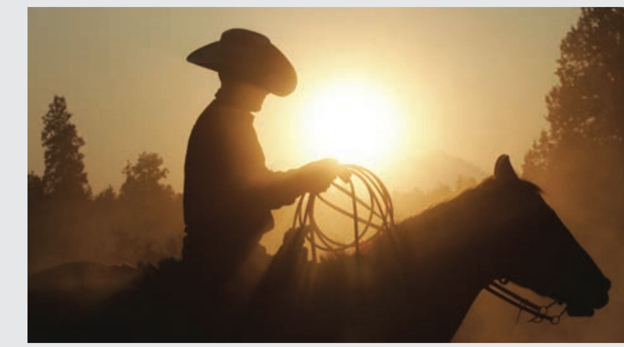
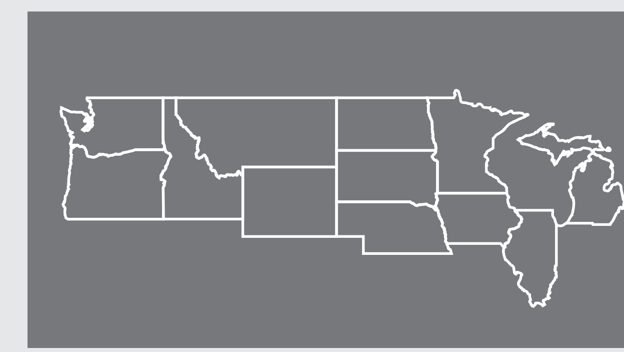
Strength in Numbers

*First* for Your Success™

United Bankers' Bancorporation, Inc. | 1650 West 82nd Street | Suite 1500 | Bloomington, MN 55431-1467
952.881.5800 | 800.752.8140 | www.ubb.com
Member FDIC

# Strength in Numbers





United Bankers' Bancorporation, Inc.

Annual Report | 2013

## Financial Highlights

| For Years Ended December 31 | 2013 | 2012 | % Change |
|---|---|---|---|
| **Consolidated:** | | | |
| Net Income | $ 5,993,341 | $ 5,992,454 | 0.01% |
| Return on Average Equity | 8.92% | 9.64% | (7.47%) |
| Return on Average Assets | 0.85% | 0.95% | (10.53%) |
| Total Assets | $ 715,519,160 | $ 696,227,274 | 2.77% |
| Loans | $ 335,920,023 | $ 293,590,175 | 14.42% |
| Total Liabilities | $ 642,510,514 | $ 627,292,610 | 2.43% |
| Total Stockholders' Equity | $ 73,008,646 | $ 68,934,664 | 5.91% |
| Agent Federal Funds | $ 150,000,000 | $ 380,000,000 | (60.53%) |
| Common Stock Outstanding | 51,934 | 51,606 | 0.64% |
| **Consolidated Per Share Data:** | | | |
| Weighted Earnings | $ 116.09 | $ 116.79 | (0.60%) |
| Book Value | $ 1,405.80 | $ 1,335.79 | 5.24% |
| Dividends Declared | $ 10.00 | $ 6.00 | 66.67% |
| **United Bankers' Bank:** | | | |
| Leverage Ratio | 9.09% | 8.77% | 3.65% |
| Tier 1 Risk Based Capital Ratio | 15.61% | 15.88% | (1.70%) |
| Total Risk Based Capital Ratio | 16.87% | 17.15% | (1.63%) |

Bill Rosacker

## *Strength in Numbers*

Dear Shareholders:

We are pleased to report that the state of United Bankers' Bancorporation, Inc., and United Bankers' Bank is profitable, growing and, in our view, poised for a very bright future. Indeed the bank's strong financial performance in 2013 was largely driven by the improvement that the majority of our customers experienced as local and regional economies continued to stabilize and grow.

