended September 30	**2017**	2016
Income on accrual risk loans	**$ 845**	$ 784
Income on nonaccrual loans	**7,260**	4,039
Total income on risk loans	**$ 8,105**	$ 4,823
Average risk loans	**$ 89,604**	$ 79,725

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

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at September 30, 2017.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a

restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Nine months ended September 30	**2017**		2016	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Production and intermediate term	**$ 657**	**$ 656**	$ 798	$ 795
Agribusiness	**--**	**--**	69	69
Total	**$ 657**	**$ 656**	$ 867	$ 864

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 of the loan 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.

The primary types of modification included extension of maturity and deferral of principal.

We had TDRs in the production and intermediate term loan category of $86 thousand and $576 thousand that defaulted during the nine months ended September 30, 2017, and 2016, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**September 30 2017**	December 31 2016
Accrual status:		
Real estate mortgage	**$ 11,497**	$ 14,765
Production and intermediate term	**414**	1,322
Agribusiness	**--**	--
Other	**--**	8,330
Total TDRs in accrual status	**$ 11,911**	$ 24,417
Nonaccrual status:		
Real estate mortgage	**$ 1,294**	$ 1,399
Production and intermediate term	**1,909**	3,004
Agribusiness	**93**	67
Other	**73**	84
Total TDRs in nonaccrual status	**$ 3,369**	$ 4,554
Total TDRs:		
Real estate mortgage	**$ 12,791**	$ 16,164
Production and intermediate term	**2,323**	4,326
Agribusiness	**93**	67
Other	**73**	8,414
Total TDRs	**$ 15,280**	$ 28,971

The decrease in TDRs outstanding from December 31, 2016, was primarily due to communication loans, which are included in the other loan category, being refinanced at market terms during the first quarter of 2017. In addition, the borrower was no longer experiencing financial difficulty.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.7 million at September 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2017**	2016
Balance at beginning of period	**$ 36,018**	$ 27,071
Provision for loan losses	**8,409**	7,134
Loan recoveries	**1,050**	895
Loan charge-offs	**(671)**	(1,276)
Balance at end of period	**$ 44,806**	$ 33,824

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective July 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

Investment in AgriBank

(in thousands) As of:	**September 30 2017**	December 31 2016
Required stock investment	**$ 494,673**	$ 180,812
Purchased excess stock investment	**20,039**	--
Total investment	**$ 514,712**	$ 180,812

NOTE 4: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $870.0 million at September 30, 2017, and $473.2 million at December 31, 2016. Our investment securities consisted of:

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

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities, except $11.9 million and $6.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at September 30, 2017, and December 31, 2016, respectively.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of September 30, 2017**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 749,770**	**$ 1,056**	**$ (9,781)**	**$ 741,045**	**4.6%**
ABS	**108,132**	**12**	**(1,912)**	**106,232**	**2.9%**
Bonds	**12,054**	**--**	**(147)**	**11,907**	**5.6%**
Total	**$ 869,956**	**$ 1,068**	**$ (11,840)**	**$ 859,184**	**4.4%**

As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 431,592	$ 951	$ (12,223)	$ 420,320	3.8%
ABS	34,784	--	(2,105)	32,679	1.7%
Bonds	6,872	2	(255)	6,619	6.3%
Total	$ 473,248	$ 953	$ (14,583)	$ 459,618	3.6%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $15.6 million and $12.0 million for the nine months ended September 30, 2017, and 2016, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of September 30, 2017**	Amortized Cost
Less than one year	**$ 6,788**
One to five years	**46,106**
Five to ten years	**63,089**
More than ten years	**753,973**
Total	**$ 869,956**

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

(in thousands)	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of September 30, 2017	Fair Value	Losses	Fair Value	Losses
MBS	**$ 371,060**	**$ (3,540)**	**$ 85,145**	**$ (6,241)**
ABS	**60,592**	**(394)**	**21,123**	**(1,518)**
Bonds	**6,572**	**(147)**	**--**	**--**
Total	**$ 438,224**	**$ (4,081)**	**$ 106,268**	**$ (7,759)**

	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2016	Fair Value	Losses	Fair Value	Losses
MBS	$ 121,060	$ (3,912)	$ 206,792	$ (8,311)
ABS	4,492	(342)	27,650	(1,763)
Bonds	--	--	4,661	(255)
Total	$ 125,552	$ (4,254)	$ 239,103	$ (10,329)

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 over the maturity of each loan on a straight-line basis 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. At September 30, 2017, the majority of the $7.8 million unrealized loss greater than 12 months represents unamortized premium.

