COMPEER FINANCIAL

Quarterly Report
September 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA (Compeer) and its subsidiaries, Compeer Financial, FLCA and Compeer Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our stockholders' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 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

The COVID-19 pandemic's broad international scope has yielded significant impacts to industries across nearly all economic sectors. Despite the essential nature of agriculture, the sector has also seen impacts from this virus, including idling of meat processing plants, reduction in food service demand, and reduced travel – leading to less fuel/ethanol demand. Despite the strains on logistics, production agriculture remains essential to the country and a national asset. Coordinated efforts continue to keep the flow of agricultural goods moving and safe, and the U.S. government has passed legislation to provide economic support to the American farmer. The diversity of the Compeer credit portfolio spans production agriculture, processing, rural infrastructure, and related industries. As such, the portfolio remains in a solid position to withstand the virus-driven recession, and we continue to work with our clients on an as-needed basis.

The impact of the virus across agricultural industries has been varied. Orders and guidance aimed at reducing the virus spread limited gasoline and ethanol demand, the latter of which used domestic corn production as its primary input. Demand for food remains resilient in these times, although the channels in which it is delivered needed to adjust. Sales of food eaten in the home have risen substantially, and, but for a few instances, the supply chain to grocery outlets remained intact. On the other hand, the food services industry experienced a significant decline with the widespread closure, and inconsistent re-opening, of restaurants, schools and events. Products that rely heavily on food services, such as bacon or fluid milk, were disproportionately affected. Additionally, the spread of the COVID-19 virus has, at times, disrupted utilization and throughput of processing facilities. Overall, industries have adjusted to "new normal" operating procedures, supply chains, and distribution, in order to supply products to end users.

Compeer generates a significant portion of income from the grain, dairy, and swine sectors of production agriculture. Virus-fueled supply and demand shocks have resulted in significant price volatility in each of these sectors. While the environment has generally stabilized, COVID-19 driven volatility remains a part of the landscape. The most recent World Agricultural Supply and Demand Estimate (WASDE) from the United States Department of Agriculture (USDA) (October 2020) surprised by lowering forecasted planted corn acres to 91.0 million, a million-acre downward revision from the 92.0 million estimated throughout much of the summer. The USDA provided no context behind the revision, though planted corn acres remain above both the 2019 and 2018 crops. In its forecast, the USDA also revised feed and ethanol usage lower due to reduced ethanol demand and the impact of higher prices on feed cost. Despite the reduction in demand, ending stocks were forecast lower by 336 million bushels, resulting in a seasonal average price expectation of $3.60 per bushel, on par with 2019. Similar to the corn revision, the USDA moved both planted and harvested soybean acres down by 0.7 million. The forecast raised expected exports and significantly lowered beginning stocks. These revisions resulted in a substantial decrease in expected ending stocks (by 170 million bushels) to 290 million bushels. In all, the revisions resulted in a much stronger seasonal average price, of $9.80/bushel, up $0.55 per bushel from the previous forecast and $1.23 per bushel above 2019. For both crops, strong early season export activity has driven the reduction in forecast ending stocks, significantly improving expected producer returns.

Improved returns to dairy producers, which began in 2019, have remained largely intact throughout 2020. While the industry experienced a brief period of demand destruction, fueled by the COVID-19 virus, returns to producers rebounded due to strength in the cheese market and government food programs aimed to assist families. Similar to other production agriculture industries, dairy remains susceptible to virus-driven volatility, especially as school demand reduction remains and government program buying begins to sunset. In its most recent Milk Production report, the USDA indicated national increases in production per cow, number of cows, and overall milk production from the same period in 2019. Aside from the March-April price volatility, Class III Milk prices have remained largely favorable in 2020, with the USDA projecting an annual average price of $18.00 per hundredweight (cwt) produced. Similarly, WASDE estimates a 2020 all-milk price of $18.00/cwt, compared to $18.63/cwt in 2019. While prices remain favorable overall, Class IV milk (butter/dry products) have not experienced the improvement seen overall. Class IV forecast for 2020 is $13.50/cwt, nearly $3/cwt below 2019, driven by strong inventories of butter and milk powder. The rollout of revenue and margin protection in 2019 has helped a number of Compeer clients, and the rebound in price has created insurance options through the balance of the year, allowing producers to mitigate potential virus-led volatility.

