First for Your Success™

News, Analysis and Perspective for Community Banks by the Nation's **First** Bankers' Bank

Independent

Summer 2021

A Quarterly Publication of United Bankers' Bank

Member FDIC

This Issue:

Diversity, Equity, and Inclusion: The Next Challenge for Community Banks

By Jeff Thompson, CRCM

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 required federal regulatory agencies overseeing the financial sector to establish joint standards for assessing the diversity policies and practices of the institutions they regulate. The Standards were released in 2015, and each of the agencies reports annually to Congress regarding their progress.

Over the past several years, this particular section of the Dodd-Frank Act has gone mainly unnoticed. However, with the new administration and the current mood in our culture, the agencies are once again focused on diversity, equity, and inclusion. This makes it a good time to refresh everyone's memory on what Section 342 is all about and provide some steps that banks of all sizes can take to prepare for their next examination, where this may be a focus for your regulators.

Section 342 required all federal financial regulatory agencies to establish an Officer of Minority and Women Inclusion (OMWI). The OMWI at each agency is responsible for all matters relating to diversity in management, employment, and business activities. Also required by Section 342, each OMWI must develop standards for assessing the diversity policies and practices of institutions regulated by that agency.

The Standards adopted by the prudential regulators and the

Next Challenge continued pg 2

Dwight Larsen A note from the President

This late summer edition of the Independent finds our UBB team in prime event season. Our team is attending a number of meetings and annual conventions throughout our 20 state territory, hosted by our valued banking association partners. Given the lack of in-person events held last year and the changing COVID environment, seeing the bankers' smiling faces at these events is even sweeter this year. I've had the honor to partake in a few events where I've enjoyed networking and catching up with many of you.

Chances are the subject of diversity, equity and inclusion has become a more frequent topic of conversations in the past year. In this issue's cover story, our Compliance Managing Consultant, Jeff Thompson dives into Section 342 of the Dodd-Frank Act with steps to prepare for this part of your next examination.

We had a few changes this summer that we are excited to announce. Though we were sad to see Karen Knafla retire after 20 years at UBB, we are pleased to welcome Jennifer Severson as our new Chief Financial Officer. We also announced a partnership with J Outlaw Consulting to add check vendor negotiation consulting to our suite of services.

In the past year, our BankValue department transformed into a 3-person powerhouse of valuation knowledge and expertise, led by Assistant Vice President, Mike Klinger. In his debut article, Mike explains the impact COVID-19 continues to have on community bank valuations. Mike is also our employee spotlight, so flip over to page 4 to learn more about his interests and life outside of UBB.

Are you looking to grow the expertise of your team? Our Operations department is often asked what certifications will best strengthen a bank's operations team. With seven certified professionals, our Operations team explains their favorite certification programs.

The FedNow program is underway and making progress. This past January, UBB was selected to take part in the FedNow Pilot Program. By working with financial institutions and FinTechs nationwide, UBB is honored to contribute to the new faster payments service.

UBB's First For Your Success tagline is more than just a statement, but a commitment to the many community bank customers we serve. To gauge the awareness and recall of our customer service, logo, name and brand, we conducted a regional survey of financial institutions. A summary of our survey results can be found on page 3. I would like to extend a thank you to those that participated in the survey, we appreciate your time and input.

American Interstate Bank (AIB) and the town Elkhorn, Nebraska have an interesting history spanning over 121 years. As the only remaining bank chartered in Elkhorn, AIB's CEO, Dan Palmquist explains how they are *Keeping the Community in Community Banking* on page 6.

Summertime represents a significant demand for the time and resources of a community bank and its employee volunteers. From community celebrations, to fundraisers and parades, you and your staff are always there to support and lend a helping hand. Your involvement enriches the lives of your customers, neighbors and friends. For this, I thank you for everything you and your teams do. I hope you enjoy the remaining weeks of summer with family and loved ones. Take care and, as always, UBB is *First* for Your Success.

Next Challenge from pg 1

CFPB in 2015, include the following five major sections:
1. Organization Commitment to Diversity and Inclusion
2. Workforce Profile and Employment Practices
3. Procurement and Business Practices – Supplier Diversity
4. Practices to Promote Transparency of Organizational Diversity and Inclusion
5. Entities' Self-Assessment

Section 1 is fairly self-explanatory. If an organization is committed to diversity, equity and inclusion, it needs to come from the top. Boards of directors and senior management teams are expected to demonstrate their commitment via policies, hiring practices, training, and regular reporting of the success of the programs implemented.