In addition, long-term diversification strategies that we launched in the 1980s now provide access to a variety of divergent markets in the upper Midwest and Pacific Northwest. When we started, our experience was one state and all agriculture – corn and beans mostly. Now we have oil and ranching on the plains, timber, wine and fishing in the Pacific Northwest, potatoes in Idaho, and cherries in Michigan. As a result, we've diversified our revenue stream and transformed UBB into a much different bank than it was in 1985.

For example, our product portfolio has evolved to accommodate banks that are larger and more complex due to mergers and acquisitions. So from what we call the three-legged stool of deposits, investments and loans, we've added online banking, image exchange, asset liability management, bank valuation, human resources and insurance services.

But at the end of the day, our mission remains the same regardless of where we do business: improve profitability for our customers, provide products and services that will help them thrive, and always put their success first. It's a formula for strength that hasn't changed in almost 40 years!

Sincere regards,

Lonnie Clark
Chairman

Bill Rosacker
President / CEO




***Banking Along the Backbone of America***

Gaze west to east across the United Bankers' Bank service area and behold America's sturdy backbone. From the towering face of Mt. Rainer in the Pacific Northwest across the Rocky Mountains and out onto the Great Plains; from the rolling corn fields and family farms of the upper Midwest to the Great Lakes and the skyscrapers of Chicago – this is today's United Bankers' Bank and its 850-plus partnering financial institutions.

Each region has been uniquely forged by the climate, economies and cultural experiences of its people, which are clearly reflected by the community banks we serve. But no matter where they are located, all community bankers are united by one guiding principle: an enduring commitment to the financial wellbeing of their communities rather than Wall Street investors.

John Peterson
Senior Vice President/
Sales Manager

"UBB draws great strength from the diversity within our broad customer base. We've evolved our deposit, lending, investment and customized banking services to match the unique needs of bankers in each of these regions. Bankers in turn count on us to help them compete against the corporate banks in partnership with a correspondent they know has their best interests at heart."

Join us for a tour of the regions we serve and how what we call *Strength in Numbers* comes together to form a complete portrait of United Bankers' Bank in 2013.

# Strength in Experience

| Combined Years of Experience | |
|---|---|
| Correspondent Banking Officers | **161** Years |
| Lending | **74** Years |
| Bond Traders | **118** Years |
| Operations | **176** Years |
| Executive Team | **148** Years |


UBB Correspondent Banking Officer Rick Smith (left) with Jeffrey Sumpter and Trey Maust of Lewis & Clark Bank, Oregon City, OR

## Loyalty Builds Momentum in the Pacific Northwest

25,700

# of Miles Driven by Correspondent Banking Officer

The rugged spirit of the outdoors that personifies the northwestern states of Oregon, Washington State and Idaho creates a can-do spirit and deep loyalties among the community banks located here. Rick Smith knew that his colleagues expected the same from their correspondent when he became UBB's first Pacific Northwest Correspondent Banking Officer in 2009. "UBB stood behind its commitment to our region despite a deepening recession," Smith said, "offering all of its services – including loans – when some who had been here a lot longer were pulling back."

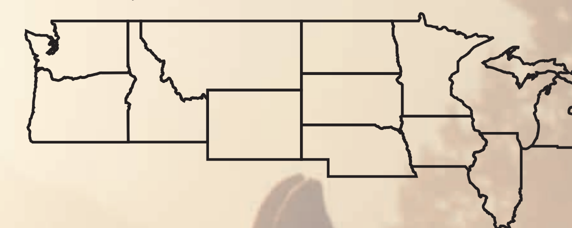
"Now with the economic recovery slowly picking up speed, the loyalty expressed in UBB's heartfelt slogan First for Your Success is beginning to pay off for us and the community banks here," he said. "We saw a significant increase in loan volume in 2012 and outdistanced that again in 2013. These are exciting projects like a new hospital or a major business expansion, for example, which might not have happened without our help."

