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Peer Pressure

By Jim Nowak, Vice President, Risk Management

It's ironic that as youngsters we learned to avoid succumbing to "peer pressure" at all costs. Yet as adults in the world of community bankers, we seem to seek it out. Merriam-Webster defines a "peer" as, "one that is of equal standing with another; one belonging to the same societal group especially based on age, grade or status." According to this definition, other community banks are our peers, and we can narrow that definition to banks near our size, in our neighborhoods or even with the same number of locations. However, where in that definition does it say we should be able to achieve what our peers achieve? Just because we are of "equal standing" or in the "same societal group" doesn't guarantee equal financial results.

I meet/consult with many community bankers throughout the year and eventually, the discussion turns to what their "peers" are doing, and why are they doing so much



Bill Rosacker A Note from the President



The start of a new year is the best time of year, as it represents an opportunity for growth, expansion and development of new relationships. It is also a time to take on new challenges and meet them with truly innovative ideas and solutions. We look forward to expanding our product offering and introducing some new and exciting ways to connect with our customers in 2018.

In this issue's cover story, Vice President of Risk Management, Jim Nowak, discusses the importance of withstanding the pressure to keep up with our banking peers. He also outlines key factors for monitoring our peer comparisons, while maintaining an understanding that every bank is different and constrained by its own limitations.

Also included in this edition of the Independent, Ed Usalis, Vice President, BankValue provides an analysis of the merger and acquisition activity of 2017 along with some insight into the types of corporate transactions community banks should consider in 2018.

Vice President, International Business Development, John Beerling provides some examples of how UBB's currency exchange service can save community banks and their customers time and money when conducting international transactions.

If you have called the main UBB phone number, chances are you've talked to our Receptionist and Administrative Assistant as she connected you to the person or department you were looking for. Flip over to our Employee Spotlight feature on page 4 and learn about the person behind the phone, Michaela Zastera.

In our Keeping the Community in Community Banking feature, we learn how Iowa State Bank in Algona, Iowa has been living their *Helping People Succeed* motto for the past 90 years and how the bank has earned recognition as the Top Iowa Workplace over the past 6 years.

It's truly a privilege and an honor for all of us at United Bankers' Bank to serve you and to be a dedicated ally of community banking. Thank you for your business and the trust you have invested in us. As always, UBB is **First for Your Success.**

better/worse. Bankers show me the Uniform Bank Performance Report (UBPR) or an internal spreadsheet they developed to measure themselves against their peers. I understand that we need some sort of metrics with which to measure our financial performance, but in my experience, using **those** peer metrics to judge our financial success/failure is dangerous and counter-productive.

For example:
just because I

am standing on a basketball court and can dribble a basketball, doesn't mean I will be able to slam-dunk the basketball. My height at 5'10" is an obvious limitation that I can't change, and my 15-inch vertical jump won't help me either. Simple math can confirm I won't be able to dunk that basketball:

- The height of the basket is 10 feet or 120 inches tall
- My height is 5 feet, 10 inches or a total of 70 inches tall
- With my arm extended above my head, I am 97 inches tall
- My extended height of 97 inches plus my vertical jump of 15 inches equals 112 inches
- Doing the math, 120 inches minus 112 inches leaves me 8 inches short of the rim

My point is simply that when I am on the court (my peers are the other players on the court) my personal

limitations determine what I am able to achieve, not comparing my stats to theirs and expecting I should be able to achieve what they do.

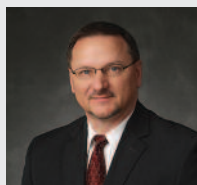


As community bankers, our limitations are not the same. We have different policy limits, amounts of capital, overhead structures, markets, risk tolerance, etc. We should focus on the maximum we can achieve based on our limitations –

maximizing our individual stats against our maximum potential.

Again, we have the math to help us realize our potential. The ALMEdge report provides an earnings and leverage analysis to demonstrate the earnings potential your bank has based on its individual limitations. My blog post at alm.ubb.com called "The Power of Math" shares helpful tips for maximizing your bank's financial performance.

