Empowering a Sustainable Future

United Bankers' Bancorporation, Inc. | Annual Report 2020

2020 | 2019

Financial Highlights

For Years Ended December 31

	2020	2019	% Change
Consolidated:			
Net Income	**$ 7,355,478**	$ 4,544,665	61.85%
Return on Average Equity	**6.91%**	4.48%	54.24%
Return on Average Assets	**0.69%**	0.53%	30.19%
Total Assets	**$ 1,345,074,753**	$ 788,760,627	70.53%
Loans	**$ 654,355,646**	$ 622,881,349	5.05%
Total Liabilities	**$ 1,230,048,816**	$ 682,396,378	80.25%
Total Stockholders' Equity	**$ 115,025,937**	$ 106,364,249	8.14%
Common Stock Outstanding	**57,272**	56,580	1.22%
Consolidated Per-Share Data:			
Weighted Earnings	**$ 129.02**	$ 80.32	60.63%
Book Value	**$ 2,008.41**	$ 1,879.89	6.84%
Dividends Declared	**$ 14.50**	$ 12.00	20.83%
United Bankers' Bank:			
Leverage Ratio	**8.28%**	12.72%	(34.91%)
Common Equity Tier 1 Risk-Based Capital Ratio	**13.44%**	13.96%	(3.72%)
Tier 1 Risk-Based Capital Ratio	**13.44%**	13.96%	(3.72%)
Total Risk-Based Capital Ratio	**14.69%**	15.17%	(3.16%)

Brian Nicklason
Chair
Woodland Bank
Grand Rapids, MN

Bryan Grove
American State Bank of Grygla
Grygla, MN

Curt Johnson
Cherokee State Bank
Cherokee, IA

Dean Miller
First National Bank of Bellevue
Bellevue, OH

BOARD OF DIRECTORS

Dwight Larsen
United Bankers' Bank
Bloomington, MN

Greg Raymo
Vice Chair
First State Bank Southwest
Worthington, MN

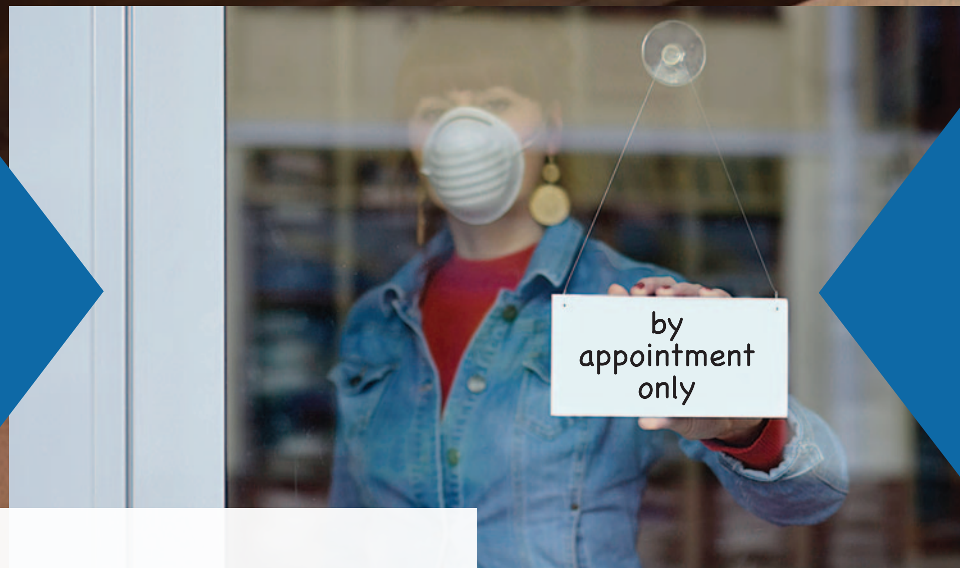
Jae Evans
Isabella Bank Corporation
Mount Pleasant, MI

Mike Johnson
University of Minnesota –
Technology Leadership Institute
Minneapolis, MN

First for Your Success™

"The decision to close the lobbies to appointment only was one of the hardest – if not the hardest – decisions I have ever made as an owner."

