Striving for Premier Performance

UBB *First* for Your Success™

United Bankers' Bancorporation, Inc. | Annual Report 2019

2019 | 2018

Financial Highlights

For Years Ended December 31

	2019	2018	% Change
Consolidated:			
Net Income	**$ 4,544,665**	$ 4,936,803	(7.94%)
Return on Average Equity	**4.48%**	5.09%	(11.98%)
Return on Average Assets	**0.53%**	0.55%	(3.64%)
Total Assets	**$ 788,760,627**	$ 914,008,155	(13.70%)
Loans	**$ 622,881,349**	$ 649,596,678	(4.11%)
Total Liabilities	**$ 682,396,378**	$ 811,706,007	(15.93%)
Total Stockholders' Equity	**$ 106,364,249**	$ 102,302,148	3.97%
Agent Federal Funds	**$ 800,000,000**	$ 600,000,000	33.33%
Common Stock Outstanding	**56,580**	56,580	0.00%
Consolidated Per-Share Data:			
Weighted Earnings	**$ 80.32**	$ 87.25	(7.94%)
Book Value	**$ 1,879.89**	$ 1,808.10	3.97%
Dividends Declared	**$ 12.00**	$ 12.00	0.00%
United Bankers' Bank:			
Leverage Ratio	**12.72%**	11.33%	12.27%
Common Equity Tier 1 Risk-Based Capital Ratio	**13.96%**	12.97%	7.63%
Tier 1 Risk-Based Capital Ratio	**13.96%**	12.97%	7.63%
Total Risk-Based Capital Ratio	**15.17%**	14.00%	8.36%

BOARD OF DIRECTORS

Standing, left to right:

Brian Nicklason
Woodland Bank
Grand Rapids, MN

Connie Weinman
Edina, MN

Dick Behl
Farmers & Merchants
State Bank
Scotland, SD

Dwight Larsen
United Bankers' Bank
Bloomington, MN

Seated, left to right:

Bryan Grove
American State Bank
of Grygla
Grygla, MN
Chairman

Greg Raymo
First State Bank Southwest
Worthington, MN

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

Dean Miller
First National Bank,
Bellevue
Bellevue, OH

UBB *First* for Your Success™

A Vision for the Nation's Premier Bankers' Bank

As I prepared to write the introduction for this Annual Report, my first as President and CEO of United Bankers' Bank, my thoughts returned to one of my favorite quotes on business leadership:

Dwight Larsen
President / CEO

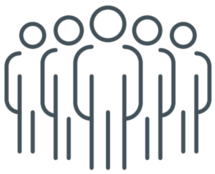
"The true value of an organization is measured by the desire others have to contribute to that organization's ability to keep succeeding, not just during the time they are there, but well beyond their own tenure."

– Simon Sinek, Author,
The Infinite Game

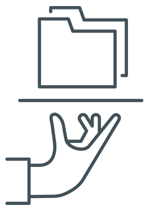
"Dwight is an outstanding fit for UBB's culture of product excellence and customer service – not only for the UBB we see today but also for where we believe the bank must go to meet the challenges of tomorrow."

– Bryan Grove, Chairman,
UBB Board and President of
American State Bank, Grygla, Minn

The 3 P's in Premier



People



Products

Performance

This notion perfectly describes the UBB I see today. Since its very beginning 44 years ago, UBB founders, shareholders and customers all knew they were building something special for a community banking future no one could predict. That same long-horizon perspective is at the core of the *First* for Your Success culture we share inside UBB. Our ultimate goal is to keep the long arch of this good story going for all our stakeholders – past, present and future – because it is indeed a very good story.

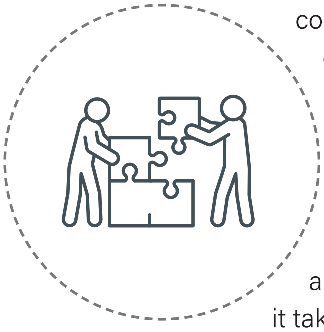
My vision starts with the same commitment to our original mission. It has served us and our customers well as UBB, the nation's first bankers' bank, has become one of the most successful in the country. We have strong financials to work from with a solid lineup of products and services. Most importantly, we have the accomplished, experienced and exceptional people needed to make it all happen.