Our business is hard enough as it is, adding peer pressure to the mix just makes it harder. Peer analytics like our PerformanceEdge product can be a useful tool for benchmarking, but the answer to maximizing your earnings success lies in your understanding of your own maximum potential and using that information to measure your performance.



Jim Nowak joined UBB in 2002 and is Vice President of Risk Management. He developed and manages ALMEdge®, UBB's asset liability modeling product. He is a regular on the national speaking circuit for many banking and industry associations and events, as well as a guest commentator on local news and radio stations (FOX9 and WCCO). Nowak specializes in the topics of risk management and economics.

2017 Bank Valuation Review and Outlook

The Impact of Community Bank M&A Activity

By Ed Usalis, Vice President, BankValue

With the Dow Jones Industrial Average gaining nearly 5,000 points, 2017 is a year we won't soon forget. Given the performance of the economy and broader financial markets this past year, we examined community bank performance to see how the industry was affected.

Performance of Publicly Traded Bank Stocks

When considering the performance of publicly traded banks, we use the SNL U.S. Bank Index which tracks 320 of the bank stocks that trade on the major stock exchanges. However, for comparisons with community banks, the SNL Micro Cap Index (comprised of 524 publicly traded banks with market capitalizations below \$250 million) increased approximately 20.95% in 2017. The performance of both of these indexes can be seen in the top graph.

Transaction Activity Involving Community Banks

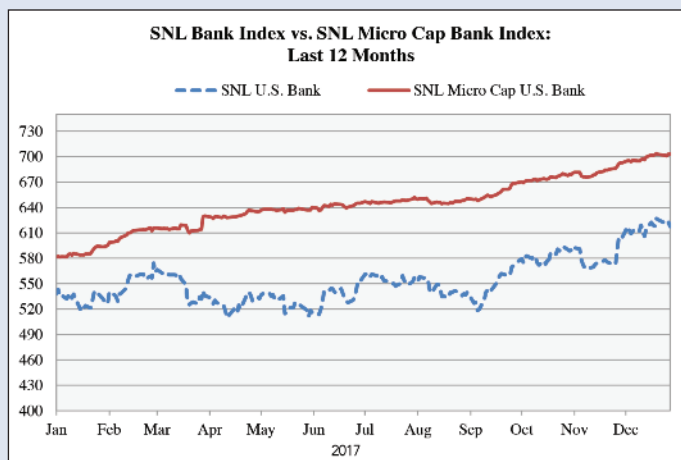
Many in the industry expected an increase in mergers and acquisitions as community bank performance improved.

In 2017, there were 258 transactions compared to 247 transactions in the prior year, resulting in a 4.5% increase. To illustrate the trend of transactions over the past 19 years, the bottom graph charts the annual number of bank mergers and acquisitions in the United States from 2008 through 2017, as well as the median deal value to tangible book value ratio for each year.

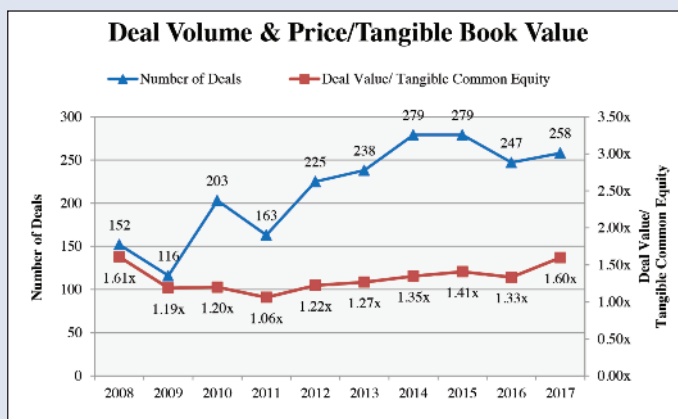
Also shown by the bottom graph, while deal activity has fluctuated, transaction multiples (as measured by deal value/tangible common equity) are at their highest levels since 2008.