– Noah Wilcox, President/CEO, Grand Rapids State Bank, MN



Community Banks Deliver Once AGAIN

It's a dramatic story with high stakes and heroes, with uncertainty and concern finally giving way to victory. It's the story of community banks overcoming unprecedented challenges to deliver once again for their customers, their communities and the nation. It's 2020, a year of incalculable hardship and loss for all Americans but also undreamed of transformation that will forever change how we live and work. It IS the story, the only story possible, for this Annual Report.

So let's begin at the beginning with Noah Wilcox. As 2020 chairman of the Independent Community Bankers of America (ICBA) and the president of Grand Rapids State Bank in Minnesota, Wilcox navigated the pandemic at every level – as bank president, UBB customer, community leader and national point person for community banking.

When it became clear that Minnesota and the nation were heading for lockdown, Wilcox gathered his executive team and launched several initiatives that are now familiar protocol to community banks across the country:

- Rapid implementation of secure work and communication technologies
- Electronic management of closing documents and signatures
- Heightened communication with staff, customers and the community
- Agile adjustments to a constantly changing situation, from the severity of the virus to government safety mandates to revised banking regulations

At the time, though, it was all uncharted and uncertain territory. “In those first several months, we were just drinking from a fire hose,” Wilcox said.

Prioritizing the safety of both his customers and staff, Wilcox became one of the first bankers in the Ninth Federal Reserve District to close his bank lobbies and move to appointment only. “I’ve made a lot of very consequential decisions in my career, many that could probably make or break the business,” Wilcox recalled. “But I think the decision to close the lobbies to appointment only was one of the hardest – if not *the* hardest – decisions I have ever made as an owner.”

With logistics in place, the next priority for Wilcox and his Grand Rapids team, as well as his colleagues at ICBA in Washington, D.C., became “communicate, communicate, communicate!” Acutely aware of how important the community bank is to public confidence, regular communications were initiated to all the key stakeholders in the community bank universe, from customers and fellow bankers, to state and federal regulators, to Congress and the administration.

At home, Wilcox even replaced his bank’s extensive advertising campaign with personal messages of support for the community and local businesses. “We know it’s tough, and we’re here for you,” Wilcox said in his ads. “We’ve got your back.”

"Two things: Can we keep our staff safe? Can we meet our customers' needs?"

– Dwight Larsen, UBB President & CEO

First for Your Success – When It Matters Most

United Bankers' Bank, mirroring the community banks it serves, began its battle to overcome the COVID-19 crisis in similar fashion. "Two things," UBB President and CEO Dwight Larsen asked of his management team: "Can we keep our staff safe, number one? And number two, can we meet our customers' needs? Because we've got to do that."