But while our mission won't change under my watch, we still must position ourselves to keep pace with the future of community banking and the changing expectations of our customers. To build on an already great organization that will continue to stand the test of time, I believe we should strive to become the nation's premier bankers' bank. That means achieving exceptional financial strength with strong earnings and return on assets. That means developing new and existing products that make life easier and the bottom line healthier for customers. And that means inspiring employees to achieve their very best in an environment that is both professionally and personally rewarding.

We'll know we've achieved this distinction when UBB is the brand community bankers throughout the nation think of first when defining excellence in correspondent services. Definitely a lofty ambition, but as Sinek also wrote, "The goal is not to be perfect by the end, the goal is to be better today." I certainly don't have all the answers, but I have and will dedicate myself to listening to everyone in the UBB family on how we can continually improve.

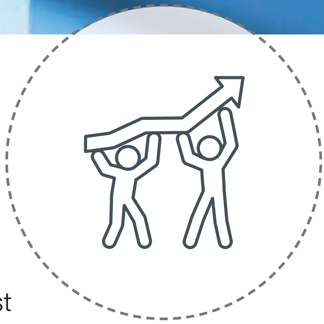
The rest of this annual report highlights a strategic plan built on what I'm calling the three P's in premier: People, Products and Performance. I am truly excited, humbled and sometimes just simply amazed that I have this opportunity to work with such an incredible group of people to shape this historic narrative. I look forward to hearing from, and working with, all of you to write the next chapter in the best-selling story of United Bankers' Bank.

Let's Start With People



Every banker reading this knows how critical quality staff is to the success of a community bank, and how difficult it has become to find and retain exceptional talent. As a mirror reflection of our community bank customers, we too have always recognized that it takes experienced, accomplished and dedicated people to deliver remarkable results.

"I've been in hundreds of banks over the years as an examiner, and in my previous position here at UBB as head of our Consulting Services," said UBB President Dwight Larsen. "Banks with quality leadership attract the best people, perform the best financially and have the most impact on the success of their communities, hands down. We've been very fortunate over the years to have so many skilled, loyal and highly respected banking professionals call UBB home," Larsen said. "A top priority for my leadership team is to keep it that way for ALL our employees, from Millennials at one end of their careers to the Baby Boomers at the other."



On that score, Larsen reports several initiatives to energize and celebrate UBB culture, starting with a strong emphasis on two-way communication. Employees will weigh in with their thoughts in an annual survey, particularly important given that

The 3 P's in Premier: People, Products, Performance

People

there are now UBB staff located in every U.S. time zone. Larsen is holding "town hall" meetings with employees to listen and share his thoughts on strategic planning. And the UBB marketing department recently launched HUBB, an intranet portal that everyone in the bank can use to share information.

Also on the docket is celebration. "I don't think people here fully realize the positive impact they have on customer banks and their communities on a day-to-day basis. Understandable because it's easy to get caught up in the daily grind," Larsen said. "So, we've introduced the Chuck Hokans Gold Star Award, named after former UBB Senior Vice President of Marketing Chuck Hokans, who for 30 years always had a smile and an encouraging word for everyone.

"We just want to thank our people for going above and beyond to create special moments for our customers and for fellow employees at the bank."

\- Dwight Larsen

The 3 P's in Premier: People, Products, Performance

Focus on Products That Get Results

UBB offers its customers 75 services in six product categories: operations, lending, investments, insurance, bank cards and consulting. This is a testament to a long tradition of responding to customer needs with innovative product solutions. That tradition won't change, reports Larsen, who cites as an example new initiatives at UBB around faster payments, including the recently launched ExcheQ P2P payment technology (more next page).