We had available-for-sale investment securities, consisting of MBS, with an amortized cost and fair value of $24.0 million and the contractual maturities were more than 10 years at September 30, 2017. We had no outstanding available-for-sale investment securities at December 31, 2016.

Additional Available-for-Sale Investment Securities Information

Nine months ended September 30	**2017**	2016
Proceeds from sales	**$ 51,296**	$ 49,000
Realized (losses) gains on sales, net	**(343)**	406

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

NOTE 5: OTHER INVESTMENTS

We held non-controlling investments in venture capital equity funds of $9.4 million at September 30, 2017. Our investments in the venture capital equity funds is recorded in “Other assets” in the Consolidated Statements of Condition. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. We are a limited partner in the funds and these investments are valued at cost. Our remaining commitment to the funds at September 30, 2017, was $350 thousand through December 2023.

We acquired this non-controlling investment in venture capital equity funds as a result of the merger with Badgerland.

We and other Farm Credit Institutions are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC), Advantage Capital Agribusiness Partners, L.P., established in October 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $20.0 million through October 2019. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $11.0 million at September 30, 2017, and $7.5 million at December 31, 2016.

We and other Farm Credit Institutions are among the limited partners for a $31.3 million RBIC, Innova Ag Innovation Fund IV, L.P., established in December 2016 and approved by the USDA during April 2017. Our total commitment is $2.0 million, which ends on the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $65 thousand at September 30, 2017.

The investments were evaluated for impairment. No impairments were recognized on these investments during the nine months ended September 30, 2017. To date, no income has been distributed from the funds. We did not receive any distributions during the nine months ended September 30, 2017.

NOTE 6: EQUITY

Description of Equities

On July 1, 2017, 1st FCS and Badgerland merged with and into AgStar. The merged Association operates under the name of Compeer. All members of 1st FCS and Badgerland received capital stock in Compeer in exchange for their stock, which was then canceled. This exchange was made at the stock's par value and 3.7 million shares of capital stock were issued.

Regulatory Capitalization Requirements

Select Capital Ratios

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**14.1%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**14.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**15.0%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.7%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**14.9%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**13.4%**	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

Risk-adjusted assets have been defined by Farm Credit Administration (FCA) Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at September 30, 2017, or December 31, 2016.

Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

In 2016, our Board of Directors passed a resolution which modified the form of patronage that can be allocated and/or distributed. Patronage can be allocated and/or distributed in the form of cash, qualified written notices of allocation, and/or nonqualified written notices of allocation. In 2017, we have begun to accrue cash patronage distributions according to a prescribed formula approved by the Board of Directors. The patronage distributions are expected to be paid in cash during the first quarter after year end.

Effective July 1, 2017, the bylaws of Compeer Financial, ACA took effect reflecting the merger. Changes impacting stockholders include the increase in preferred stock authorization ($500 million), the inclusion of the capital equalization plan from the merger agreement, which determines the ordering of allocated equity retirements, conforming changes to the capital bylaws, changes to Board of Directors make-up and voting, and other changes as voted on by stockholders on April 7, 2017.

NOTE 7: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 8: 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 levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the three input levels.

Recurring

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

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $33.8 million and $27.4 million as of September 30, 2017, and December 31, 2016, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $149 thousand and $246 thousand for the nine months ended September 30, 2017, and 2016, respectively, were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had available-for-sale investments securities of $24.0 million at September 30, 2017, which were valued using Level 3 inputs. We had no outstanding available-for-sale investment securities at December 31, 2016. During the nine months ended September 30, 2017, we sold available-for-sale investment securities with total sales proceeds of $51.3 million, resulting in a loss of $343 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income. During the nine months ended September 30, 2016, we sold available-for-sale investment securities with total sales proceeds of $49.0 million, resulting in a gain of $406 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of 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 $73.5 million and $34.5 million as of September 30, 2017, and December 31, 2016, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $817 thousand for the nine months ended September 30, 2017, compared to a net loss of $1.8 million for the same period of 2016. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Non-Recurring

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

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses

independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other 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, 2017**				**Nine months ended September 30, 2017**
	Fair Value Measurement Using			Total Fair Value	Total (Losses) Gains
	Level 1	Level 2	Level 3		
Impaired loans	**$ --**	**$ 619**	**$ 14,199**	**$ 14,818**	**$ (7,542)**
Other property owned	**--**	**--**	**1,721**	**1,721**	**83**

	As of December 31, 2016				Nine months ended September 30, 2016
	Fair Value Measurement Using			Total Fair Value	Total (Losses) Gains
	Level 1	Level 2	Level 3		
Impaired loans	$ --	$ 821	$ 4,969	$ 5,790	$ (2,002)
Other property owned	--	--	1,022	1,022	68

NOTE 9: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 6, 2017, 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.