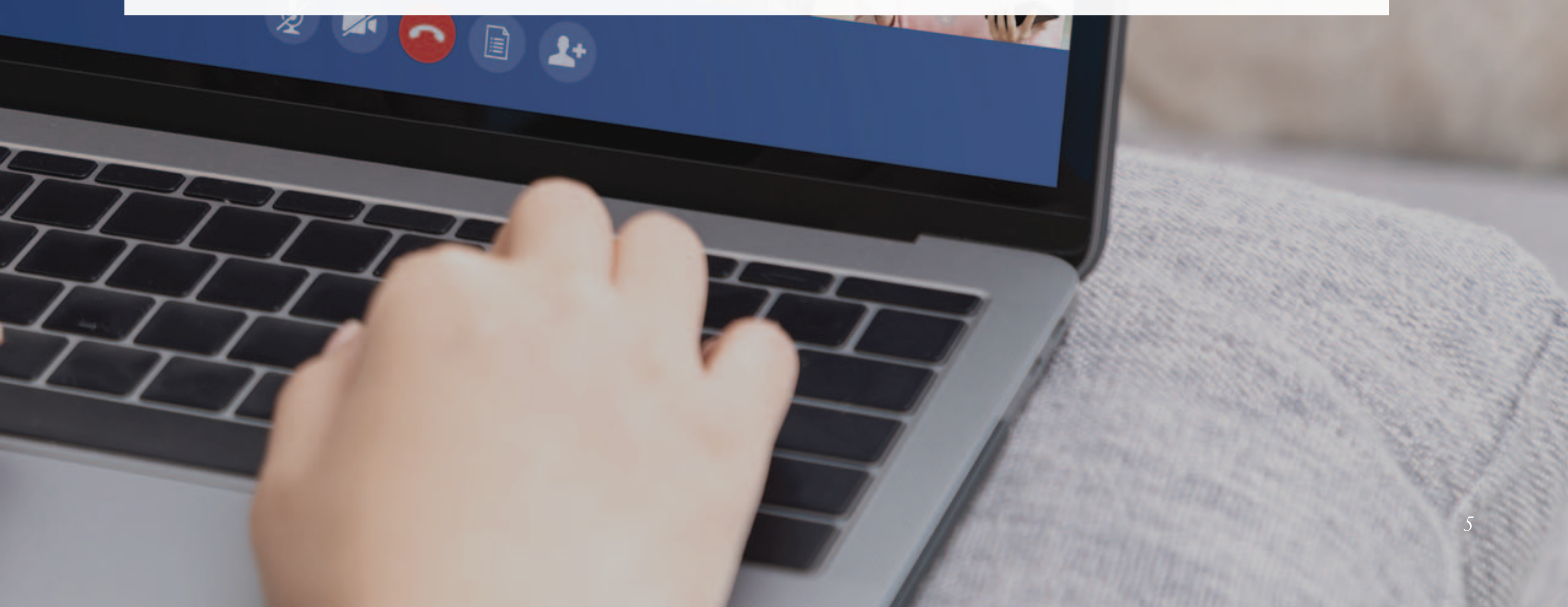
"There were long days and some late nights here, but we really didn't miss a beat in what we do for our customers on a daily basis."

– Mary Williams,
UBB Chief Operations Officer

Fortunately for Larsen and his colleagues at UBB, Barb Fugate, Chief Information and Chief Security Officer, has extensive training on business disruption, most recently with the M.S. Security Technologies program at the University of Minnesota. It also doesn't hurt that Fugate served as an intelligence officer in the Marines and was a player, coach and administrator with USA Rugby. "The best thing I could do as a leader was get out of the way and let Barb; Angela Orcutt, our Chief Human Resources Officer; and the rest of our management team do their jobs," Larsen said.

Stepping up right from the start at UBB were the "essential" workers of banking, the Operations staff. "We run a critical piece of United Bankers' Bank, and the operational side has never been meant to work remotely. It just isn't," said Mary Williams, UBB Chief Operations Officer. "There are specific areas or security risks that I saw: one, in our wire department, and two, in timely processing of files. The phones were also a big challenge," Williams added, "as Operations takes 95% of the calls that come into UBB."

Thus began a complicated reorganization of service groups and equipment between different locations, socially distancing workers while ensuring that there would always be backup if one group was out for any reason. In what became a common refrain among her colleagues on the management team, Williams praised UBB's IT group for helping her team – as well as all UBB departments – get connected and running. "There were long days and some late nights here," Williams said, "but we really didn't miss a beat in what we do for our customers on a daily basis."



Necessity Jump-Starts Innovation

As the early months of the pandemic wore on and it became clear to everyone that the crisis would not be over anytime soon, UBB – like many businesses across the country – implemented or accelerated innovations that might not have happened for months or even years. “We had actually sent out a survey pre-COVID-19 just to see where bankers were on some virtual product and sales support,” said John Peterson, UBB’s Chief Marketing Officer. “And the reception then was, ‘Hey, we don’t have a lot of technology out here, so we’re not interested right now.' ... [Then] almost overnight [it became], 'Hey, let’s make it work! How soon can we do this?’”

