Semi-Annual Report on Merger Progress

September 20, 2018

Purpose

The purpose of this semi-annual report is to communicate and address the status of the advantages and disadvantages as it relates to the merger of AgCountry Farm Credit Services and United FCS, and address any actions the Board has or will implement to address each advantage not realized and each disadvantage realized.

Examination of Expected Advantages

A. Larger Capital Base to Serve All Aspects of Agriculture

The Merger increases the capital base. A larger combined capital level is expected to better position AgCountry to meet the needs of its customers on a more safe and sound basis. A larger overall capital level should increase lending limits which should better serve loan customers by allowing the combined Association to take larger hold positions in loans consistent with prudent underwriting standards. The increased total capital also reduces large loan concentration risk.

Result: This advantage has been realized through the merger.

- Total capital has increased by $122 million since July 1, 2017. This larger total capital level better positions AgCountry to meet the needs of its customers on a more safe and sound basis.
- FCA lending limits have increased allowing AgCountry to increase its hold position on loans in its portfolio.
- AgCountry has a greater lending capacity, through increased lending and hold limits, increased earnings from larger hold positions, and the ability to serve large borrowers with less reliance on participants.

B. Economies of Scale and Synergies.

The merger is expected to yield economies of scale and synergies, allowing for modest economies of scale, synergies and operating cost savings. The incremental scale will allow AgCountry to mitigate adverse impacts on profitability from investments in new products and services and enhancements to our information technology systems and back-office operations. Cost savings from eliminating duplicative functions should provide modest improvements to our profitability. Cost savings from the merger are expected to be approximately $5.4 million annually as compared to the combined operating budgets of both Associations as stand-alone institutions.

Result: The AgCountry Board continues to work on realizing this advantage through careful management of operating expenses.

With the economies of scale and synergy we are seeing improvements in net income, positive growth, and cost efficiency.

- Net income is $21 million greater year-to-date than at this time last year, growing from $47 million for the combined associations on 6/30/17 to $68 million on 6/30/18.
- Overall loan volume has grown by $296 million in the year since the merger.
- Operating expenses are running under budget, and are $4 million less than the prior year actual.
- Notable investments have been made in technology and human capital:
    - Investment in new technology across AgCountry, including new computers, audio/visual equipment, and office security systems
    - Developing new loan origination system and customer relationship management platform
- Staff has increased customer education efforts, including hosting meetings on topics such as changing financial environments and commodity marketing. We have also held educational meetings specifically directed towards women and young, beginning and small farmers.

AgCountry has seen added costs from conditions of merger, specifically requirement for validating stress testing and obtaining an integrated audit opinion, have reduced the extent of the efficiencies and cost savings realized to date. However, the requirement will provide additional assurance to our stockholders and customers of the safety and soundness of the association.

C. Portfolio Diversification

Enhanced Geographic Diversification. The merger should provide modest portfolio diversification benefits, as the combined portfolio will be spread over more diverse operations (even though there is substantial overlap in the types of customers/industries that the Associations serve). That said, most of the AgCountry's volume remains related to crop production of various commodities, so crop production remains a concentration risk as it is currently for each individual Association. The benefit of the merger is that these loans will be spread over a larger geographic area, insulating AgCountry from losses caused by localized weather patterns and soil types. Also a broader three state territory will result in AgCountry being less exposed to an economic downturn affecting a portion of our marketplace.

Result: This advantage has been realized through the merger.

The merger was successful in enhancing portfolio diversification for both predecessor associations, reducing risk concentrations among industries, commodities, and loan types.

- *Geographic Diversification:* The merger resulted in increased geographic diversification, spanning Minnesota, North Dakota and Wisconsin.
- *Commodity Mix:* The merger resulted in changes to the Association's commodity mix leading to a more diversified portfolio with lower concentrations in dairy, sugar beets and ethanol.
- *Loan Type:* The merger resulted in a portfolio more evenly balanced with production and intermediate term loans, real estate mortgage loans and processing and marketing loans.

