Powering the Future

First for Your Success™

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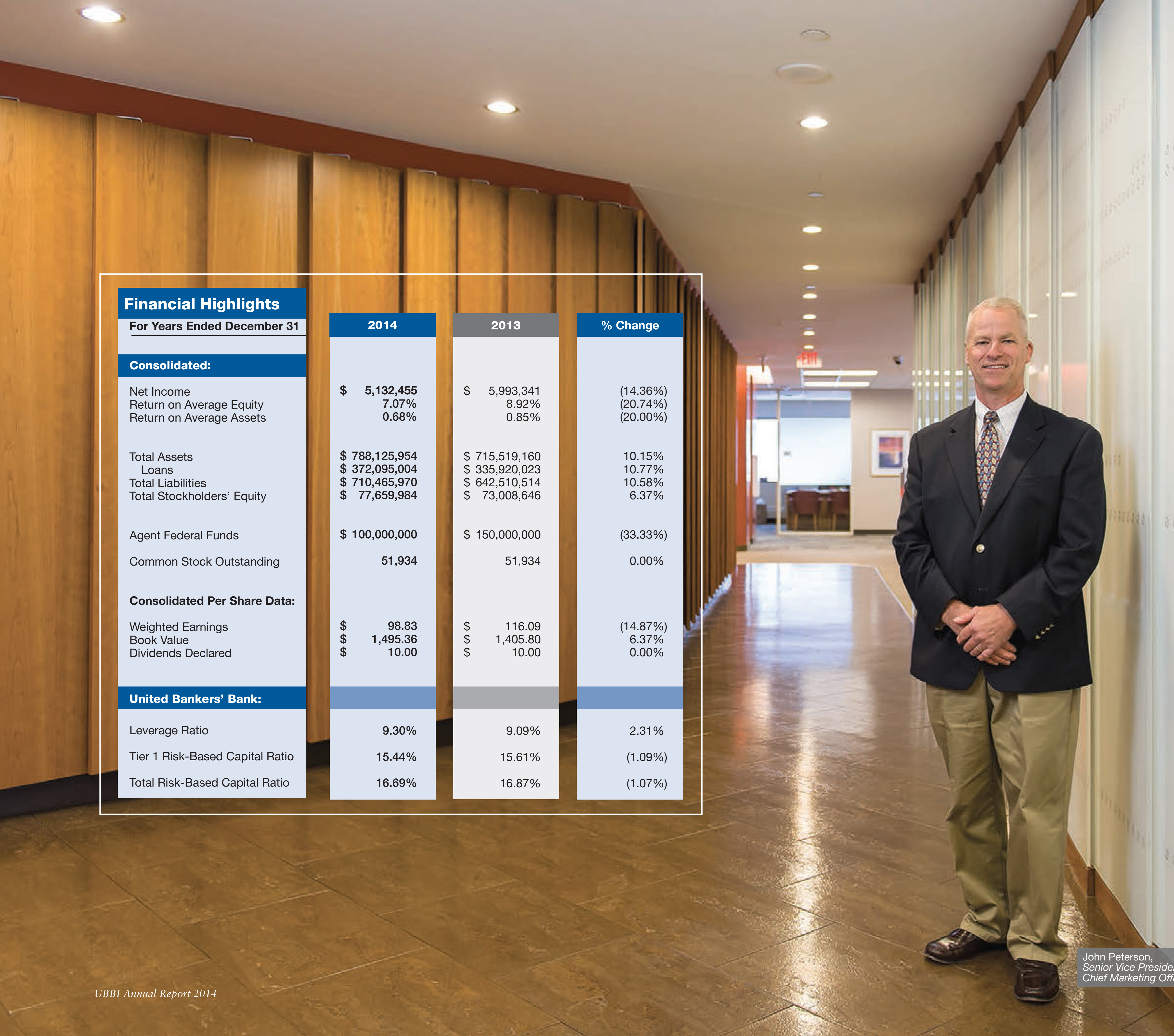
Member FDIC