U.S. pork production, as of September 2020, included 79.1 million head, a 1% increase from the same period in 2019. The USDA Hogs and Pigs report indicates the increase is in market hogs, with breeding hogs slightly below year-ago levels. The report also forecasts September to November farrowing of 3.12 million sows, which is down 5% from year-ago levels. While recent completion of trade pacts with China, Canada, and Mexico is likely to improve industry economics, short-term impact of virus-driven disruptions significantly influenced the supply chain. Intermittent plant closures earlier in the year affected producer ability to deliver to a particular location. Also, as with dairy, meat industry participants experienced demand fluctuations from disruption in food service markets. Recent African Swine Fever (ASF) news from Germany and China is also likely to drive market volatility, as international demand for pork remains strong, particularly from China which is seeking to replace lost production from the ASF outbreak. According to the U.S. Meat Export Federation, pork exports to China, for the first seven months of 2020, were up 131% over the same period in 2019. Exports to Vietnam and the Philippines were also significantly higher than a year ago.

In September, the USDA updated its net farm income forecast to $102.7 billion, a $6 billion increase from the previous forecast of $96.7 billion, and $18.3 billion over 2019. The update also estimated net cash income for 2020 at $115.2 billion, a $4 billion increase over 2019. The forecast assumes a significant decline in overall animal product receipts, with only a slight increase to crop receipts (driven largely by fruit/nut revenues). While overall commodity receipts are forecast to decline slightly, estimated government payment revenue is projected to be $37.2 billion, an increase of $14.7 billion largely due to COVID-19 disaster relief support.

Along with the production agriculture portfolio, Compeer maintains a robust rural housing portfolio. This sector relies upon the health of the overall economy, interest rates, and general employment. The most recent U.S. Bureau of Labor Statistics unemployment rate of 7.9% continues a recent trend of slow improvement. In the week ended October 3, approximately 0.8 million Americans filed initial jobless claims due to virus-fueled industry shutdowns. In line with guidance by the Federal Home Mortgage agencies and the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, Compeer continues to provide assistance, including forbearance, to both on-balance sheet and serviced loans of clients financially impacted by the COVID-19 pandemic. Notwithstanding, national home mortgage rates remain at historic lows, which continues to drive new home purchases as well as significant refinancing activity.

While less than ideal environmental, market, and geopolitical conditions have affected several industries that Compeer serves, the portfolio continues to experience relatively low delinquencies and is navigating this period from a position of sound credit quality. Our core credit objectives of working with clients to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies remain unchanged. Compeer also remains committed to being an advocate for positive legislative changes that improve prospects for agriculture and rural America.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $21.4 billion at September 30, 2020, an increase of $1.5 billion from December 31, 2019. The increase was primarily driven by growth in our capital markets, core markets, and Agri-Access business units, offset by decreases within our industry specialists unit.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the CARES Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our association under this program. The PPP provided for loan forgiveness if the loan proceeds are used in accordance with the terms of the program, with any amount not forgiven also guaranteed by the SBA. Loan payments were deferred for at least six months. As of September 30, 2020, we have successfully processed $159.8 million in PPP loans for customers. In addition, as of September 30, 2020, no loans have been forgiven and nearly all payments have been deferred.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 3.3% of the portfolio at September 30, 2020, from 3.6% of the portfolio at December 31, 2019. Home mortgage loan quality is slightly better than overall asset quality, with only 2.1% of Compeer's rural housing portfolio being classified as adverse as of September 30, 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, 2020, $1.5 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, 2020**		December 31, 2019
Loans:				
Nonaccrual	**$**	**129,536**	$	154,142
Accruing restructured		**11,242**		7,067
Accruing loans 90 days or more past due		**3,161**		5,013
Total risk loans		**143,939**		166,222
Other property owned		**3,049**		147
Total risk assets	**$**	**146,988**	$	166,369
Total risk loans as a percentage of total loans		**0.7%**		0.8%
Nonaccrual loans as a percentage of total loans		**0.6%**		0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans		**47.8%**		41.4%
Total delinquencies as a percentage of total loans		**0.6%**		0.8%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2019, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

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

The decrease in nonaccrual loans was driven by circumstances and activity on various customer loans, but was primarily due to the charge-off of one dairy customer's loans and the payoff of another dairy customer's loans, offset by the movement of one large swine customer's loans to nonaccrual status. Nonaccrual loans remained at an acceptable level at September 30, 2020, and December 31, 2019.