D. Human Capital

From a human capital perspective, the merger is expected to be beneficial in several ways. The merger should provide additional staff depth and create more opportunities to build succession at all organizational levels. AgCountry should be better positioned to attract and retain employees with the necessary skills in an ever more competitive hiring and operating environment. The merger should result *in more resources and capacity being available to provide a greater degree of specialization, and that specialization should allow AgCountry to provide enhanced products and services to its customer base. Increased specialization and resources should also provide the means to develop and implement more specific initiatives to expand opportunities for young, beginning and small farmers and ranchers. Additionally, the ability to have a higher degree of specialization should equip AgCountry to be more responsive to increased reporting and regulatory requirements.*

Result: This advantage has been realized through the merger.

Because of the diverse experience, perspective and expertise of staff, the depth of human capital has been enhanced. Examples of the additional staff depth and increased opportunities include the following:

- Effective January 1, 2018, Marc Knisely transitioned to the position of CEO.
- A new Succession/Leadership Framework has been developed.
- Several key positions, including Chief Financial Officer and Chief Credit Officer due to retirements, have been filled by highly qualified internal candidates, demonstrating the depth of talent.
- A Chief Risk Officer has been added to the organizational structure to focus on Enterprise Risk Management.
- Personal development plans have been deployed to staff at all levels to guide individual training and development.
- New positions have been created to enhance our technology adoption, data analytics and overall innovation.
- A full market review for compensation is in progress.

E. Improved Strategic Position

The merger should enhance AgCountry's position to address future organizational changes. As a larger organization, AgCountry should be better positioned to represent and serve its members, regardless of future mergers between other associations. Furthermore, AgCountry should remain a viable competitor to commercial banks within the territory, thus providing more choice to agricultural producers in securing financing.

Result: This advantage has been realized through the merger.

"Bringing more to the table" is AgCountry's key message to the marketplace. Activity post-merger supports this idea of that AgCountry brings more to the table for our members than our competitors. AgCountry's position as a recognized and engaged thought leader brings value to our members across many levels, and management's involvement within the Farm Credit System has remained strong before and after the merger.

- AgCountry has also committed over $1,000,000 annually in support of quality of life and vital community services. In 2018, through its Grain Bin Rescue program, AgCountry is donating six grain bin rescue units to area fire departments and providing vital life-saving training on grain bin safety.
- AgCountry also recently implemented the Giving & Growing program, through which AgCountry employees are able to direct a portion of our benevolence budget to causes they choose. This

will represent an estimated $180,000 going into the communities where we live and work towards the causes our employees care about.
- We deployed a customer satisfaction survey resulting in strong customer response rates and high levels of overall satisfaction.
- AgCountry has been actively advocating for the Farm Credit System and agriculture, including advocating for passage of the Farm Bill.

F. Meeting the Unique Needs of YBS

As a result of this merger, greater financial strength, stability and resources should likely lead to enhanced member services. Additional staff resources should be available to focus on young, beginning, and small farm sectors, and that focus should lead to better service through programs specialized to address their unique needs.

Result: This advantage has been realized through the merger.

The Young, Beginning, and Small Farmer and Rancher Program allows AgCountry to serve the credit and service needs of this vital segment of the agriculture industry.

- AgCountry holds regular meetings with a YBF Advisory Committee twice per year in order to discuss and better understand the needs and challenges of this segment.
- AgCountry hosts educational meetings specific to young farmers, including a 2018 event held in Alexandria, MN featuring Dr. David Kohl.
- Our ‘AgCountry Perspectives’ newsletter features young and beginning farmers and gives them a forum to discuss their thoughts, successes, and challenges.
- AgCountry purchased 2,500 reusable grocery bags, which will be distributed to small farmers and farmer’s markets in our territory via our offices.

G. Enhanced Diversity and Inclusion

AgCountry should provide opportunities to enhance diversity and inclusion within the organization. The merger should provide for additional resources to invest in the organization’s diversity and inclusion efforts both internally and externally. Specifically, AgCountry should be able to expand its current efforts to provide support to local food systems and community gardens, as well as work with community venture capital firms focused on investing in young, beginning and entrepreneurial farmers. AgCountry should also have the depth of resources to perform research and development into new products and improve existing products to continue to provide the solutions needed for today and tomorrow’s agriculture.

Result: This advantage has been realized through the merger.

Employment-related and customer related diversity and inclusion efforts continue, including:

- Expanding our higher education relationships that exist across Minnesota, North Dakota and Wisconsin.
- Completing an Affirmative Action Plan in conjunction with Farm Credit Foundations.