United Bankers' Bancorporation, Inc.
Annual Report | 2014

Powering the Future



John Peterson,
Senior Vice President/
Chief Marketing Officer

Financial Highlights

For Years Ended December 31

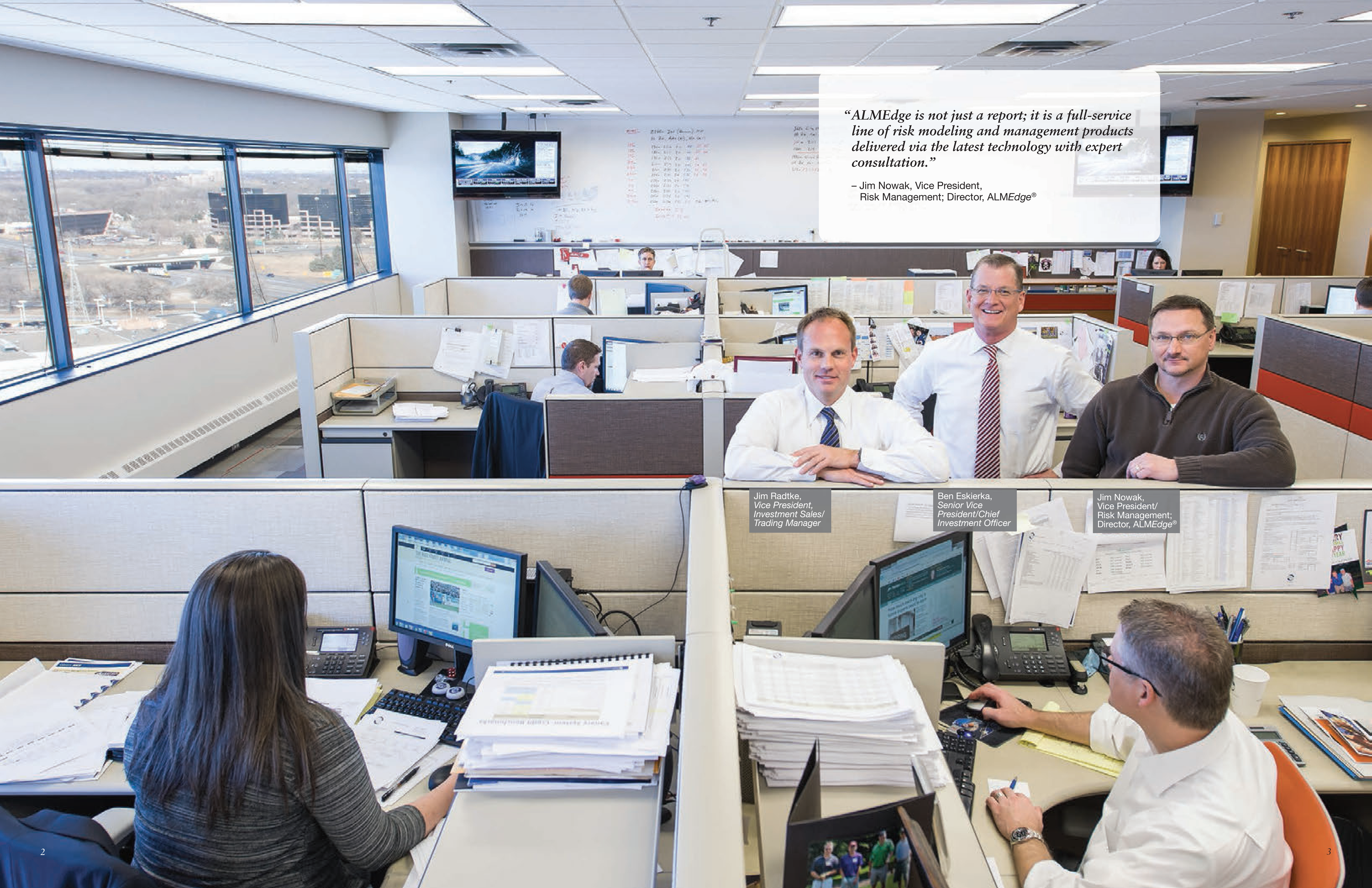
	2014	2013	% Change
Consolidated:			
Net Income	$ 5,132,455	$ 5,993,341	(14.36%)
Return on Average Equity	7.07%	8.92%	(20.74%)
Return on Average Assets	0.68%	0.85%	(20.00%)
Total Assets	$ 788,125,954	$ 715,519,160	10.15%
Loans	$ 372,095,004	$ 335,920,023	10.77%
Total Liabilities	$ 710,465,970	$ 642,510,514	10.58%
Total Stockholders' Equity	$ 77,659,984	$ 73,008,646	6.37%
Agent Federal Funds	$ 100,000,000	$ 150,000,000	(33.33%)
Common Stock Outstanding	51,934	51,934	0.00%
Consolidated Per Share Data:			
Weighted Earnings	$ 98.83	$ 116.09	(14.87%)
Book Value	$ 1,495.36	$ 1,405.80	6.37%
Dividends Declared	$ 10.00	$ 10.00	0.00%
United Bankers' Bank:			
Leverage Ratio	9.30%	9.09%	2.31%
Tier 1 Risk-Based Capital Ratio	15.44%	15.61%	(1.09%)
Total Risk-Based Capital Ratio	16.69%	16.87%	(1.07%)