Section 2 speaks directly to how an organization hires and fosters a diverse workforce. Policies and procedures, attention to equal opportunity practices, outreach to women and minority organizations, outreach to educational institutions, participation in events that promote inclusion, quantitative and qualitative measurements, and holding management at all levels accountable for diversity and inclusion efforts are just a few of the ways the Standards promote diversity in the workforce.

Section 3 is a bit trickier, because this is mainly about things that are happening outside your own organization. The Standards encourage the use of minority and women owned businesses as suppliers or third party contractors. They also suggest that institutions should set goals in this regard and measure how those goals are being met.

Section 4 is all about telling the world about your diversity, equity and inclusion policies and practices. Utilizing your website and other communications, institutions are expected to promote their own diversity programs including the publication of your strategic plan, any policies regarding your commitment to diversity, and reporting on your progress.

Section 5 may be the most important section of the Standards, particularly for community banks outside urban centers. Each institution is tasked with developing a self-assessment that sets goals, periodically measures those goals, and then revisits the goals based upon the success or failure of its diversity programs. The reason this is so important is that all five of the Standard sections begins with, "In a manner reflective of the individual entity's size and other characteristics." Your self-assessment is the roadmap to your "size and other characteristics" that drives your ability to implement diversity, equity and inclusion policies and practices.

This self-assessment can help ensure that you are staying on track with the spirit of diversity and inclusion programs but only within the context of the reality in which you operate. For instance, a community bank near an urban center is much more likely to have a significant minority population from which to draw talent, whereas many rural community banks do not. Nothing in these standards would require a rural community bank to "import" talent into the area that does not necessarily exist. Conversely, the bank a little closer to an urban center should have a deeper understanding of the demographic makeup of its market and work toward a workforce that reflects those demographics. The results will vary from institution to institution, but it is important that you create your own reality through the self-assessment.

In conclusion, if you have not already begun a process of determining your diversity, equity and inclusion policies and practices, now is a good time to start. We recommend beginning with Section 5, your own self-assessment and then creating policies, practices, measurements and controls that are reflective of your size and other characteristics.

Jeff Thompson, Vice President, Managing Consultant – Compliance • 614-962-6528 • jeff.thompson@ubb.com

Brand Awareness & Customer Perception - Inspect What you Expect

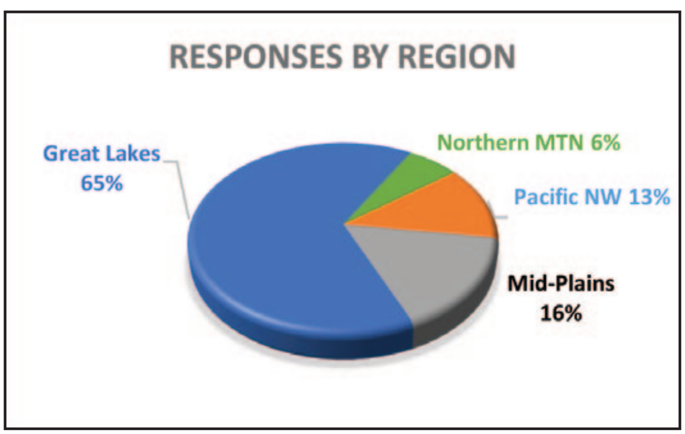
By UBB Marketing

At its core, a brand can be simply defined as the collective impact or lasting impression from all that is seen, heard or experienced by those who come in contact with a company and its products. Essentially a brand is more than a logo or catchy tagline but a culmination of everything a company's employees do to take care of their customers. A friendly face at the teller line, a pleasant interaction with a personal banker during a new account opening or a lender who goes above and beyond to ensure a first time home buyer understands each step of the loan process are all examples of brand building at work.