"Everyone in the banking community here is fantastic – loyal, thoughtful, professional, just everyday humble – and I think they have found the people at UBB to be the same," Smith said. "I've heard customers say it is refreshing to work with a correspondent that is always looking for ways to make things happen rather than find ways to say no. I couldn't be more appreciative of how well bankers have accepted us these past five years. And we proved we weren't just sticking our toe in the water."

*Mount Hood, OR*

## Strength in Service

**957,540** Square Mile Service Area



UBB Customer Events Held

**12**

**459**

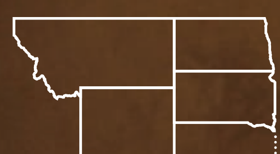
Customers Attending

**1,549** Bank Calls by Correspondent Banking Officers

X100

Total Miles Driven by UBB Correspondent Banking Officers

**202,515**



**61,998**

# of Miles Driven by Correspondent Banking Officers

UBB Correspondent Banking Officer Craig McCandless (left) with Sheri Nicholson of Beartooth Bank, Billings, MT and Ronald Boyd of Security State Bank, Basin, WY.


## Frontier Spirit Shapes Banking on the Great Plains

Many of the most iconic symbols of America's frontier heritage originate on the Great Plains. The Black Hills and Mount Rushmore. Yellowstone National Park and Old Faithful Geyser. The Wild West and the cowboy. "The bankers here are cut from the same cloth," says UBB Correspondent Banking Officer Craig McCandless, who with James Lee represents the states of Montana, Wyoming and North and South Dakota. "Many still start the day well before sunup, tending to their own farms and ranches before heading into the bank.

"UBB and its heritage as the nation's first bankers' bank were a perfect fit for these fiercely independent and often family-owned banks," said McCandless, who has served the region from his Montana home since 2000. "In some states, we now do business with 70 to 80 percent of the banks, often providing multiple products in addition to traditional deposit services."

Covering the vast distances between towns has always been a challenge on the plains, said McCandless, who often drives two or more hours between bank visits. "UNET.web™ cash management and UNETexchange are good examples of how we have helped our banks overcome this challenge, saving them both time and money."

"When you do well by people in the West, they never forget it. I think that's why we have never had a bank leave UBB in the 13 years I've been here, except for mergers and acquisitions. That really says a lot about the character of these bankers and the service we provide at UBB."

# Strength in Innovation

Product Suite

## 2013

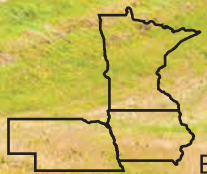
- ALMEdge®
- BankValue™
- Card and Merchant Services
- Depository
- Loans
- MoneyDesk
- UBB Securities
- UNETexchange®
- United Bankers' Agency®
- USource®
- UStore
- UTrust®

Product Suite

## 1980s

- Deposit
- Lending
- Investment

UBB Correspondent Banking Officer Jay Syverson (left) with Kurt Sundquist of Northern State Bank of Virginia, Virginia, MN and with Tim Viere and Dave Shumway of The First National Bank of Northfield, Northfield, MN.



**84,817**

# of Miles Driven by Correspondent Banking Officers

## The Bankers' Bank Is Born in the Upper Midwest

At one time, community banks were the law of the land as branching was prohibited. When regulations were relaxed in the early 1970s, community bankers from Minnesota watched the regional banks they relied on for correspondent services move in down the street and compete for their best customers. So in 1975, a spirited group of bankers here created the nation's first bankers' bank and United Bankers' Bank was born.

"The majority of UBB shareholders are still located in this region, which we joke is really like being married," said Jay Syverson, Correspondent Banking Officer, who with Todd Schultze, Teresa Brown and Christopher Denney serve customer banks in Minnesota, Iowa and Nebraska. "When you visit, you are always a little on the hot seat because they are the boss in a way. But big picture, this relationship drives every decision we make to what's best for the community bank as a whole, not what's most profitable for UBB," he said. "Our customers return that loyalty knowing they will have a trusted correspondent for many years to come."