Powering the Future

Imagine your community bank in 2025. How will it be shaped by the trends and market forces we see in community banking today?

- **Regulation and compliance** – overcoming the added expense and stress created by the mounting burden of regulation and compliance
- **Competition** – staying competitive with other banks and nonbank entities that offer traditional banking services
- **Earnings pressure** – meeting the demand for innovative ways to cut costs and enhance revenues in an environment of shrinking margins
- **Technology** – keeping pace with the rapid advance and increasing cost of technology in operations, payment systems and cyber-security
- **Mergers and acquisitions** – managing the pressure to grow as mergers and acquisitions continue to push up the size of the "average" community bank

Clarifying this vision of community banking in 2025 is one of our highest priorities at United Bankers' Bank. We are continually asking ourselves what we need to do NOW to ensure that the products and services community banks need to succeed are ready tomorrow. To help you save money, empower managerial decisions, remain competitive, strengthen communities, improve efficiencies and generate revenue – that's UBB. And that's our Annual Report for 2014: *Powering your success today AND tomorrow.*



"ALMEdge is not just a report; it is a full-service line of risk modeling and management products delivered via the latest technology with expert consultation."

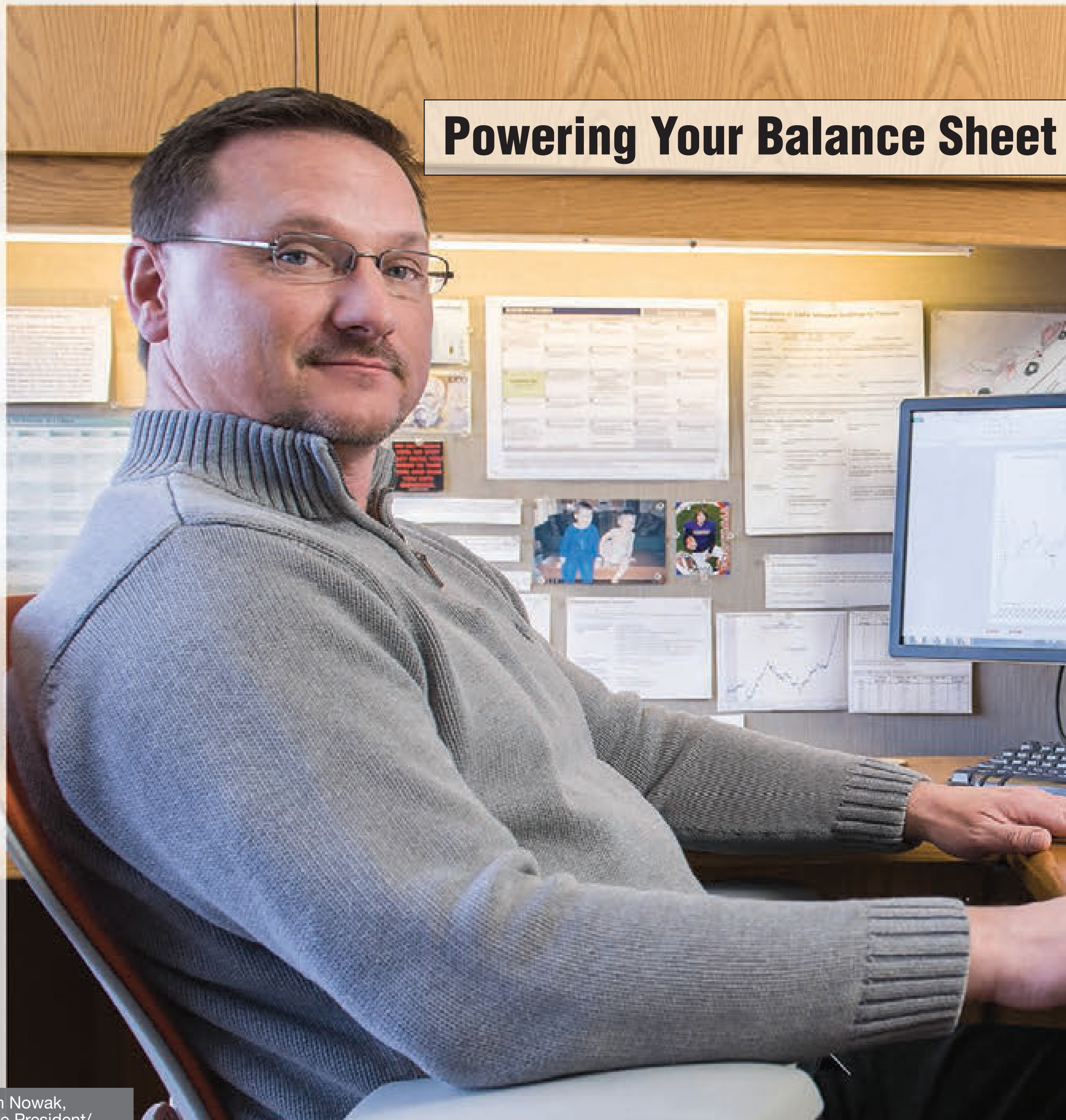
– Jim Nowak, Vice President, Risk Management; Director, ALM*Edge*®