For over 46 years, United Bankers' Bank has been building its brand on a foundation cemented on trust, reliability and the unwavering pursuit to ensure our community bank customers' success. Like anyone else in their mid-forties it's generally good to take stock of what you're doing, how you're doing it and where you're going. At a recent strategic planning session, UBB's board of directors and executive team set a strategic objective to do just that. To find the answers, we enlisted the help of one of the nation's leading experience management companies to develop and distribute an unaided survey to be sent to decision makers representing 95% of the community banks throughout UBB's service territory. The primary goals of the survey was to gauge UBB's brand awareness, branding and advertising effectiveness, bank perception and overall level of satisfaction as it compares to our competitors.

Response

We received 111 responses to the survey from banks throughout our geographic footprint. The highest level of participation came from the Great Lake Regional states of Indiana, Michigan, Minnesota, Ohio and Illinois.



UBB Achieves Strong Brand Recognition

After the survey results were compiled, UBB recorded the following results with relation to brand perception, awareness and recall as it relates to the UBB logo and *First for Your Success* tagline.

- 97% Had heard of United Bankers' Bank
- 87% Recalled seeing the UBB logo
- 55% Recalled seeing UBB's *First for Your Success* tagline
- 87% Said UBB has a strong reputation
- 83% Said they would consider using UBB's products & services in the future
- 81% Said UBB cares about their bank's success

Utilizing the Results to Establish and Realize Objectives

While the findings of the study reinforce the strength of UBB's brand, they also help us identify areas where we can improve and continue our focus. Our focus always being on our commitment to community banks came through loud and clear in our survey results. We also learned information on how we can improve our communications and marketing messaging to more effectively connect with current and potential customers. The survey data stressed the importance of our in-person bank visits. These visits are an important element to the building and strengthening of relationships with community banks and are not going away. As restrictions begin to loosen, we will continue to attend banking association events held throughout the year, in addition to planning and hosting our own events starting later this fall.

The branding study provided us with a treasure trove of helpful and actionable data and insight that we plan to incorporate into our strategic marketing plans going forward. If you were one of the participants that took the time to respond to the survey, we thank you for your time and input.

United Bankers' Bank
Call Report (unaudited)
6/30/2021

Balance Sheet (000's)

Assets:	
Cash and Due from Banks	$ 148,446
Investments	$ 252,643
Fed Funds Sold & Securities Purchased Under Agreement to Resell	$ 31,218
Loans	
Outstanding	$ 645,483
Loss Reserve	$ (12,203)
Other Assets	$ 34,723
TOTAL ASSETS	$1,100,310
Liabilities and Capital:	
Deposits	$ 946,827
Fed Funds Purchased	$ 27,498
Other Liabilities	$ 7,585
Equity Capital	$ 118,400
TOTAL LIABILITIES & CAPITAL	$1,100,310

INCOME STATEMENT (YTD)

Interest Income	$ 13,542
Interest Expense	$ 1,090
Net Interest Income	$ 12,452
Loss Provision	$ –
Net Interest Income (After Provision)	$ 12,452
Other Income	$ 12,393
Total Income	$ 24,845
Operating Expenses	$ 15,573
Securities Gains (Losses)	$ –
Net Income Before Taxes	$ 9,272
Tax	$ 2,433
NET INCOME	$ 6,839

Employee Spotlight

Michael Klinger

Assistant Vice President, BankValue Manager

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Family Members: Wife - Allison

Pets: 2 Dogs – Bentley and Penelope

What do you listen to on your drive to work: Podcasts or Sports Talk Radio

Interests: Golfing, biking, going to concerts

If I could live anywhere in the world, I would live in: Asheville, NC.

If I could have one super power (besides flying), it would be: mind reading.

Many people don't know that: I lived in three states before I was three years old (CT, MI, WI).

If I was not working in banking, I would: work on a golf course.

I started working at UBB in: 2018.

My favorite part of working for UBB is: working with all our different clients.

The best advice I ever got was: Listen more than you speak.

First For Your Success means: A commitment to providing our clients with unparalleled customer service, expertise, and resources to ensure their continued success.