The increase in accruing restructured loans was primarily due to the restructuring of two customer relationships within our cash grain sector.

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 were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance based upon our quarterly allowance for loan losses calculation. This calculation is based upon our evaluation of factors and assumptions such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. The allowance for loan losses is increased by provision for loan losses and loan recoveries, and decreased by loan charge-offs, as disclosed in Note 2 in the Changes in Allowance for Loan Losses chart.

See the Provision for Loan Losses sub-section (within the Results of Operations section) for a discussion on the increase in provision for loan losses during the nine months ended September 30, 2020, as a response to our credit quality forecast of stress, which subsequently increased both the balance in our allowance for loan losses account and allowance ratios shown below. In addition, loan charge-offs increased mainly due to the charge-offs of one dairy and one capital markets loan. As a result of this activity in the allowance for loan losses, the following allowance coverage ratios result:

Allowance Coverage Ratios

As of:	**September 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.5%**	0.4%
Nonaccrual loans	**75.5%**	50.9%
Total risk loans	**67.9%**	47.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2020. 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, 2020, the volume in this program was $69.5 million, a $41.7 million increase from December 31, 2019. The increase was primarily the result of our originations of new loans held for sale, which were partially offset by loans being sold to and securitized by third party investors, Farmer Mac and Freddie Mac. We sold loans in the secondary market totaling $223.9 million through September 30, 2020, compared to $87.4 million for the same period in 2019. This increase in sold loans was due to higher volumes of loan origination and conversions in the current interest rate environment. See the Fee and Other Non-Interest Income sub-section (within the Results of Operations section) for discussion on the impact these increases had on fee income.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the nine months ended September 30		**2020**		2019
Net income	**$**	**326,932**	$	292,979
Return on average assets		**1.9%**		1.9%
Return on average equity		**11.1%**		10.5%

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 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		**2020**		2019		**Increase (decrease) in net income**
Net interest income	**$**	**382,434**	$	361,579	**$**	**20,855**
Provision for loan losses		**29,808**		13,812		**(15,996)**
Non-interest income		**205,593**		162,328		**43,265**
Non-interest expense		**219,654**		205,730		**(13,924)**
Provision for income taxes		**11,633**		11,386		**(247)**
Net income	**$**	**326,932**	$	292,979	**$**	**33,953**

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the nine months ended September 30		**2020 vs 2019**
Changes in volume	**$**	**29,438**
Changes in interest rates		**(11,239)**
Changes in asset securitization		**82**
Changes in nonaccrual income and other		**2,574**
Net change	**$**	**20,855**

Provision for Loan Losses

The increase in provision for loan losses for the nine months ended September 30, 2020, compared to the same period of 2019 was related to our estimate of losses within our portfolio for the applicable periods. Provision expenses recorded during the nine months ended September, 30 2020, reflect the estimated impact of COVID-19 on our clients and our loan portfolio as of September 30, 2020. Management continues to monitor our allowance for loan losses calculation on an ongoing basis, and will continue to align the corresponding provision expenses or reversals, as needed, with the allowance calculation throughout the remainder of 2020. See the Allowance for Loan Losses section on the previous page for additional discussion related to the provision for loan losses' impact to the allowance for loan losses.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and fee and other non-interest income.

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

Patronage Income

(in thousands) For the nine months ended September 30	2020	2019
Wholesale patronage	$ 78,038	$ 64,432
Pool program patronage	32,579	30,076
AgDirect partnership distribution	2,277	2,202
Other patronage	1,738	--
Total patronage income	$ 114,632	$ 96,710
Form of patronage distributions:		
Cash	$ 114,632	$ 56,448
Stock	--	40,262
Total patronage income	$ 114,632	$ 96,710

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate for the nine months ended September 30, 2020, compared to the same period of 2019.

Fee and Other Non-Interest Income: The increase in fee and other non-interest income was primarily due to increases in origination fees, buy down fees, conversion fees, and PPP loan program fees. Fees increased throughout the nine months ended September 30, 2020, due to higher volumes of loan originations and conversions in the current rate environment. Additionally, we originate rural home loans for sale in the secondary market, as more fully explained in the Loans Held for Sale section. The fee income from this activity totaled $2.8 million for the nine months ended September 30, 2020, compared to $520 thousand for the same period of 2019.