Jim Radtke, *Vice President, Investment Sales/ Trading Manager*

Ben Eskierka, *Senior Vice President/Chief Investment Officer*

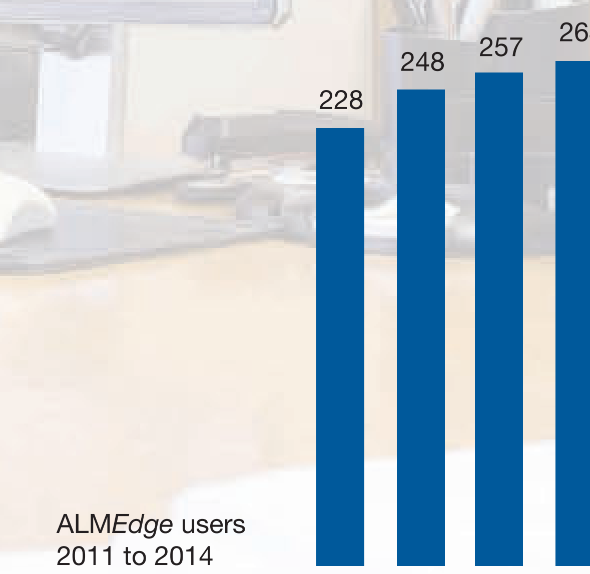
Jim Nowak, *Vice President/ Risk Management; Director, ALMEdge®*

Powering Your Balance Sheet



Jim Nowak,
Vice President/
Risk Management;
Director, ALM*Edge*®

> *ALMEdge is state of the art in the banking industry. But here's the deal: I can sit down with Jim Nowak at UBB, and he's got all my data in front of him. We go through it line by line, and talk about what our strengths and weaknesses are. Now I'm ready before I go into that exam. You'd never get that service anywhere else.*
>
> – Dick Behl, President,
> Farmers and Merchants State Bank,
> Scotland, SD



ALM*Edge* is a suite of management tools and services that is relied on by bankers to guard their balance sheets from interest rate volatility. Based on a model built specifically for community banks, the ALM*Edge* quarterly report delivers all pertinent data tailored specifically to a banker's balance sheet in a clutter-free synopsis that's easy to understand and relay to regulators.

Expert advisors are always available to interpret macro trends, apply them specifically to each customer bank, and help define the best tools and techniques for facing whatever is ahead. Today, more than 260 bankers in 12 states depend on ALM*Edge* and UBB's investment team to manage their balance sheets.