Mike with wife, Allison, in Colorado

Mike and Allison in Key West, FL

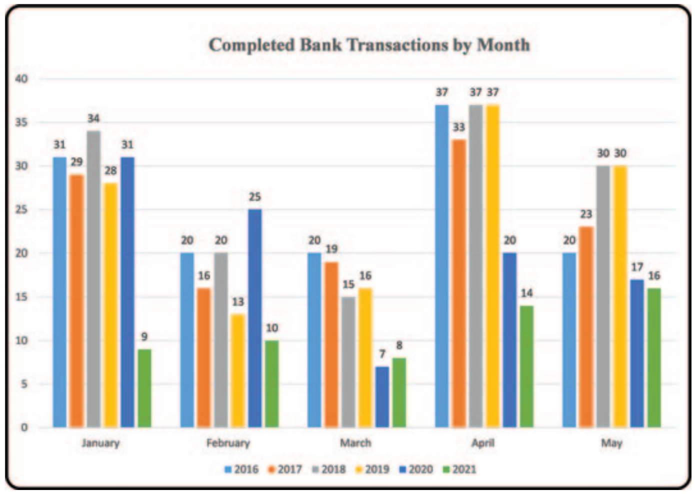
Mike's dogs, Bentley and Penelope

COVID-19's Impact on Community Bank Valuations

By Michael Klinger, Assistant Vice President, BankValue Manager
BankValue Advisory Services

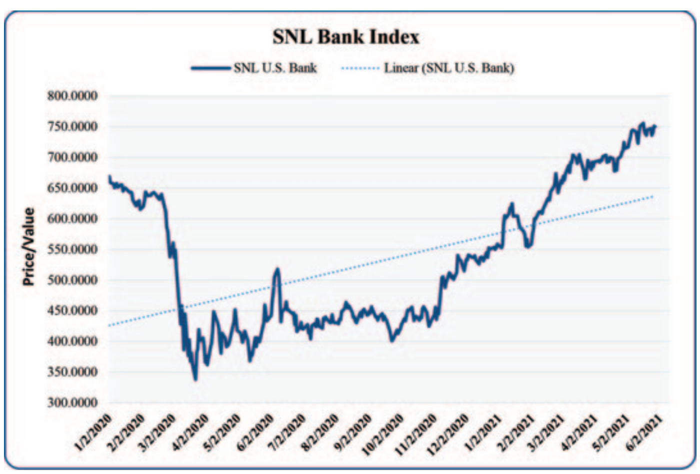
The last 18 months will undoubtedly be remembered for their impact on the economy and daily life, and the effects of the coronavirus pandemic can certainly be seen in the valuations of community banks.

After a healthy number of transactions at the start of the 2020, the coronavirus pandemic put most M&A discussions on hold across corporate America, including banks. The graph below, *Completed Bank Transactions by Month,* compares the number of completed bank transactions in the first five months of each of the last six years. The number of transactions decreased in 2020 and generally remains lower than historical levels through the first five months of 2021. Continued uncertainty remains regarding M&A activity throughout 2021.



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

Despite the slowdown in M&A activity, the broader bank indexes, as seen below, have recovered from the lows they experienced in Mid-March of 2020. The recovery of the *SNL Bank Index* over the last several months mirrors that of the broader market, however we believe community bank valuations may continue to be subject to some volatility throughout 2021.



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

While banks were generally better capitalized at the start of the pandemic than at the start of the 2008-09 recession, the extent of future pandemic related credit losses remains unknown. Those banks with greater exposure to retail and hospitality faced the greatest risks over the last year.

However, as vaccines have become available through the first half of 2021, more cities and states are beginning to open up and lift their restrictions, benefitting the aforementioned retail and hospitality industries the most.

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Keeping the *Community* in Community Banking

American Interstate Bank • Elkhorn, NE

On the western edge of Omaha, lies Elkhorn, NE. For over 121 years, it was a town all its own until it was officially annexed by Omaha in 2007. After more than 100 years, American Interstate Bank (AIB) still remains the only bank chartered in Elkhorn. We sat down with Dan Palmquist, President and CEO, to find out more about how AIB is *Keeping the Community in Community Banking*.

AIB office in Elkhorn, NE

Bank Name: American Interstate Bank

Bank Charter Location: Elkhorn, NE

Bank CEO: Dan Palmquist

Asset Size: $128M

Number of Locations: 2

Number of Employees: 15

Year Bank was Incorporated: 1915

City Population: N/A

AIB's Customer Appreciation Luncheon

What is your community most known for?
Elkhorn was established in 1886. It was a major stop in the early railroad days and become a popular suburb to Omaha as it grew. The Elkhorn River and the Platte River come together near Elkhorn. Elkhorn's excellent public school system ranks in the top 98% in the U.S.