Peterson cited two notable examples – loan review and compliance services – that in the past required extensive, on-site review of documentation. “Well, why not just set up remote access?” suggested a customer bank, which is exactly what UBB did through a fully secure portal. Peterson estimates that today, 75% of UBB loan review customers have gone remote and will never look back.

“Everybody did a great job working hard, working together and working overtime.”

– Dawn Tollefsrud,
UBB Chief Lending Officer

“Instead of the downtime with staff traveling for hours to meet with a bank, we can open up Monday morning at 8 and be working on a customer’s files 10 minutes later,” said Peterson. “Aside from safety and efficiency, it’s also made this product much more affordable for our customers,” he added.

Over at UBB Lending, the loan officers and Operations team already used secure file transfer and review, said Chief Credit Officer Dawn Tollefsrud, but getting signatures was a different story. "We had looked at DocuSign in the past," Tollefsrud said, "but now it became essential to get it up and running quickly, which we did thanks to our IT department. It has been truly been a gift for our lenders and loan ops team," she continued, "as we saw a surge of loan activity in 2020 with pandemic-related loan modifications, new participation loans and bank stock loans.

"Everybody did a great job working hard, working together and working overtime," Tollefsrud said. "Because when those loan modifications came in, it was constant. I mean, we were just flooded with them."

Silver Linings for a Brighter Tomorrow

At UBB, long a bank with hyper-focus on face-to-face customer service, there had always been reluctance to fully embrace less personal online communication technologies like Zoom and GoToMeeting. Working remotely for some also required advanced technology and equipment upgrades for secure, reliable connections to UBB's multiple enterprise online banking systems.

"We learned we can be fleet of foot and more flexible about doing things differently than we always did in the past."

– John Peterson, UBB Chief Marketing Officer

Now the long-range discussion at UBB is, What will the workplace of the future look like, and will the remote-work pendulum swing back to the pre-COVID-19 norm? Williams sees both sides of the coin: There will be benefits for her staff, including flexibility to work from home during inclement weather or for those who cover either end of a 6 a.m. to 10 p.m. workday at Operations. But she believes people still need to work together in person: "It has been hard at times to achieve the synergy you only get with in-person collaboration because people are remote, not just within our own department but across all of our departments," she said.

Yet the consensus going forward is some type of a hybrid workplace. "I think that many of the changes we've seen will never go away and will be part of a new way of doing business," commented Peterson. "We learned we can be fleet of foot and more flexible about doing things differently than we always did in the past," he said. "I think the hybrid model will be both in person and virtual."

UBB Chief Investment Officer Ben Eskierka concluded: "One of the silver linings, if you will, is the resiliency that we showed and how we handled the pandemic and its fallout. I think the maturity and professionalism of our staff allowed us to face the challenge head on. And even though it was a massive paradigm shift for everyone and even though it has not been easy, we did an excellent job of managing the situation bank-wide, as did our customers."

"This bridge is the difference between the life and death of the company I've spent 30 years building, and they [the big bank] wouldn't even return my call."

– Business Owner on PPP Loan Application

Resilience Creates New Strengths, Opportunities

So here we are having crossed this chasm together. And while, as of this writing, we are not out of the woods yet, there are truly lights glimmering in a clearing just ahead. The question we're asking, along with everyone else in banking, is what will the new normal look like once we get there? Or as Noah Wilcox coined it, "the next normal."