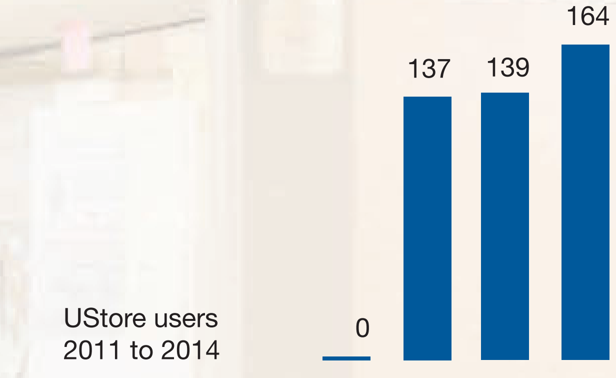
"Our check-exchange solution, UNETexchange is only one of the many ways UBB Operations has assisted our customers in saving money by decreasing their backroom costs."

– Mary Sherman, Vice President/ UNET*exchange* Manager

Powering Your Back Room

Anne Hofstede, *Senior Vice President/Chief Operations Officer*

> *UBB is constantly enhancing its existing products and developing new ones, like UNETexchange, ID theft protection and the new compliance service. This breadth of products stands out when I talk to other bankers. You just have a lot going on at UBB that you don't always see at other bankers' banks.*
>
> – Bryan Grove, President, American State Bank of Grygla, Grygla, MN



Pierre Merlin, *Senior Vice President/Chief Information Officer*

UNET*exchange* allows community banks to achieve substantial savings by exchanging and clearing items with our local, regional and national bank partners. Since its inception in 2007, the check-clearing rate for UNET*exchange* has soared from an average of 10 to 15 percent to over 70 percent today.

Customer feedback has also inspired UBB to roll out UStore in 2012, an online archive service. UStore enables customer banks to store and easily access massive amounts of archived data, including ACH transactions, imaged cash letters and wires. UBB maintains the latest security protocols and storage technologies, which means community banks save money on expensive equipment and upgrades.

UBB Operations offers many other deposit services through UNET.web™, its online banking system, including wire transfers, ACH, coin and currency, Fed funds management and international payment services.

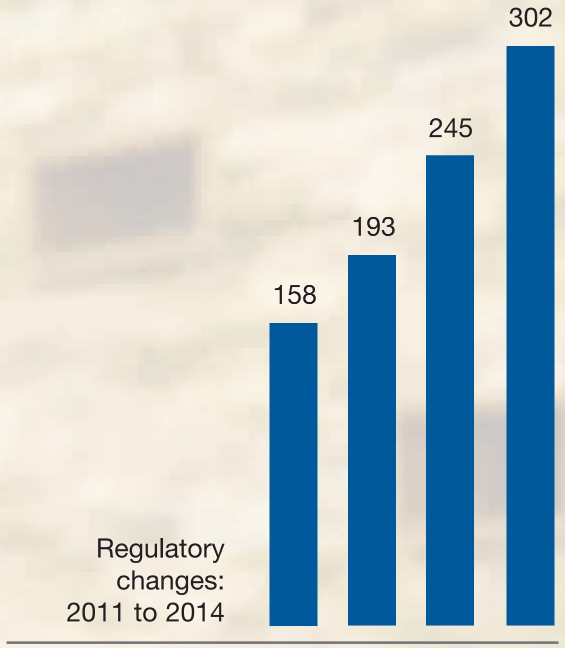
Dwight Larsen,
Vice President/ BankValue Program Manager

Matt Becker,
Vice President/ Senior Financial Analyst, BankValue

"I think UBB does its homework before it rolls out new products, services or enters new markets. And once they do so, they do it with gusto. Once they commit, they never back off. UBB has steadfastly and continually pursued and grown their market share so they can, in turn, provide us with the services we need."

– Bart Langemeier, President,
Bank of Bridger, Bridger, MT

Powering Your People



UBB Compliance Services was established in 2014 to help community banks comply with the ever-increasing myriad of regulations in a cost-effective manner.

Employees expend a tremendous amount of time and energy researching and implementing new regulations. In the fourth quarter 2014, for example, 79 regulatory changes were announced, which took an estimated 1.26 full-time employees to research and implement. The burden falls on existing employees, distracting them from other day-to-day responsibilities. This added workload causes mistakes, which can lead to costly enforcement actions.

UBB Compliance Services consultants will help community banks monitor and implement regulatory requirements for much less than it would cost to hire a full-time compliance officer. The service features policy review and development (including on-site compliance review and training), advertisement, website and disclosure reviews, and access to a toll-free hotline.