- Identifying the differing needs that come with the geographic diversity of our customers and products, including expanded young, beginning and small farmer groups, along with some non-traditional borrowers such as Amish and Mennonite producers with very diverse needs.
- Sponsoring events such as the Emerging Farmers Conference, an educational event for minority and other farmers who traditionally face barriers to success.
- We maintain a 'Local Foods Finder' section of our website, which lets users search for locally grown food providers in Minnesota, North Dakota and Wisconsin.
- AgCountry purchased 2,500 reusable grocery bags, which will be distributed to small farmers and farmer's markets in our territory via our offices.
- AgCountry hosted multiple educational meetings specifically for women in several locations across our territory throughout the year. Topics for these meetings included 'Marketing 101', 'Marketing 201', 'Crop Insurance 101', 'Farm Business and Estate Planning', 'Do you Know Your Break-evens?', 'Developing Your Marketing Plan', and 'Identify and Define the 5 Cs of Credit'. An estimated 120 women attended these events and represented a wide range of ages.

H. Strengthened Mission Capability

The merger should result in a combination of the unique skill sets and experiences of the two staffs, thus broadening their capabilities. This, coupled with a strong financial and credit profile, should further strengthen AgCountry's capacity to fulfill its mission of providing credit for all facets of agricultural lending in its territory.

Result: This advantage has been realized through the merger.

- We invested in three Rural Business Investment Companies (RBIC) focused on providing capital investment to small businesses involved in agriculture, processing and marketing of agricultural products, farm supply, input suppliers and rural communications.
- AgCountry did not raise variable interest rates in response to Federal Reserve action in March 2018.

Examination of Potential Disadvantages

A. Operational Risks During Integration

Combining the daily operations of two Associations can initially create a strain on employees and processes. Certain aspects of each Association's financial services, credit origination and servicing practices may change. These changes could be disruptive and adversely impact customer service until the associations become fully integrated. In addition, United FCS's data and technology infrastructure was converted to AgCountry systems on the effective date. This conversion created data risk and operational challenges during the conversion and process of learning new systems.

Result: The AgCountry Board and management team continues to manage and pay close attention to any operational disruption that may impact customer service in order to minimize the impact of this disadvantage.

We believe the merger integration process continues to be successful, with little disruption in customer service.

- Staff have adapted to the new technology systems very well. Resources have been put in place to further assist with the transition in training and help desk support. The Windows 10 update was completed in Q2 and resulted in improved performance.
- Most internal processes have been aligned across the association.
- Work continues redesigning customer bills/statements and accessing online and e-business capabilties.

B. Reduction in Number of Directors

The merger will reduce the number of overall directors. AgCountry will have a higher number of shareholders per director position than the two separate Associations. This may present a challenge for the Board to remain aware of, and responsive to, the evolving needs of AgCountry's various customer segments and across the marketplaces we serve.

Result: This disadvantage has not been realized, but continues to be monitored.

- Initial Board size and a Board reduction process was approved by shareholders as part of the merger proposal. The Association has successfully implemented the first two stages of the downsizing and has the final downsizing step in place for the August 2018 Annual Meeting, with Greg Jans and Bill Muhs retiring.
- We encourage directors to interact with customer-owners whenever possible, through customer meetings, appreciation events, community involvement and other activities. Access to Directors is enhanced with technology and geographic location.
- Board members understand that they represent all Association shareholders regardless of their nomination area or community affiliation.
- The Board Governance Committee continues to study best practices around Board size and effectiveness of Board operations. The Association plans to expand shareholder focus group activities and monitor shareholder satisfaction on an ongoing basis.

C. Loss of Local Control

Although no changes to the local branch offices or staff are planned as a part of the merger, for certain shareholders the merger may be perceived as resulting in a loss of control due to the larger chartered territory. However, the increasing use of technology to conduct business tends to make geographic considerations less important.

Result: Through ongoing reliance on local engagement and diligent communication, this disadvantage has not been realized.

- AgCountry maintains a strong customer focus at the local level as well as diligent communication with members on issues of importance to the merged Association.
- Customer meetings, appreciation events and education events will continue to be held across the territory.
- So far this year, more than $350,000 has been returned to charities and local causes in communities across our territory.
- We haven't seen a change in shareholder participation or engagement post-merger.
- The results of the customer satisfaction survey will be utilized to measure and monitor this area.