Implications for Community Bankers

The strength of the economy and transaction multiples are indications that now may be the right time to consider a variety of corporate transactions including: raising capital, ownership transitions or establishing an employee stock ownership plan. United Bankers' Bank can help you with these transactions. Contact your Correspondent Banking Officer or our BankValue Team for more information.



Source: S&P Global Market Intelligence
(www.marketintelligence.spglobal.com)



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(www.marketintelligence.spglobal.com)



For more information on BankValue Advisory Services, contact Ed Usalis, Vice President, BankValue at **952-886-9525** or **Ed.Usalis@ubb.com**.

**United Bankers' Bank
Call Report (unaudited)
12/31/2017**

Balance Sheet (000's)

Assets:

Cash and Due from Banks	\$ 29,495
Investments	\$ 108,211
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$ 106,447
Loans	
Outstanding	\$ 616,407
Loss Reserve	\$ (6,954)
Other Assets	\$ 33,401
TOTAL ASSETS	\$ 887,007

Liabilities and Capital:

Deposits	\$ 680,897
Fed Funds Purchased	\$ 59,374
Other Liabilities	\$ 51,065
Equity Capital	\$ 95,671
TOTAL LIABILITIES & CAPITAL	\$887,007

INCOME STATEMENT (YTD)

Interest Income	\$ 28,730
Interest Expense	\$ 4,132
Net Interest Income	\$ 24,598
Loss Provision	\$ 577
Net Interest Income (After Provision)	\$ 24,021
Other Income	\$ 15,763
Total Income	\$ 39,784
Operating Expenses	\$ 32,161
Securities Gains (Losses)	\$ (15)
Net Income Before Taxes	\$ 7,608
Tax	\$ 4,248
NET INCOME	\$ 3,360



Family Members: daughters, Eliška and Anička; husband, Jason.

Pets: None.

What do you listen to on your drive to work: Either the Frozen soundtrack or my 4-year old screaming whichever is louder. ("Let it go...")

Interests: Anything crafty, cooking, baking, travelling.

If I could live anywhere in the world, I would live: Somewhere in Europe.

If I could have one super power (besides flying) it would be: Invisibility - I'd use it on daily basis.

Many people don't know that I: Own a small Etsy business called "Czech Out My Bows" ("Czech" it out!).

If I was not working in banking I would: Be a flight attendant.

I started working at UBB in: November 2016.

My favorite part of working in banking is: My wonderful coworkers and my boss.

The best advice I ever got was: Trust your gut.

First For Your Success means: Providing exceptional customer service to our clients and putting their needs and interests first to help them succeed and grow.



Michaela with Anicka, Eliska and Jason in Prague



Eliska and Anicka



Michaela with Eliska and Anicka at Halloween

Solutions to Growing Demand for International Payments

By John Beerling, Vice President, International Business Development

Most of us would probably not be surprised to learn of the significant role played by international trade in the U.S. economy. This is supported by the fact that over 41 million jobs in the United States are dependent on international trade. In 2016 alone, the U.S. exported \$2.2 trillion and imported \$2.7 trillion in goods and services. While there is often concern over the level of imports and how that affects U.S. manufacturers, it is important to note that 60% of imports are comprised of the raw and intermediate goods U.S. companies use to produce final products.

What may not be understood is how many of the important players in this arena are community bank customers. Of the 300,000 exporting companies in this country, 98% are small to medium-sized businesses, along with one third of America's farmland. Contrary to this, approximately 75% of U.S. importers are small businesses with less than 20 employees.

United Bankers' Bank has been facilitating international payments for many years. Our banks and their customers have sought our help in this area, and we have always strived to find payment solutions. We are currently in the process of rolling out an enhanced platform that will increase the convenience for banks and their customers to transact foreign payments. In the past, foreign payments have often been a manual process of sending faxes and waiting for final confirmations of wire delivery. Our enhanced system allows for more efficient electronic transmissions and easier confirmations.