Larsen makes clear, however, that he and his management team will hold product performance up to greater scrutiny with more emphasis on data-driven decision-making. "We started with a profitability analysis on every service we offer," he said, "and we learned a lot about which are the strongest performers. The idea now is to involve everyone at UBB in bringing them all up to a higher standard of performance," Larsen said.

One powerful new tool Larsen hopes will help his team better gauge both product demand and performance is now in development by UBB's information technology staff. Called the Business Intelligence Initiative, or BI for short, the project goal is to integrate multiple rich data sources that have previously been siloed within different departments. Paul Rogers, with the Federal Reserve for 26 years before joining UBB, is the project manager.

"Instead of only seeing key indicators from their own departments," said Rogers, "senior management will see a consolidated view of


Paul Rogers,
VP Strategic Projects

Mary Williams,
EVP Operations

key indicators from across all customer-facing departments. The result should be a clearer picture of product performance, rich data to better tailor services to meet the needs of community banks, and – at the end of the day – a stronger, more efficient UBB."

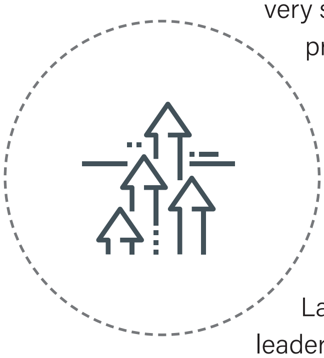
One product data point that's clear to UBB leadership is the significant challenges community banks face in maintaining a foothold in the race for faster payment technologies. Leading the response at UBB is Mary Williams, Executive Vice President in charge of Operations, who helped organize a working group of several bankers' banks called the Bankers' Bank Forum.

"The Forum is collaborating to ensure that community banks have access to commercially viable faster payment opportunities on their terms rather than those dictated by the nation's largest banks," reports Williams. "We are also reaching out to other stakeholders to discuss ways we can create shared standards and inter-operability for a faster payment infrastructure with as many endpoints as possible," she said.

Meanwhile, UBB launched ExcheQ P2P in 2019, recognizing that many customer banks want to offer their business and retail customers a faster payment solution sooner rather than later. Designed exclusively for community banks, ExcheQ allows users to quickly and securely send money via email or text with ACH settlement. Unlike many other P2P options out there today, the recipient doesn't need an app to receive payments, and there are no fees to send or receive funds.

Improve Performance, Improve Return

There's a reason performance is the third "P" in Larsen's strategic plan for guiding UBB to premier bankers' bank status. "If we don't get people and products right first," Larsen said, "we will struggle to deliver improved performance. And improved performance is everything if we believe in a UBB that will grow and compete in a future where there will be fewer community banks, they'll be bigger and they will demand a banker's bank partner with the capital strength to meet their needs."



The key measures Larsen has in mind are clear: improved earnings, improved cost management and improved return on assets. "Perhaps it's the examiner in me," Larsen said, "but I've always been drawn to banks with strong earnings. As I said earlier, UBB is already on very solid financial ground. So, a priority for me over time will be steady progress on growing our earnings and ROA," Larsen said.