Additional consulting products provided by UBB include bank valuations and human resource management services, as well as identity theft protection and credit monitoring.

"Many community bankers do not have the time and resources needed to remain in compliance with current regulatory requirements. UBB Compliance Services offers these bankers a cost-effective solution."

– Kassia Holt,
UBB Compliance Services

"By using UBB as a loan participation partner, community banks are able to meet the credit needs of their best customers when they are unable to meet them on their own."

– Kevin Bostrom,
Senior Vice President/
Chief Credit Officer

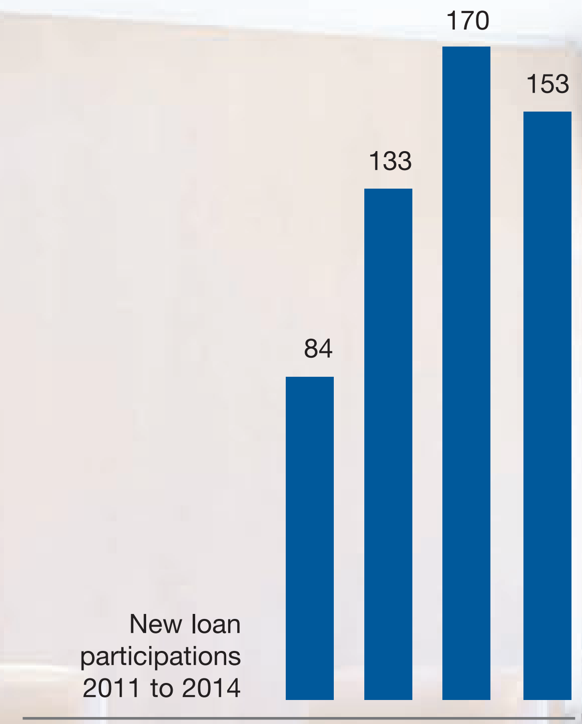
Powering Your Community

Conrad Newburgh, *Vice President/ Senior Credit Officer*

Kevin Bostrom, *Senior Vice President/ Chief Credit Officer*

Dawn Tollefsrud, *Vice President/ Credit Administration Manager*

> *"After going through what we've gone through in community banking the past five years, we're closely scrutinizing all our business partnerships. UBB earned our trust long ago, but they never rest on their laurels. They make things happen, and stand up to scrutiny again and again."*
>
> – Brian Nicklason, Chairman & President, Woodland Bank, Deer River, MN



Small businesses need credit to expand. When they do, jobs are created, incomes improve and the entire community benefits from the increased economic activity. Community banks are the main source of credit for small businesses. If they are unable to provide that credit due to constrained lending capacity, the opportunity for economic growth may be lost.

UBB Lending has always understood this vital equation in community banking. First and foremost, we do not compete with our customers for loan business. We have an experienced and motivated team of lenders who provide banks with responses and loan decisions in a timely manner.

Additional lending services provided by UBB include bank stock lending, merchant processing, and business and consumer card programs.

Bill Rosacker,
President/CEO

Powering Your Success

The community bankers I talk to today have questions about the future. "What's just over the horizon in technology, in the marketplace and in Washington, D.C., that stands between me and my goals and dreams?" We simply must help community bankers answer those questions. And while no one can predict the future, we can do everything possible to be ahead of the curve – to be in a position to help our customers meet these challenges and protect their interests.

Here is why we believe UBB will be ready:

- **Shareholder Strength –** UBB now enjoys the support of more than 260 shareholders in nine states. This creates a diverse capital foundation for UBB that balances risk across several regional economies. To that end, we will continue to expand our shareholder base throughout our market territory in the years to come.

- **Growth and Expansion –** Over the past decade, UBB has expanded from the Midwest and the Plains states to the Pacific Northwest, Michigan and most recently into Illinois. Today, we serve more than 800 financial institutions in 12 states. We believe strategic growth is essential to our ability to build and maintain a robust suite of products and services for all our customers.

- **Product Development and Innovation –** By listening to our customers and keeping an ear to the ground for the latest trends in banking, we're always evaluating new products and services to provide our community bank customers. Many times that means building new products or services ourselves when nothing more suitable exists in the marketplace.

- **Full Service, Full Time –** We offer one of the broadest and deepest product portfolios in the industry. While some correspondents come and go depending on the economy, our commitment to each of the markets we serve is unwavering. And that includes a tradition of knock-your-socks-off customer service from exceptional staff here at the bank and in the field.