Many of our international payments involve customers sending U.S. dollars to foreign destinations. UBB encourages its customers to convert those funds into foreign currency on the front end, prior to sending the payment to its final destination. For example, a manufacturer in Europe might sell a part to a U.S. company hoping to receive €20,000, which is roughly

\$23,800. However, if the manufacturer is billing for the part in USD, it may be uncertain as to what exchange rate will prevail when the payment is received or if any fees are involved in the process. In order to provide protection from these risks, the manufacturer may bill \$26,000 to the U.S. company creating a 9% markup that may result in the difference between a profit or a loss to the U.S. company. The U.S. company can avoid these unnecessary markups by simply having the European company bill in EUR and sending the €20,000 directly to the manufacturer while United Bankers' Bank can process the conversion, charging the U.S. company roughly \$23,800 USD. As a result, the European company receives the amount it seeks and the U.S. company saves money and protects its profit margins.

Our new enhanced payments system includes an easy way to request a current quote indication that will convert a foreign amount to the U.S. equivalent creating simplicity in analyzing a U.S. denominated invoice.



Recently, we received a voicemail from a banker who wanted to discuss his client's foreign needs. The client was spending about 500,000 USD per year to import goods from the U.K., and had recently become aware that he was paying as much as 40,000 USD more than if he were paying in foreign currency. The U.K. company was unsure how much it would receive on any given bill. Not only could we provide assistance to send these payments in foreign currency, but also saved the client nearly \$40,000. Our enhanced platform will make it more convenient to send payments in foreign currency, and as a result, saves our customers money.

If you have a question about UBB's new, enhanced payments or would like more information about UBB's enhanced payment platform, please contact John Beerling, VP of International Business Development at 952-885-9508.



Keeping the Community in Community Banking

Iowa State Bank • Algona, Iowa

Within the vast corn fields of north central Iowa, sits the town of Algona with a population just over 5,000. Algona holds special prominence for being the headquarters location of a series of WWII prisoner of war camps. For almost 90 years, Iowa State Bank has been headquartered in the center of this quaint town. Iowa State Bank was the only bank in Algona to survive the Great Depression, and has since grown its presence in Algona as well as expanded its offices into the nearby towns of Ruthven, Corwith, and Wesley. Their philosophy of helping their employees be successful and enrich their skill sets has earned them 6 consecutive years as the Top Iowa Workplace. We visited with Tom Van Overbeke, President and CEO, to learn more about how Iowa State Bank is keeping the Community in Community banking.



Employee Funded Relay for Life Donation



Tom Van Overbeke

Bank Name:
Iowa State Bank

Bank Charter Location:
Algona, Iowa

Bank Representative:
Tom Van Overbeke, President & CEO

Asset Size: \$300 million

Number of Locations: Four

Number of Employees: 50+

Year Bank was Incorporated: 1928

City Population: 5,515



What is your community most known for?

Algona is rooted in some of the richest farm ground in the world. It is home to a diversified economy including manufacturing, insurance, education, healthcare and a busy retail district.

The city provides two school systems (public and private), a thriving health center, a vibrant YMCA, a new performing arts center, and numerous recreational opportunities. The local business district is dotted with unique retail spaces and anchored by one of eight Louis Sullivan-designed buildings, an object of architectural interest for decades. Algona boasts a unique WWII Prisoner of War Camp museum (Camp Algona POW) and is home to a well-known nativity scene created by WWII prisoners of war.

How is your bank involved in the community?

Iowa State Bank has a strong presence in the community through both financial and volunteer commitments.

In addition to bank contributions in excess of \$115,000 annually to local organizations, 97.3% of officers and staff are actively involved in numerous community organizations with 50% of our bank employees volunteering 20 hours or more annually.

Do you have any goals or programs in place to encourage bank employees to be active in the community?