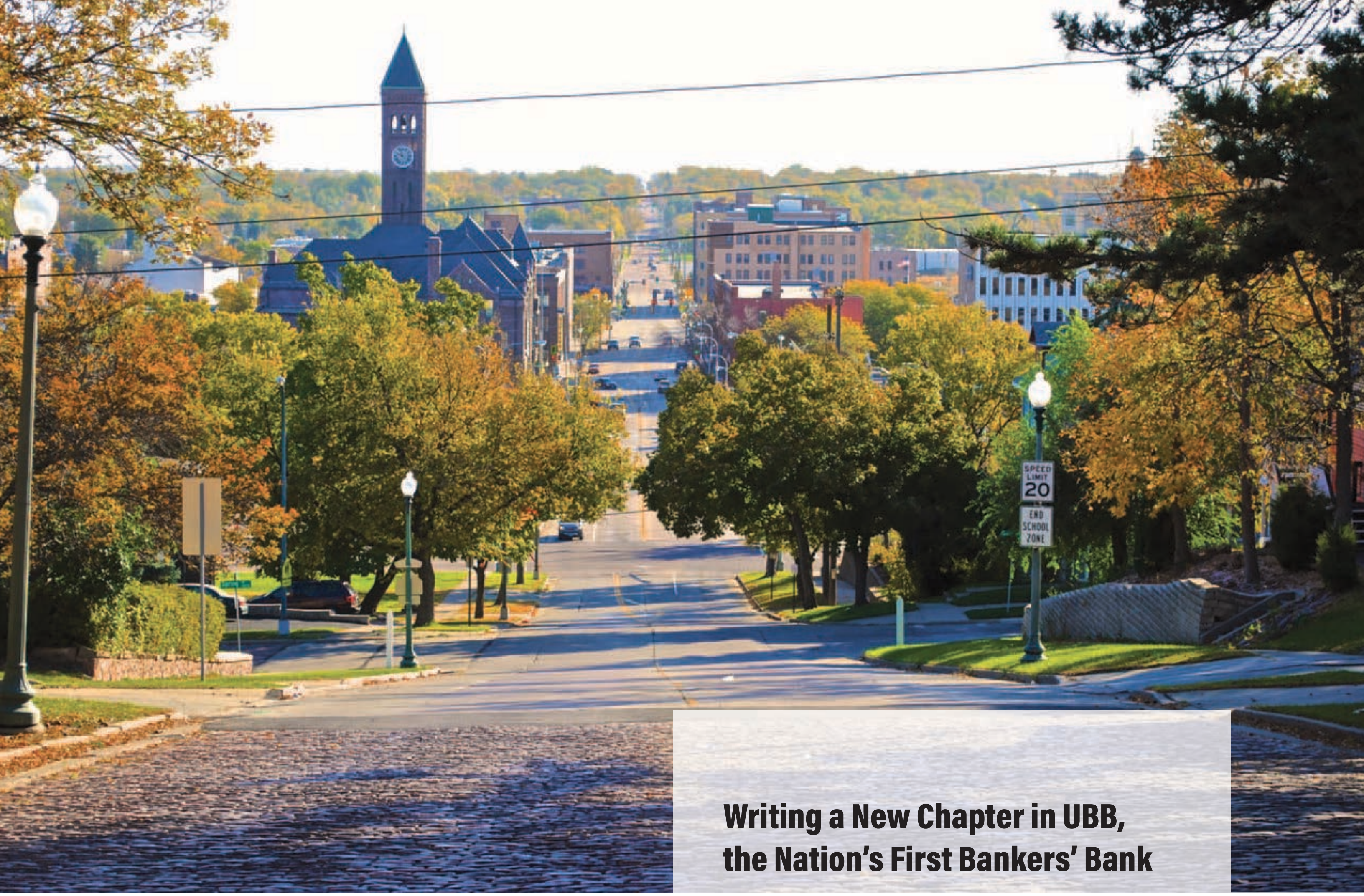
In addition to boosting income from product performance, Larsen is working with leadership throughout the bank to take a hard look at expenses as well. "We won't cut corners on our people and the resources they need to get the job done," Larsen emphasized, "but we

The 3 P's in Premier: People, Products, Performance

Performance

will use enhanced reporting to look at ways we can be more cost conscious. And quite honestly, everything is on the table, from products and services, to vendor contracts, to marketing," he said.

"Maybe it was my small-town upbringing or a dad that was very careful with his money," Larsen continued, "but I've always been that way too. What I have learned is profitable companies, including banks, have flexibility and the capital they need to take advantage of market opportunities when presented. Financial performance plus exceptional people and market-leading products all add up to becoming the nation's premier bankers' bank," he said.