Our goal in all of what we do is to power your balance sheet, your back room, your people, your community and, ultimately, your success!

Sincerely,

Bill Rosacker,	Dick Behl,
President & CEO	Chairman

Five-Year Summary of Selected Financial Data as of December 31

Consolidated Balance Sheets

	2014	2013	2012	2011	2010
Assets					
Cash and Due from Banks	$ 56,794,586	$ 24,439,913	$ 35,971,817	$ 56,952,417	$ 57,615,312
Available-for-sale Securities	245,649,332	244,754,672	279,462,326	203,281,109	257,836,475
Federal Funds Sold & Securities Purchased Under Agreements to Resell	93,815,000	94,652,000	71,968,000	29,604,000	34,890,000
Loans	372,095,004	335,920,023	293,590,175	258,770,846	273,370,519
Allowance for Loan Losses	(8,072,737)	(9,412,792)	(9,402,354)	(11,412,339)	(11,289,042)
Trading Account Securities	2,426,231	-	2,945,376	1,017,743	143,912
Other Assets	25,418,538	25,165,344	21,691,934	25,296,287	30,887,504
Total Assets	$ 788,125,954	$ 715,519,160	$ 696,227,274	$ 563,510,063	$ 643,454,680
Liabilities & Stockholders' Equity					
Deposits:					
Noninterest-bearing Demand Deposits	$ 403,665,078	$ 364,391,859	$ 487,362,100	$ 453,254,549	$ 442,647,372
Interest-bearing Time Deposits	189,684,000	172,898,000	114,338,000	-	-
Federal Funds Purchased	101,329,000	99,017,000	20,920,000	44,937,000	151,370,000
Other Liabilities	15,787,892	6,203,655	4,672,510	3,372,613	6,564,160
Stockholders' Equity	77,659,984	73,008,646	68,934,664	61,945,901	42,873,148
Total Liabilities and Stockholders' Equity	$ 788,125,954	$ 715,519,160	$ 696,227,274	$ 563,510,063	$ 643,454,680
Loan Participations Sold	$ 178,159,313	$ 156,403,910	$ 140,518,358	$ 136,003,548	$ 163,167,074
Common Stock Outstanding	51,934	51,934	51,606	51,224	40,488

Five-Year Summary of Selected Financial Data for Years Ended December 31

Consolidated Statements of Income

	2014	2013	2012	2011	2010
Interest Income:					
Loans, including fees	$ 16,004,660	$ 14,731,771	$ 13,476,776	$ 13,861,599	$ 17,033,434
Securities/Other	2,715,775	3,236,702	2,877,693	3,781,633	3,214,934
Federal Funds Sold & Securities Purchased Under Agreements to Resell	328,604	283,970	183,561	230,152	268,958
	19,049,039	18,252,443	16,538,030	17,873,384	20,517,326
Interest Expense:					
Time Deposits	1,258,031	862,171	66,966	-	-
Federal Funds Purchased/Other	21,848	45,670	19,589	91,463	66,242
	1,279,879	907,841	86,555	91,463	66,242
Net Interest Income	17,769,160	17,344,602	16,451,475	17,781,921	20,451,084
Provision for Loan Losses	(1,000,000)	(435,000)	800,000	5,109,386	11,908,300
Noninterest Income:					
Service Charges	7,185,517	7,385,612	7,230,333	8,313,072	6,927,216
Trading Commissions	3,759,223	5,170,317	6,877,871	6,963,188	7,248,377
Other	4,462,928	4,053,497	3,956,598	3,537,234	3,538,863
	15,407,668	16,609,426	18,064,802	18,813,494	17,714,456
Noninterest Expense:					
Salaries & Employee Benefits	11,696,371	11,088,857	11,007,400	10,426,196	10,385,641
Federal Reserve Service Charges	3,121,427	2,978,135	2,927,069	3,148,021	3,228,379
Occupancy	3,325,718	2,994,543	2,944,088	2,341,951	2,091,520
Data Processing	2,561,257	2,835,016	2,855,722	3,179,476	2,661,981
FDIC Insurance	344,726	451,594	651,498	726,750	1,772,195
Other	4,777,526	4,222,681	3,529,165	6,973,547	4,811,841
	25,827,025	24,570,826	23,914,942	26,795,941	24,951,557
Net Income Before Tax	8,349,803	9,818,202	9,801,335	4,690,088	1,305,683
Provision for Income Taxes	3,217,348	3,824,861	3,808,881	1,797,441	465,287
Net Income	$ 5,132,455	$ 5,993,341	$ 5,992,454	$ 2,892,647	$ 840,396