"As part of the bargain, we have also invested heavily in new opportunities for our customers and now offer multiple products and services," added Syverson. "So there is always something we can bring to the table like bank stock valuations from BankValue™ Advisory Services, for example. No other bankers' bank has a division like BankValue."

"Like our customers, we've come a long way in nearly 40 years. We're not a small bank anymore, but we've never lost touch with the culture of service that is community banking."

## Strength in Product Growth

**2008 to 2013**
New Products Purchased:
**1,970**

**2008 to 2013** Growth

- 186 New DDA Accounts
- 129 New Active Trader Accounts
- 170 New ALMEdge Users
- 230 New UNET.exchange Users


UBB Correspondent Banking Officer Pat Burnette with Susan Eno of Citizens National Bank of Cheboygan, Cheboygan, MI.

## Community Bankers in the Great Lakes and UBB Think Alike

**30,000**
# of Miles Driven by Correspondent Banking Officer

You can hear the Michigan pride in Pat Burnette's voice when he talks about his role as UBB Correspondent Banking Officer to the Great Lake states of Michigan and Illinois. "There is a lot going on here again," he said, "manufacturing and commercial development, agriculture and tourism are back strong after some tough sledding during the recession. UBB came here in 2010 when other major players were pulling out, and I can tell you it made an impression. Our community bankers see a higher purpose in what they do for their communities that goes far beyond return on investment, and I think they feel UBB looks at business exactly like a Michigander would."

"In less than four years, we've gone from zero relationships to doing business with 40 percent of the banks in Michigan," Burnette said.

"While people may have given us a chance initially because of our community bank heritage, now they are hearing from other bankers in the region that we provide excellent customer service and products that can save them money."

Burnette tells this story about a banker he called on in west-central Illinois. "It had been a long day for both of us, but he was gracious enough to see me anyhow. Late in the conversation I mentioned we could save him money in operations. He said prove it to me and our operations staff, so we did. The eventual conversion was seamless to the point that today he considers us a strategic partner and recently became a shareholder."

Five Year Summary of Selected Financial Data as of December 31

## Consolidated Balance Sheets

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and Due From Banks | $ 24,439,913 | $ 35,971,817 | $ 56,952,417 | $ 57,615,312 | $ 78,956,867 |
| Available-for-sale Securities | 244,754,672 | 279,462,326 | 203,281,109 | 257,836,475 | 70,017,889 |
| Federal Funds Sold & Securities Purchased Under Agreements to Resell | 94,652,000 | 71,968,000 | 29,604,000 | 34,890,000 | 57,994,000 |
| Loans | 335,920,023 | 293,590,175 | 258,770,846 | 273,370,519 | 319,307,711 |
| Allowance for Loan Losses | (9,412,792) | (9,402,354) | (11,412,339) | (11,289,042) | (7,333,319) |
| Trading Account Securities | - | 2,945,376 | 1,017,743 | 143,912 | 2,243,911 |
| Other Assets | 25,165,344 | 21,691,934 | 25,296,287 | 30,887,504 | 18,656,095 |
| **Total Assets** | $ 715,519,160 | $ 696,227,274 | $ 563,510,063 | $ 643,454,680 | $ 539,843,154 |
| **Liabilities & Stockholders' Equity** | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing Demand Deposits | $ 364,391,859 | $ 487,362,100 | $ 453,254,549 | $ 442,647,372 | $ 487,773,533 |
| Interest-bearing Time Deposits | 172,898,000 | 114,338,000 | - | - | - |
| Federal Funds Purchased | 99,017,000 | 20,920,000 | 44,937,000 | 151,370,000 | 3,422,000 |
| Other Liabilities | 6,203,655 | 4,672,510 | 3,372,613 | 6,564,160 | 3,459,705 |
| **Stockholders' Equity** | 73,008,646 | 68,934,664 | 61,945,901 | 42,873,148 | 45,187,916 |
| **Total Liabilities and Stockholders' Equity** | $ 715,519,160 | $ 696,227,274 | $ 563,510,063 | $ 643,454,680 | $ 539,843,154 |
| Loan Participations Sold | $ 156,403,910 | $ 140,518,358 | $ 136,003,548 | $ 163,167,074 | $ 189,043,778 |
| Agent Federal Funds (Average) | $ 351,000,000 | $ 450,000,000 | $ 546,000,000 | $ 703,000,000 | $ 723,000,000 |
| Common Stock Outstanding | 51,934 | 51,606 | 51,224 | 40,488 | 40,488 |