Writing a New Chapter in UBB, the Nation's First Bankers' Bank

At this point in a conversation, I'd normally say it's time for me to let my hair down a bit … that is if I had hair! Naturally the UBB community – shareholders, customers, employees and business partners – wonder what makes this new CEO tick, and how that might change UBB.

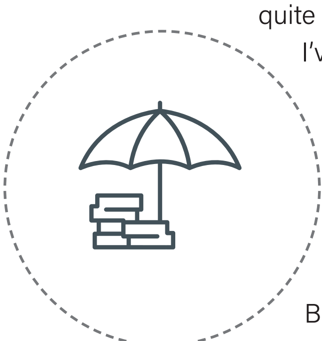
Let me assure you that everyone here remains firmly committed to helping you beat the pants off the regional and national banks in your communities. We will never compete with you for your customers, or facilitate competition by any other financial services organization. And we will always take great pride in supporting your time-honored roll of protecting the financial well-being and viability of Main Street America.

I can also tell you I'm bullish about

"We will always take great pride in supporting your time-honored roll of protecting the financial well-being and viability of Main Street America."

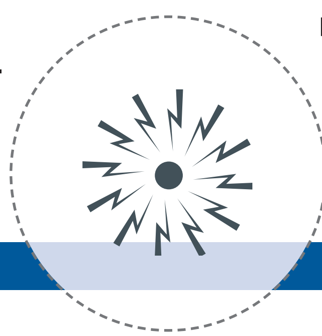
– Dwight Larsen, UBB CEO, only the third in the bank's 44-year history

the financial condition of community banking after another three years with the Office of the Comptroller of the Currency just before I took this job. Capital levels are quite strong, maybe the highest I've seen in my 35 years of banking. Certainly that's due in part to a strong economy, but it's also a reflection of the lessons learned over the past 10 years.

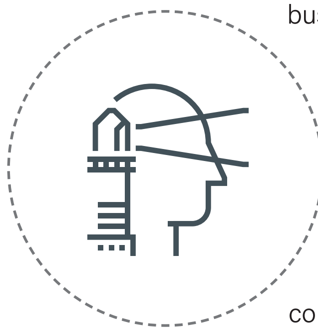


Boosting my optimism is my experience the past 20-plus years as a faculty member with the Graduate School of Banking at the University of Wisconsin Madison, where I've taught enterprise risk and asset-liability management. I've always been impressed with the caliber of the bankers that come through this rigorous program, especially in recent years with the next generation of bank officers and owners. Some people (mostly older) worry about Millennials, but I only see positives. Not only are they off-the-charts good with technology, they are thoughtful about their calling to serve their communities.

Not to say that the road ahead for community banks will be an easy ride. The pace of mergers and acquisitions continues. There were more than 18,000 charters in 1985 when I got into banking compared to roughly 5,300 today. Familiar pain points remain: compliance, technology and data security, non-bank competition and human resources. Many of our customer banks are also facing significant headwinds from a weak ag economy where net farm income nationally has dropped nearly 50% since 2013.



All of which tells me that our role at UBB to undergird the success of community banking is just as important today as it was 44 years ago, and that we need to continually up our game so that we can grow the products and services essential to fulfill that role. Simon Sinek, the business visionary I quoted earlier, calls this perspective the *infinite game of business*, which means success is measured in terms of generations rather than quarters. Nothing could be more fitting for a business outlook on community banking.



For my part, I can promise you that I will always be myself in this journey we are on. I'll be honest, open and forthright. I will be a leader that believes in the talented people I work with, one that listens first, recognizing that there is a lot I don't know. And when we are struggling through tough times, we'll get through it with humility, humor and faith. Because I understand what an honor it is to lead this bank and all it represents as the nation's first and oldest bankers' bank.

"When we help ourselves, we find moments of happiness. When we help others, we find lasting fulfillment."

Simon Sinek, Author,
The Infinite Game

First for Your Success™

Mission Statement

To provide the resources to help community financial institutions grow and remain community based while enhancing shareholder value and providing a rewarding workplace.