How is your bank involved in the community?
The Bank supports many local organizations including the Eagles Club, Rotary Club, Christian Outreach Program of Elkhorn, Elkhorn Historical Society in addition to many of the various school clubs and activities. We also hold annual customer appreciation events where folks get together for lunch and social time. It is a highlight of our year.

Do you have any goals or programs in place to encourage bank employees to be active in the community?
Employees are always looking for ways to support the community. Several employees are involved in student mentoring through the Teammates Mentoring Program. Student groups have taken tours of the bank, and the bank has participated in work-study programs through the local high school. We have also have organized food drives for our local food pantry and held fundraisers for various causes.

What makes community involvement important to you and your bank?
As a community bank, we know that we can only be as good as the community we serve. AIB strives to do our best to maintain and strengthen our community pride and enhance the community bond.

What do you like best about your community?
Our town has experienced tremendous growth over the past 20 years. We believe that is it very important that we maintain a small town feel while enjoying the convenience that larger communities can offer.

What do you like best about being a community banker?
It has been one of the most rewarding opportunities of my life. I am able to work with a great staff of 15 who have a combined 188 years of service at AIB. I proudly put our dedication to providing excellent customer service up against any other organization.

Promoting Employee Growth Opportunities through Operations Certification Programs

Q: We have a fantastic operations team at my bank, but I want to help them grow in their knowledge and expertise. What operations certifications are available, and how would they be beneficial to my team?

A: We love that you are interested in helping to develop your operations team! Encouraging additional education and certification will make your team stronger and your operations processes more streamlined. There are several different certifications you could look into for your team, but here are three of our favorites:

National Check Professional (NCP): This certification is offered through ECCHO and is really beneficial for those team members that work with any aspect of the check payment system. The certification process categories include: Rules, Laws & Regulations; Fraud and Risk Mitigation; Operations and Products.

Accredited ACH Professional (AAP): This particular certification is valuable for employees that want to expand their knowledge within the field of Automated Clearing House (ACH). Employees with this certification become experts on ACH and can play an important role in not only day to day bank operations, but also in planning future payments strategies. This certification is offered by NACHA.

Accredited Payments Risk Professional (APRP): If you have an employee who gravitates toward risk management, APRP may be the right accreditation. An APRP learns the ins and outs of risk management for ACH, check, wire, card payments and other emerging payment vehicles. This certification is also offered by NACHA.

When planning and budgeting for the certification process, keep in mind that most certifications or accreditations require continuing education for your team members.

Right here at UBB we have the following certified professionals!

- Maria Patch, AAP, NCP & APRP
- Michelle Olson, NCP
- Sharon Becker, AAP & NCP
- Cha Thao-Vang, AAP & NCP, NCP Certified Trainer
- Tamara Umberhandt, NCP
- Ria Maharaj, AAP
- Elizabeth Woodruff, AAP

If you have any questions on certification or **want more information on the next NCP training/certification course UBB is offering,** please contact UBB Operations at 800-558-6878.

UBB Operations • 800-558-6878

Announcements

UBB welcomes Jen Severson, Chief Financial Officer

Jen Severson, Executive Vice President, Chief Financial Officer, joined UBB in June with over 19 years of community banking experience, most recently as a Senior Vice President and Senior Director of Minnesota Credit Strategy at American National Bank.

New Product!

On August 18, 2021, UBB announced a new partnership with J Outlaw Consulting to provide customers with check vendor contract negotiation services. Community banks working with the firm can expect lower per product pricing and the addition of a new source of revenue.

UBB Participating in FedNow Pilot Program

This past January, UBB was honored to be asked to participate in the FedNow Pilot Program. Through this program, UBB is collaborating with other financial institutions and FinTechs nationwide to help develop the FedNow Service.

Our involvement with the pilot program ensures there will be a voice for our community banking partners with a goal to present a solution that is cost effective, easy to use and structured to help you serve the needs of your community and customers.

We are excited to see the result of such a vast collaboration of financial institutions across the country and look forward to serving your needs as the industry changes.

If you have any questions or would like to learn more about our involvement in this exciting program, please contact us at (800) 558-6878.

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