Non-Interest Expense

The change in non-interest expense was primarily related to an increase in salaries and employee benefit expenses, offset by a decrease in travel, training, and furniture and equipment expenses.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on September 30, 2021. However, it was renewed early for $27.0 billion with a maturity date of September 30, 2023. 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 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, 2020, or December 31, 2019.

Total equity increased $225.9 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distribution accruals, capital stock and participation certificates receivables, and preferred stock dividend accruals. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 11 in our 2019 Annual Report for more information on the Pension Restoration Plan.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 9 in our 2019 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.2%**	15.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**14.7%**	15.5%	6.0%	2.5%	8.5%
Total capital ratio	**15.2%**	15.9%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.0%**	15.9%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**14.6%**	15.4%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.4%**	14.8%	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 discussed in Note 13 in our 2019 Annual Report.

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

In August 2020, the FCA Board approved a final rule to revise how high-risk loans for Farm Credit System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of “reasonable doubt” used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan’s status
- Update existing terminology and make other grammatical changes

The final rule became effective October 21, 2020. We have updated our policies, procedures, and other documentation to ensure compliance with the amended regulation. The impact of the revisions has not been material to our financial statements.

Investment Securities Eligibility

In August 2020, the FCA Board approved a final rule to amend the investment eligibility regulation. The final rule allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the USDA. The final rule is not yet effective, but will take effect 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register. We are updating our policies, procedures, and other documentation to ensure compliance with the amended regulation. The amendment is not expected to have a material impact to our financial statements.

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a Farm Credit System service corporation and we are a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. Our entire investment in SunStream was called on April 1, 2020, at which time $3.1 million was paid in cash and the remainder is due in January 2021. As of September 30, 2020, our investment in SunStream was $5.6 million.

COVID-19

As discussed in the Agricultural and Economic Conditions section, the spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses, and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings, and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts Compeer will depend on future developments that are highly uncertain and cannot be predicted, such as the duration, extent, and severity of the pandemic, the continued response by the U.S. government and how quickly “normal” daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment, and Compeer’s operations are fully functioning. Our business continuity response has allowed us to continue to serve our mission, and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

CERTIFICATION

The undersigned have reviewed the September 30, 2020, 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 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA
(in thousands)
(Unaudited)

As of:		**September 30, 2020**		December 31, 2019
ASSETS				
Loans held to maturity	**$**	**21,367,208**	$	19,903,565
Allowance for loan losses		**97,767**		78,504
Net loans held to maturity		**21,269,441**		19,825,061
Loans held for sale		**69,538**		27,807
Net loans		**21,338,979**		19,852,868
Unrestricted cash		**2,300**		2,300
Investment securities		**1,114,306**		1,172,537
Assets held for lease, net		**75,916**		65,169
Accrued interest receivable		**206,744**		190,601
Investment in AgriBank, FCB		**655,676**		623,330
Premises and equipment, net		**74,891**		75,320
Other assets		**238,403**		201,808
Total assets	**$**	**23,707,215**	$	22,183,933
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**19,370,910**	$	17,927,105
Accrued interest payable		**70,728**		113,267
Deferred tax liabilities, net		**13,066**		16,137
Patronage distribution payable		**91,824**		177,000
Other liabilities		**127,394**		143,014
Total liabilities		**19,673,922**		18,376,523
Contingencies and commitments (Note 6)				
EQUITY				
Preferred stock		**100,000**		100,000
Capital stock and participation certificates		**33,397**		32,737
Capital stock and participation certificates receivable		**(5,628)**		--
Additional paid-in capital		**1,780,603**		1,780,603
Allocated surplus		**373,660**		373,898
Unallocated surplus		**1,761,894**		1,531,824
Accumulated other comprehensive loss		**(10,633)**		(11,652)
Total equity		**4,033,293**		3,807,410
Total liabilities and equity	**$**	**23,707,215**	$	22,183,933