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

## Consolidated Statements of Income

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Interest Income:** | | | | | |
| Loans, including fees | $ 14,731,771 | $ 13,476,776 | $ 13,861,599 | $ 17,033,434 | $ 17,968,724 |
| Securities/Other | 3,236,702 | 2,877,693 | 3,781,633 | 3,214,934 | 735,600 |
| Federal Funds Sold & Securities Purchased Under Agreements to Resell | 283,970 | 183,561 | 230,152 | 268,958 | 619,097 |
| | 18,252,443 | 16,538,030 | 17,873,384 | 20,517,326 | 19,323,421 |
| **Interest Expense:** | | | | | |
| Time Deposits | 862,171 | 66,966 | - | - | 1,576,729 |
| Federal Funds Purchased/Other | 45,670 | 19,589 | 91,463 | 66,242 | 36,379 |
| | 907,841 | 86,555 | 91,463 | 66,242 | 1,613,108 |
| **Net Interest Income** | 17,344,602 | 16,451,475 | 17,781,921 | 20,451,084 | 17,710,313 |
| Provision for Loan Losses | (435,000) | 800,000 | 5,109,386 | 11,908,300 | 5,562,500 |
| **Noninterest Income:** | | | | | |
| Service Charges | 7,385,612 | 7,230,333 | 8,313,072 | 6,927,216 | 4,958,395 |
| Trading Commissions | 5,170,317 | 6,877,871 | 6,963,188 | 7,248,377 | 5,279,360 |
| Other | 4,053,497 | 3,956,598 | 3,537,234 | 3,538,863 | 3,140,085 |
| | 16,609,426 | 18,064,802 | 18,813,494 | 17,714,456 | 13,377,840 |
| **Noninterest Expense:** | | | | | |
| Salaries & Employee Benefits | 11,088,857 | 11,007,400 | 10,426,196 | 10,385,641 | 9,267,998 |
| Federal Reserve Service Charges | 2,978,135 | 2,927,069 | 3,148,021 | 3,228,379 | 3,830,661 |
| Occupancy | 2,994,543 | 2,944,088 | 2,341,951 | 2,091,520 | 1,856,050 |
| Data Processing | 2,835,016 | 2,855,722 | 3,179,476 | 2,661,981 | 2,770,490 |
| FDIC Insurance | 451,594 | 651,498 | 726,750 | 1,772,195 | 1,336,615 |
| Other | 4,222,681 | 3,529,165 | 6,973,547 | 4,811,841 | 3,976,428 |
| | 24,570,826 | 23,914,942 | 26,795,941 | 24,951,557 | 23,038,242 |
| **Net Income Before Tax** | 9,818,202 | 9,801,335 | 4,690,088 | 1,305,683 | 2,487,411 |
| Provision for Income Taxes | 3,824,861 | 3,808,881 | 1,797,441 | 465,287 | 1,027,844 |
| **Net Income** | $ 5,993,341 | $ 5,992,454 | $ 2,892,647 | $ 840,396 | $ 1,459,567 |

## BOARD OF DIRECTORS

First for Your Success™

*Back Row, Left to Right:*

**William C. Rosacker**
United Bankers' Bank,
Bloomington, MN

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

**Lonnie E. Clark**
State Bank of Chandler,
Chandler, MN
***Chairman***

**James A. Espeland**
First National Bank
of Henning,
Henning, MN

**Theodore E. Umhoefer**
Annandale, MN

*Front Row, Left to Right:*

**Bryan K. Grove**
American State Bank
of Grygla,
Grygla, MN

**Connie G. Weinman**
Edina, MN

**Dick D. Behl**
The Farmers and
Merchants State Bank,
Scotland, SD
***Vice Chairman***

**Gregory G. Traxler**
First National Bank
of Le Center,
Le Center, 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.