Vision

To be the correspondent of choice for community-based financial institutions.

Values

Customers First – Consistently seeking new and innovative ways to serve our external and internal customers:
First for Your Success.

Integrity – Behaving with the highest integrity in everything we do at work, at home, and in the banking communities we serve.

Empowerment – Encourage a work-life balance for the good of our employees and customers while promoting a sense of responsibility and accountability.

BOARD OF DIRECTORS

Bryan Grove
American State Bank of Grygla
Grygla, MN
Chairman

Brian Nicklason
Woodland Bank
Grand Rapids, MN
Vice Chairman

Dick Behl
Farmers & Merchants
State Bank
Scotland, SD

Dean Miller
First National Bank, Bellevue
Bellevue, OH

Greg Raymo
First State Bank Southwest
Worthington, MN

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

Dwight Larsen
United Bankers' Bank
Bloomington, MN

Connie Weinman
Edina, MN

OFFICERS OF UBBI

Dwight Larsen
President

John Peterson
Secretary

Karen Knafla
Treasurer

Kayla Linder
Assistant Treasurer

OFFICERS OF UBB

Dwight Larsen
President and Chief Executive Officer

Angela Orcutt
EVP Chief Human Resources Officer

Barbara Fugate
EVP Chief Information Officer/Chief Security Officer

Benjamin Eskierka
EVP Chief Investment Officer

Dawn Tollefsrud
SVP Chief Credit Officer

John Peterson
EVP Chief Marketing Officer

Karen Knafla
EVP Chief Financial Officer, Cashier

Mary Williams
EVP Chief Operations Officer

Kayla Linder
SVP Controller

James Radtke
SVP Investment Sales & Trading Desk Manager

Christopher Knight
SVP Regional Sales Manager

Jay Syverson
SVP Regional Sales Manager

Anthony Venditte III
VP Correspondent Banking Officer

Donna Blake
VP Correspondent Banking Officer

Elizabeth Woodruff
VP Correspondent Banking Officer

J Arlt
VP Correspondent Banking Officer

Jeanne Speas
VP Correspondent Banking Officer

Peter Ziegler
VP Correspondent Banking Officer

Robert McGovern
VP Correspondent Banking Officer

Shane Bellefy
VP Correspondent Banking Officer

Todd Schultze
VP Correspondent Banking Officer

Susan Chavis
VP Compliance Officer

Edward Usalis
VP BankValue

Jeffrey Thompson
VP Managing Consultant - Compliance

Ronald Wolpert
VP Managing Consultant - Loan Review

Robert Greening
VP USource

Eric Sundberg
VP Investments

James Nowak
VP Risk Management

Joseph Gilboe
VP Investments

Patrick Burnette
VP Investments

Craig Nelsen
VP Infomation Technology Infrastructure

Paul Rogers
VP Strategic Project Manager

Anthony Girard
VP Lending

Doyle Hardie
VP Lending

Edwin Janssen
VP Lending

Jack Youngberg
VP Lending

Lee LaMere
VP Lending

Lisa Brusen
VP Credit Administration Manager

Steven Beuning
VP Lending

W. Scott Burke
VP Lending

Timothy Henry
VP Agency Manager

Tyson Doke
VP Marketing Manager

David Kvist
AVP Investment Operations Manager

Ashley Lemke
AVP Lending

Brian Leonard
AVP Portfolio Manager

Cynthia Rundorff
AVP Portfolio Manager

Jeanne Berg
AVP Loan Operations Manager

Anjanie Badhwa
Operations Wires Support Supervisor

Cha Thao-Vang
Operations Support Supervisor

Donna Lindboe
Assistant Controller

Gerald Hamlin
Compliance Officer Investments

Grant McNulty
Investment Sales Representative