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	**2020**	2019	**2020**	2019
Interest income	**$ 207,513**	$ 240,312	**$ 653,656**	$ 717,022
Interest expense	**71,881**	118,925	**271,222**	355,443
Net interest income	**135,632**	121,387	**382,434**	361,579
(Reversal of) provision for loan losses	**(192)**	180	**29,808**	13,812
Net interest income after (reversal of) provision for loan losses	**135,824**	121,207	**352,626**	347,767
Non-interest income				
Patronage income	**41,194**	33,127	**114,632**	96,710
Net operating lease income	**1,066**	942	**2,766**	2,380
Financially related services income	**9,971**	9,389	**33,472**	32,386
Allocated Insurance Reserve Accounts distribution	**--**	--	**4,268**	4,468
Fee and other non-interest income	**17,002**	5,278	**50,455**	26,384
Total non-interest income	**69,233**	48,736	**205,593**	162,328
Non-interest expense				
Salaries and employee benefits	**49,286**	45,082	**150,474**	134,796
Farm Credit System insurance	**5,063**	3,770	**12,300**	11,261
Other operating expense	**18,198**	15,209	**54,820**	58,106
Other non-interest expense	**384**	363	**2,060**	1,567
Total non-interest expense	**72,931**	64,424	**219,654**	205,730
Income before income taxes	**132,126**	105,519	**338,565**	304,365
Provision for income taxes	**6,144**	7,273	**11,633**	11,386
Net income	**$ 125,982**	$ 98,246	**$ 326,932**	$ 292,979
Other comprehensive income				
Employee benefit plans activity	**$ 339**	$ 328	**$ 1,019**	$ 984
Total other comprehensive income	**339**	328	**1,019**	984
Comprehensive income	**$ 126,321**	$ 98,574	**$ 327,951**	$ 293,963

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, 2018	$ 100,000	$ 33,062	$ 1,780,603	$ 426,776	$ 1,272,556	$ (11,018)	$ 3,601,979
Net income	--	--	--	--	292,979	--	292,979
Other comprehensive income	--	--	--	--	--	984	984
Redemption of allocated patronage	--	--	--	(335)	57	--	(278)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution and adjustments	--	--	--	--	440	--	440
Unallocated surplus designated for patronage distributions	--	--	--	--	(59,450)	--	(59,450)
Cumulative effect of change in accounting principle	--	--	--	--	(122)	--	(122)
Capital stock and participation certificates issued	--	1,945	--	--	--	--	1,945
Capital stock and participation certificates retired	--	(2,358)	--	--	--	--	(2,358)
Additions to capital stock and participation certificates receivable, net	--	--	--	--	--	--	--
Balance at September 30, 2019	$ 100,000	$ 32,649	$ 1,780,603	$ 426,441	$ 1,499,710	$ (10,034)	$ 3,829,369
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 dividend	**--**	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Other distribution and adjustments	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(90,135)**	**--**	**(90,135)**
Cumulative effect of change in accounting principle	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Capital stock and participation certificates issued	**--**	**3,062**	**--**	**--**	**--**	**--**	**3,062**
Capital stock and participation certificates retired	**--**	**(2,402)**	**--**	**--**	**--**	**--**	**(2,402)**
Additions to 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**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. 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, 2019 (2019 Annual Report).

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

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law.	Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs.	We have adopted this relief for qualifying loan modifications. However, modifications of this nature have not been material.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We 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, 2020**			December 31, 2019		
		Amount	%		Amount	%
Real estate mortgage	**$**	**11,016,392**	**51.6%**	$	9,829,067	49.4%
Production and intermediate-term		**3,706,603**	**17.3%**		4,020,065	20.2%
Agribusiness		**4,506,551**	**21.1%**		3,976,708	20.0%
Other		**2,137,662**	**10.0%**		2,077,725	10.4%
Total	**$**	**21,367,208**	**100.0%**	$	19,903,565	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.