BOARD OF DIRECTORS

UBB *First* for Your Success™

Back Row Standing, Left to Right:

William Rosacker,
United Bankers' Bank,
Bloomington, MN

Theodore Umhoefer,
Annandale, MN

Dick Behl,
The Farmers and Merchants State Bank,
Scotland, SD
Chairman

Connie Weinman,
Edina, MN

Gregory Traxler,
First National Bank of Le Center, Le Center, MN
Vice Chairman

Brian Nicklason,
Woodland Bank,
Grand Rapids, MN

Front Row Seated, Left to Right:

Bryan Grove,
American State Bank of Grygla,
Grygla, MN

Lonnie Clark,
State Bank of Chandler,
Chandler, MN

Mission Statement

Provide the resources enabling community financial institutions to evolve and remain community based, while building enhanced shareholder value and providing a rewarding workplace for employees.

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Dick Behl
The Farmers and Merchants State Bank, Scotland, SD
Chairman

Gregory Traxler
First National Bank of Le Center, Le Center, MN
Vice Chairman

Lonnie Clark
State Bank of Chandler, Chandler, MN

Wayne Finnern
Farmers State Bank of Madelia, Inc., Madelia, MN

Bryan Grove
American State Bank of Grygla, Grygla, MN

Brian Nicklason
Woodland Bank
Deer River, MN

Theodore Umhoefer
Annandale, MN

Connie Weinman
Edina, MN

OFFICERS OF UBBI

William Rosacker
President

Charles Hokans
Vice President/Secretary

Karen Knafla
Treasurer

OFFICERS OF UBB

William Rosacker
President & CEO

Charles Hokans
Executive Vice President

Kevin Bostrom
VP Chief Credit Officer

Benjamin Eskierka
VP Chief Investment Officer

Anne Hofstede
SVP Chief Operations Officer

Karen Knafla
SVP CFO Cashier

Pierre Merlin
SVP Chief Information Officer

John Peterson
SVP Chief Marketing Officer

Dwight Larsen
VP Bank Value

Matthew Becker
VP Senior Financial Analyst

Betsy Troyer
VP of Bank Cards & Payment Manager

Craig McCandless
VP Regional Sales Manager

Jay R. Syverson
VP Regional Sales Manager

Shane Bellefy
VP Correspondent Banking

Patrick Burnette
VP Correspondent Banking/Lender

Todd Holzwarth
VP Correspondent Banking

Mark Oliverio
VP Correspondent Banking

Richard Smith
VP Correspondent Banking

Todd Schultze
VP Correspondent Banking

Angela Orcutt
VP HR/Chief Security Officer

Brian Clark
VP Investments

Paul G. Dvorak
VP Investments

Joseph Gilboe
VP Investments

Peter Switenki Jr.
VP Investments

James Radtke
VP Investment Sales & Trading Manager

Eric Sundberg
VP Investment Trading

Conrad Newburgh
VP Senior Credit Officer

Edwin Janssen
VP of Lending

Lee LaMere
VP of Lending

William Salmonson
VP of Lending

Jack Youngberg
VP of Lending

Dawn Tollefsrud
VP Credit Administration Manager

James Nowak
VP Risk Management

Mary Sherman
VP UNET Exchange Manager

Mary Deziel
VP USource

Craig Nelsen
AVP IT Infrastructure

Anthony Girard
AVP Lending

Timothy Henry
Agency Managing Agent

Paul Jacobson
Bank Card Officer

Steven Beuning
Commercial Lending Officer

Susan Chavis
Compliance Officer

Gerald Hamlin
Compliance Officer Investments

Kayla Linder
Controller

David Kvist
Investments Operations Manager

Stephanie Forbes
Investment Trading Officer

Jeanne Berg
Loan Accounting Officer

Tyson Doke
Marketing Officer

Inge-Marie Poulsen
Operations Customer Service Officer

Paul Rogers
Operations Officer/Project Manager

David Emmons
Principal Trust Officer

Ashley Lemke
Senior Credit Analyst