COMPEER FINANCIAL™

MERGER PROGRESS

SEMI-ANNUAL STATUS UPDATE FOR COMPEER FINANCIAL MEMBER-OWNERS

July 2018

MERGER PROGRESS NOTIFICATION TO STOCKHOLDERS

On behalf of the Compeer Board of Directors, I'm pleased to share the following information as it relates to the progress we've made on the Compeer Financial merger between the former 1st FCS, AgStar Financial Services and Badgerland Financial organizations.

We've made significant progress in our first year and the key highlights shared in this report offer our member-owners an opportunity to see the work and status to-date. We'll continue to share information on a semi-annual basis.

- Mark Cade

Compeer Financial Board Chair

MERGER CONDITION

- Condition of Merger IV(b)(3) requires the Compeer Board of Directors to communicate in writing to stockholders on a semi-annual basis on the status of the advantages and disadvantages specified in the merger disclosure.
- This report addresses the specific advantages and disadvantages realized and not realized and the actions the board has or will implement to address each advantage not realized or each advantage realized.
- We also include a merger update in our summer issue of Cultivate to Compeer clients.

ADVANTAGES OF THE MERGER

- Increased Capital Base
- Profitability (including patronage)
- Operating Efficiencies (merger costs and cost savings)
- Enhanced Scale to Serve:
  - Specialized Clients/Develop Products
  - Support Rural Communities
- Expanded Marketplace Reputation
- Portfolio Diversification
- Human Capital

CAPITAL BASE & PROFITABILITY

- **Compeer Capital Base continues to expand**
  - Added Over $150 million of equity to the organization before distributions to stockholders since July 1, 2017 merger date
  - Capital base and diversity creates solid base for agriculture downturn
- **Profitability of Compeer is strong**
  - Income* grew $82 million year over year for the three institutions
  - Efficiency metrics exceeded budgeted plans
  - Growth met expectations but was below prior years

Status: These advantages have been realized through the merger.

** Income = Non GAAP combined Net Income for the three institutions in 2017*

MERGER COSTS AND COST SAVINGS*

- **Merger Costs**
  - $13.7 million of merger related expenses versus expectations of $14.5 million
- **Operating Costs**
  - $11.7 million overall savings to date versus expectation of $14.5 million
  - Additional efficiencies and savings will result when our technology systems are combined later this year.

Status: The Compeer Board is working on realizing this advantage through continued management of expenses and we're currently on pace with expectations.

** Merger and operating costs numbers are reflective of the year of business as Compeer*

ENHANCED SCALE TO SERVE

- Updated online banking program
- Launched new home mortgage program designed to better serve the market
- Utilized talent in each organization to create teams dedicated to specialized industries
- Offer more support to rural communities
  - BOD committed to 1% of adjusted earnings to give back to the communities we serve through the Compeer Fund for Rural America.

Status: This advantage has been realized through the merger.

EXPANDED MARKETPLACE REPUTATION

- Mid-year client loyalty measure is a very strong 76.2%
  - Average client loyalty score for banking institutions is 23%*
  - Comparably, Apple's 2016 client loyalty score was 70% and Amazon's was 69%
- Our scale and scope allows for greater support and outreach
- We have a broader legislative reach, covering 38 congressional offices and touching approximately 80% of the state legislative districts.
- Geographically diverse management team is helping the marketplace reputation.
- We're able to expand and enhance diversity and inclusion efforts in workforce, marketplace and board governance.

Status: This advantage has been realized through the merger.

**source: Temkin Group*

PORTFOLIO DIVERSIFICATION

- Merging the three portfolios resulted in the expected diversification including:
  - Increased geographic diversification, mitigating against weather-related risks and localized downturns.
  - Expanded industry and commodity diversification
  - Reduced borrower concentration risk

Status: This advantage has been realized through the merger.

HUMAN CAPITAL

- Compeer employs 170+ formal leaders in the organization; this provides a deep bench of leadership talent to meet the needs of the organization and our clients.
  - We are committed to leadership training and development with a strategy to address needs at all levels of leadership.
- We're also dedicated to the talent and development of the broader team and currently going through the performance review and personal development plan process for all Compeer team members.
- Succession plans for the Executive Leadership Team were completed with an ongoing commitment to update these plans on a periodic basis.
- Through the merger transition, turnover has remained at a reasonable and manageable level. Furthermore, Compeer has been able to recruit and hire the necessary talent to fill vacant positions.
- The new Compeer organizational structure reinforces the value of specialized expertise with about 38% of our team specializing in a specific type of agriculture or product knowledge. This allows us to provide the depth of knowledge to meet client expectations and needed back-up and support should issues or concerns arise.

Status: This advantage has been realized through the merger.

POTENTIAL DISADVANTAGES OF THE MERGER

- Patronage
- Perceived Loss of Local Control
- Managing a Geographically Diverse Association
- Short-Term Operational Disruption
- Merger Implementation Costs (see slide 6)
- Name Change

PATRONAGE

- **FCA condition restricted distributions for most of the year**
  - Condition related to capital distributions satisfied in November 2017 giving the board full discretion over the payment of patronage.
- **Overall distributions are strong relative to history**
  - $64.3 million of cash patronage paid out for 2017 earnings.
  - $144.6 million of allocated equity revolvement

Status: The merger condition limiting certain patronage payments has been satisfied.

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LOSS OF LOCAL CONTROL/GEOGRAPHIC DIVERSITY

- Created local client advisory committees to meet periodically so member-owners have the opportunity to provide feedback to board members and management. We completed our first session of meetings earlier this year with more scheduled for late summer.
- Clients also retained access to their field service team and can always share their concerns through these relationships
- The impacts on the local office and service team were minimal with some team members taking new roles within the organization as opportunities opened up.

Status: Through a plan to ensure all member-owners have a voice in their cooperative, this disadvantage has not been realized.

SHORT TERM OPERATIONAL DISRUPTION

- While change itself is disruptive, we've made a lot of progress in the last year. We've maintained world class client loyalty scores of 76%
- We've implemented and deployed an integration team to track projects, process and workflow.
- Offered change management training to our team to help them process through their experiences.

Status: The Compeer Board has successfully managed through short-term operational disruption to ensure client service is not impacted. This disadvantage has not been realized.

**per the Tempkin group*

NAME CHANGE

- We chose a new name to build a new brand for the merged organization - Compeer means “together with equals” and speaks to the way in which we’re moving forward, as a unified cooperative, alongside our clients dedicated to their success.
- We exist to champion the hopes and dreams of rural America.
- We will continue to invest in our brand to increase awareness in the marketplace.

Status: The Compeer Board continues to monitor the progress being made to introduce the new name, and more importantly the new brand, into the marketplace. Although there is significant cost that must be incurred to build the brand, the investment was anticipated and allows us to appropriately manage this potential disadvantage.