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, 2020, or December 31, 2019.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of September 30, 2020	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 10,329,317**	**92.8%**	**$ 393,497**	**3.5%**	**$ 416,466**	**3.7%**	**$ 11,139,280**	**100.0%**
Production and intermediate-term	**3,326,040**	**88.5%**	**225,052**	**6.0%**	**205,320**	**5.5%**	**3,756,412**	**100.0%**
Agribusiness	**4,369,790**	**96.6%**	**75,719**	**1.7%**	**75,973**	**1.7%**	**4,521,482**	**100.0%**
Other	**2,109,177**	**98.3%**	**13,995**	**0.7%**	**20,956**	**1.0%**	**2,144,128**	**100.0%**
Total	**$ 20,134,324**	**93.4%**	**$ 708,263**	**3.3%**	**$ 718,715**	**3.3%**	**$ 21,561,302**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 9,099,203	91.7%	$ 440,786	4.4%	$ 383,315	3.9%	$ 9,923,304	100.0%
Production and intermediate-term	3,565,832	87.5%	305,695	7.5%	202,603	5.0%	4,074,130	100.0%
Agribusiness	3,848,061	96.4%	57,787	1.4%	86,086	2.2%	3,991,934	100.0%
Other	2,011,447	96.6%	11,221	0.5%	61,437	2.9%	2,084,105	100.0%
Total	$ 18,524,543	92.3%	$ 815,489	4.1%	$ 733,441	3.6%	$ 20,073,473	100.0%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 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	**$ 44,642**	**$ 31,922**	**$ 76,564**	**$ 11,062,716**	**$ 11,139,280**	**$ 2,092**
Production and intermediate-term	**22,653**	**24,508**	**47,161**	**3,709,251**	**3,756,412**	**636**
Agribusiness	**831**	**8,621**	**9,452**	**4,512,030**	**4,521,482**	**--**
Other	**3,131**	**1,984**	**5,115**	**2,139,013**	**2,144,128**	**433**
Total	**$ 71,257**	**$ 67,035**	**$ 138,292**	**$ 21,423,010**	**$ 21,561,302**	**$ 3,161**

As of December 31, 2019	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	$ 43,078	$ 41,949	$ 85,027	$ 9,838,277	$ 9,923,304	$ 496
Production and intermediate-term	17,045	26,340	43,385	4,030,745	4,074,130	--
Agribusiness	5,249	7,422	12,671	3,979,263	3,991,934	--
Other	6,027	5,677	11,704	2,072,401	2,084,105	4,517
Total	$ 71,399	$ 81,388	$ 152,787	$ 19,920,686	$ 20,073,473	$ 5,013

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, 2020		December 31, 2019
Volume with specific allowance	$	**39,872**	$	45,235
Volume without specific allowance		**104,067**		120,987
Total risk loans	$	**143,939**	$	166,222
Total specific allowance	$	**15,156**	$	22,658
For the nine months ended September 30		**2020**		2019
Income on accrual risk loans	$	**661**	$	735
Income on nonaccrual loans		**5,005**		2,537
Total income on risk loans	$	**5,666**	$	3,272
Average risk loans	$	**156,909**	$	158,219

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, 2020.

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. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

TDR Activity

(in thousands) Nine months ended September 30	**2020**				2019			
		Pre-modification		Post-modification		Pre-modification		Post-modification
Real estate mortgage	$	**3,912**	$	**4,062**	$	293	$	293
Production and intermediate-term		**1,930**		**1,729**		--		--
Other		**186**		**187**		--		--
Total	$	**6,028**	$	**5,978**	$	293	$	293

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 in the loan 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 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, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	September 30, 2020	December 31, 2019
Accrual status:		
Real estate mortgage	$ 10,189	$ 6,415
Production and intermediate-term	1,053	652
Agribusiness	--	--
Other	--	--
Total TDRs in accrual status	$ 11,242	$ 7,067
Nonaccrual status:		
Real estate mortgage	$ 746	$ 810
Production and intermediate-term	474	562
Agribusiness	3,326	3,719
Other	248	64
Total TDRs in nonaccrual status	$ 4,794	$ 5,155
Total TDRs:		
Real estate mortgage	$ 10,935	$ 7,225
Production and intermediate-term	1,527	1,214
Agribusiness	3,326	3,719
Other	248	64
Total TDRs	$ 16,036	$ 12,222

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.6 million at September 30, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	2020	2019
Balance at beginning of period	$ 78,504	$ 59,928
Provision for loan losses	29,808	13,812
Loan recoveries	333	604
Loan charge-offs	(10,878)	(2,249)
Balance at end of period	$ 97,767	$ 72,095

NOTE 3: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $1.1 billion at September 30, 2020, and $1.2 billion at December 31, 2019. 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 $28.7 million as of September 30, 2020, and $14.1 million as of December 31, 2019, were fully guaranteed by Farmer Mac, SBA, or USDA.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of September 30, 2020**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS and bonds	$ 756,211	$ 42,010	$ (2,897)	$ 795,324	3.9%
ABS	358,095	1,227	(5,148)	354,174	1.2%
Total	$ 1,114,306	$ 43,237	$ (8,045)	$ 1,149,498	3.1%

As of December 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS and bonds	$ 933,860	$ 23,429	$ (2,589)	$ 954,700	4.4%
ABS	238,677	813	(2,598)	236,892	3.0%
Total	$ 1,172,537	$ 24,242	$ (5,187)	$ 1,191,592	4.1%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $28.1 million and $32.9 million for the nine months ended September 30, 2020, and 2019, respectively.