The bank has offered strong support to the long-

standing, employee-driven Relay for Life team which recently launched the ISB Community Crusaders team to encourage staff to participate in expanded fundraising and volunteer opportunities in a variety of interests among the communities we serve.

What makes community involvement important to you and your bank?

Our employees live and work in the communities we serve and know our customers, their kids and their families. Working side-by-side with neighbors to make our local communities thrive is what community banking is all about.

What do you like best about your community?

North-central Iowa is a great place to be a banker. The communities we serve have the desire to be better and stronger, which is a wonderful atmosphere for a banker. We see local organizations, local business people, long-time citizens and newcomers all working together for great causes – starting businesses, expanding businesses and passing businesses to the next generation. In addition, Algona is embracing the arts and seizing opportunities to give our residents more entertainment opportunities. Being a banker in this environment gives you the opportunity to help make your local economy stronger and create more opportunities for everyone.

What do you like best about being a community banker at Iowa State Bank?

Iowa State Bank has a long history of helping people succeed. It is our tagline, and truly what we do. Since our bank was founded in 1928, we've had the opportunity to help shape the community of Algona and to embrace additional offices (Corwith, Ruthven and Wesley) with that same philosophy and enhance those communities as well.

Untapped Potential

By Jill Robiller, Bank Cards and Payments Manager

With nearly 30 million small businesses in the United States, there is a huge opportunity for community banks to connect with small business owners by providing them with the tools they need to run their business more efficiently. Small business owners tend to prefer banking with a community bank for their financial needs because they share the same sense of community support, personalize and tailor products to fit the needs of small businesses, and possess a familiarity that big banks lack.

It is UBB's goal to help you be successful and assist you in providing effective payment products and services that your small business customers can use, in turn creating a stronger relationship between the businesses and your bank. A small business owner coming into your bank to open an account unlocks a door for you to offer a business card or merchant services program at time of opening. This gives you another prime opportunity to generate additional non-interest income while providing a product or service that the customer may not have known you even offered. Proactively anticipating your customers' needs will help to foster a loyal relationship and reaffirm their



**Solutions for your business
that work as hard
as you do!**

Enroll Today
and Start Enjoying:

- Faster access to funds
- Dedicated customer support
- Secure payment transaction processing

Ask your business banker for more details
about Merchant Services.



**Solutions for Your
Business That**

**Work as
Hard as You Do!**

Accepting credit and debit cards for payment is more than just a swipe; it's about legitimizing your business, boosting sales, improving cash flow, increasing customer convenience, and leveling the competitive playing field.

decision to place their financial needs in your hands.

Having financial tools available for small business owners can help create a dynamic, long term, profitable relationship for both the small business and community bank, but only if the business owner knows about them. Integrating these products and services into the account opening process will help staff remember you have them available and foster that loyal relationship. The Bank Card Services department at United Bankers' Bank offers multiple forms of marketing materials at your disposal for

promoting Visa® Business cards, Merchant Services and Pre-Paid cards, such as brochures, table tents, posters and digital marketing graphics. If you need something that we do not currently provide, we can work with you to get what you need. For a small fee, any of the materials we supply, can be personalized to fit your bank's color scheme, logo, and brand.

To learn more about the card and payment solutions available or to request marketing materials for your bank, please contact the UBB Card Services team at 1-866-394-1985.



United Bankers' Bank
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Bloomington, MN 55431-1467

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If you have questions about our
products and services, please
call us at 1-800-752-8140.
www.ubb.com • Member FDIC

A graphic of a globe with a network of white lines connecting various points across the continents, symbolizing global connectivity.

International Payment Services

Provide your customers with access to the global marketplace

UBB's efficient and affordable international payment solutions make it easy for community banks and their customers to do business around the world.

UBB International Payment Services

- International Wire Transfers
- Foreign Check Collection
- Foreign Drafts
- Foreign Currency

For more information contact: John Beerling at 952-885-9508 or john.beerling@ubb.com