## BOARD OF DIRECTORS

**Dick D. Behl**
The Farmers and Merchants
State Bank, Scotland, SD
Vice Chairman

**Lonnie E. Clark**
State Bank of Chandler,
Chandler, MN
Chairman

**James A. Espeland**
First National Bank of Henning,
Henning, MN

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

**Bryan K. Grove**
American State Bank of Grygla,
Grygla, MN

**William C. Rosacker**
United Bankers' Bank,
Bloomington, MN

**Gregory G. Traxler**
First National Bank of
Le Center, Le Center, MN

**Theodore E. Umhoefer**
Annandale, MN

**Connie G. Weinman**
Edina, MN

## OFFICERS OF UBBI

**William C. Rosacker**
President

**Charles C. Hokans**
Vice President/Secretary

**Karen G. Knafla**
Treasurer

## OFFICERS OF UBB

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President & CEO

LENDING

**Kevin W. Bostrom**
Senior Vice President/
Chief Credit Officer

**Jeanne M. Berg**
Loan Accounting Officer

**Anthony M. Girard**
Assistant Vice President

**Todd T. Holzwarth**
Vice President

**Paul E. Jacobson**
Bank Card Officer

**Edwin F. Janssen**
Vice President

**Conrad M. Newburgh**
Vice President/
Senior Credit Officer

**William C. Salmonson**
Vice President

**Dawn M. Tollefsrud**
Vice President

**Betsy V. Troyer**
Vice President/
Bank Cards & Payments Manager

**Jack E. Youngberg**
Vice President

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Senior Vice President/
Chief Marketing Officer

**Teresa L. Brown**
Vice President

**Patrick R. Burnette**
Vice President

**Christopher T. Denney**
Vice President

**James E. Lee**
Vice President

**Craig R. McCandless**
Vice President

**John L. Peterson**
Vice President

**Todd C. Schultze**
Vice President

**Richard D. Smith**
Vice President

**Jay R. Syverson**
Vice President

**Tyson C. Doke**
Marketing Officer

BANKVALUE

**Dwight R. Larsen**
Vice President

**Matthew C. Becker**
Vice President

UTRUST

**David Q. Emmons**
Principal Trust Officer

UNITED BANKERS' AGENCY

**Timothy P. Henry**
Managing Agent

INFORMATION TECHNOLOGY

**Pierre Merlin**
Vice President

**Craig P. Nelsen**
Assistant Vice President

**Paul L. Rogers**
Operations Officer/
Project Manager

UBB SECURITIES

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Senior Vice President/
Chief Investment Officer

**Brian J. Clark**
Vice President

**Paul G. Dvorak**
Vice President

**Joseph G. Gilboe**
Vice President

**David G. Kvist**
Investment Operations Manager

**James A. Nowak**
Vice President/
Risk Management

**James M. Radtke**
Vice President

**Stephanie L. Rosacker Forbes**
Investment Trading Officer

**Eric R. Sundberg**
Vice President/
Investment Trading

**Peter C. Switenki**
Vice President

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Senior Vice President/
Chief Operations Officer

**Inge-Marie Poulsen**
Customer Service Officer

**Mary J. Sherman**
Vice President/
UNETexchange Manager

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**Karen G. Knafla**
Senior Vice President/
Chief Financial Officer

**Kayla K. Linder**
Controller

COMPLIANCE

**Susan K. Chavis**
Compliance Officer

**Gerald B. Hamlin**
Compliance Officer Investments

USOURCE

**Mary F. Deziel**
Vice President

HUMAN RESOURCES

**Angela F. Orcutt**
Vice President