Contractual Maturities Held-to-Maturity of Investment Securities

(in thousands) **As of September 30, 2020**	Amortized Cost
Less than one year	**$ 13,592**
One to five years	**14,439**
Five to ten years	**240,649**
More than ten years	**845,626**
Total	**$ 1,114,306**

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 continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
As of September 30, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and bonds	**$ 32,520**	**$ (741)**	**$ 20,084**	**$ (2,156)**
ABS	**187,556**	**(3,240)**	**35,541**	**(1,908)**
Total	**$ 220,076**	**$ (3,981)**	**$ 55,625**	**$ (4,064)**

	Less than 12 months		Greater than 12 months	
As of December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and bonds	$ 5,276	$ (14)	$ 31,400	$ (2,575)
ABS	112,734	(1,467)	23,431	(1,131)
Total	$ 118,010	$ (1,481)	$ 54,831	$ (3,706)

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.

We had no outstanding available-for-sale investment securities at September 30, 2020, or December 31, 2019.

Additional Available-for-Sale Investment Securities Information

Nine months ended September 30,	**2020**	2019
Proceeds from sales	**$ 37,020**	$ 41,004
Realized losses on sales, net	**(181)**	(519)

The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at September 30, 2020, or December 31, 2019.

NOTE 4: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $79.5 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $20.9 million at September 30, 2020, and $17.0 million at December 31, 2019.

The investments were evaluated for impairment. No investments were impaired at September 30, 2020, or December 31, 2019.

NOTE 5: CAPITAL

Capitalization Requirements

In accordance with the Farm Credit Act and our capitalization bylaws, each client is required to acquire capital stock or participation certificates in Compeer as a condition of borrowing. Clients acquire ownership of capital stock or participation certificates at the time the loan is made. In certain circumstances, clients are not currently required to make a cash investment to acquire capital stock or participation certificates. However, their obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with Compeer. The capital stock and participation certificates are at-risk investments as described in our capitalization bylaws. We retain a first lien on common stock or participation certificates owned by our clients. Stock is retired in accordance with our bylaws. Clients are responsible for payment of the cash investment upon demand by Compeer. Effective January 1, 2020, there was a change in accounting for non-interest bearing receivables related to capital stock and participation certificates. All capital stock and participation certificates will be included within equity on the Consolidated Statements of Condition and a contra line item, “Capital stock and participation certificates receivable”, has been added to report capital stock and participation certificates where a cash investment is not required. This change has no impact on the capital stock or participation certificates owned by Compeer clients, clients retain all rights afforded to them by the Farm Credit Act. In addition this change had no material impact on our capital ratios.

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.

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 2019 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 $69.5 million and $27.8 million as of September 30, 2020, and December 31, 2019, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans were $288 thousand and $261 thousand for the nine months ended September 30, 2020, and 2019, respectively, which were recognized in “Fee and other non-interest income” in the Consolidated Statements of Comprehensive 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 no outstanding available-for-sale investment securities at September 30, 2020, or December 31, 2019. During the nine months ended September 30, 2020, and 2019 we sold available-for-sale investment securities with total sales proceeds of $37.0 million and $41.0 million, resulting in a loss of $181 thousand and $519 thousand, which was 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 $99.5 million and $47.5 million as of September 30, 2020, and December 31, 2019, 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 $3.7 million and $894 thousand for the nine months ended September 30, 2020, and 2019, respectively, which were included in “Fee and other non-interest income” in the Consolidated Statements of Comprehensive Income.

Non-Recurring

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

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of September 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 25,952**	**$ 25,952**
Other property owned	**--**	**--**	**3,219**	**3,219**

As of December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 23,706	$ 23,706
Other property owned	--	--	64	64

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 6, 2020, 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.