Jennifer Brown
Human Resources Officer

Jill Robiller
Bank Cards & Payments Manager

Jillian Johnson
Operations Customer Service Officer

Kassia Holt
Senior Compliance Specialist

Kristine Thoman
Information Technology Business Partner & Service Manager

Mark Luukkonen
Information Security Manager

Steven Shierts
Development Manager

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

Consolidated Balance Sheets

	2019
Assets	
Cash and Due from Banks	$ 101,445,769
Available-For-Sale Securities	5,676,957
Federal Funds Sold & Securities Purchased Under Agreements to Resell	33,980,000
Loans	622,881,349
Allowance for Loan Losses	(9,140,297)
Trading Account Securities	1,438,056
Other Assets	32,478,793
Total Assets	$ 788,760,627
Liabilities & Stockholders' Equity	
Deposits:	
Demand Deposits	$ 372,394,343
Time Deposits	265,359,000
Federal Funds Purchased	36,783,000
Other Liabilities	7,860,035
Total Stockholders' Equity	106,364,249
Total Liabilities and Stockholders' Equity	$ 788,760,627
Loan Participations Sold	$ 225,792,423
Common Stock Outstanding	56,580

2018	2017	2016
$ 54,919,563	$ 29,495,174	$ 36,530,389
70,638,346	108,211,360	187,537,904
117,456,000	106,447,000	84,362,000
649,596,678	616,890,863	540,230,347
(7,905,347)	(6,953,798)	(6,636,367)
1,986,941	4,643,532	2,701,108
27,315,974	29,013,124	29,577,475
$ 914,008,155	$ 887,747,255	$ 874,302,856
$ 349,472,720	$ 404,722,632	$ 448,901,997
362,673,000	274,444,000	270,192,000
92,227,000	59,374,000	20,792,000
7,333,287	51,343,536	40,560,623
102,302,148	97,863,087	93,856,236
$ 914,008,155	$ 887,747,255	$ 874,302,856
$ 230,321,118	$ 255,424,261	$ 235,310,244
56,580	56,580	55,746

Four-Year Summary of Financial Data for the Years Ended December 31

Consolidated Statements of Income

	2019
Interest Income	
Loans, Including Fees	$ 29,639,308
Securities/Other	1,966,212
Federal Funds Sold & Securities Purchased Under Agreements to Resell	1,567,057
	33,172,577
Interest Expense	
Deposits	7,781,037
Federal Funds Purchased/Other	1,013,682
	8,794,719
Net Interest Income	24,377,858
Provision for Loan Losses	1,378,000
Noninterest Income	
Service Charges	4,176,013
Trading Commissions	3,225,300
Other	6,547,699
	13,949,012
Noninterest Expense	
Salaries & Employee Benefits	15,559,268
Federal Reserve Service Charges	2,243,838
Occupancy	3,852,749
Data Processing	3,024,498
Other	6,192,588
	30,872,941
Net Income Before Tax	6,075,929
Provision for Income Taxes	1,531,264
Net Income	$ 4,544,665

2018	2017	2016
$ 29,123,659	$ 25,125,755	$ 21,006,788
1,767,468	2,653,685	2,838,762
2,110,841	952,002	437,172
33,001,968	28,731,442	24,282,722
5,105,652	3,015,614	2,422,083
1,681,565	786,090	296,953
6,787,217	3,801,704	2,719,036
26,214,751	24,929,738	21,563,686
2,132,000	577,000	–
4,407,514	4,889,497	5,253,435
2,537,946	3,358,041	3,853,285
6,132,888	5,742,100	5,211,206
13,078,348	13,989,638	14,317,926
15,054,021	14,962,362	13,533,345
2,229,877	2,193,458	2,084,416
3,997,982	4,066,341	5,004,578
3,012,266	2,980,876	2,648,477
6,175,776	6,686,826	6,856,298
30,469,922	30,889,863	30,127,114
6,691,177	7,452,513	5,754,498
1,754,374	4,045,247	2,280,041
$ 4,936,803	$ 3,407,266	$ 3,474,457

First for Your Success™

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