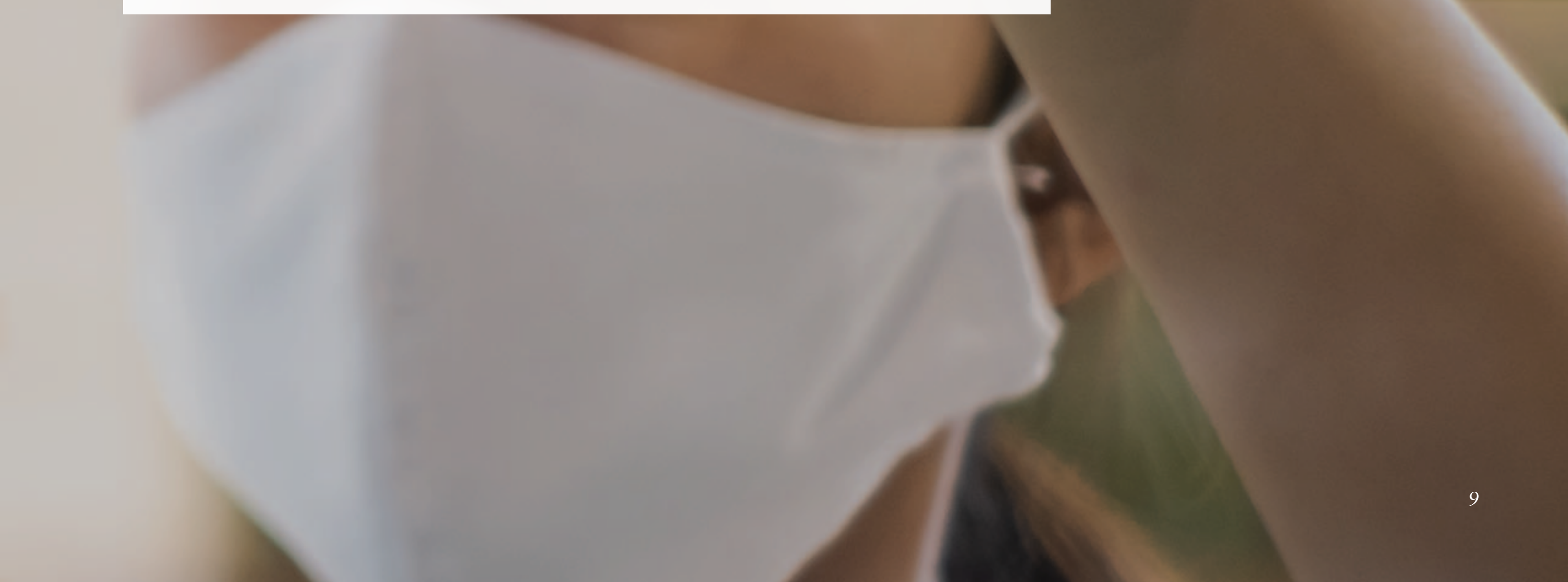
One outcome is clear: "Community banks carried the day yet again," said Wilcox, "and this time I think more people are taking note. Everybody's been sitting around for 10 years saying, community banks don't have any technology. The hell they don't," he said. "They digitized their business model overnight and were able to respond in a way that the biggest banks couldn't. Any customer could see that."

And then there was PPP.

The numbers tell one story: Approximately 66% of PPP loans and 63% of PPP dollars came through community banks, according to Wilcox. Along the way are countless reports of near-miraculous customer service in turning around these financial lifelines. “It really made no difference where you were,” Wilcox said. “Alabama, California, Florida, Illinois or Minnesota – the stories of community bank dedication were the same. People were putting in 18- to 20-hour days – basically doing everything but living and showering at the bank – to deliver these loans.”

The other story is of thousands of business owners turning to community banks and away from the big banks who were unable or unwilling to help. “A little over 60% of the PPP loans we made were to new relationships,” Wilcox continued, “and nearly every one of them started with the business owner telling us, as one did, ‘This bridge is the difference between the life and death of the company I’ve spent 30 years building, and they [the big bank] wouldn’t even return my call.’”

Wilcox believes this customer service tour de force will have a lasting impact on the perception of community banks. “I think those businesses that switched will be longtime, loyal customers because they never realized in the past that they needed a relationship with their banker,” he said. “And that realization goes well beyond business owners to the entire community.”



Even with Bumps on Reentry, Community Banks Will Be Better Positioned

Not that there aren't still challenges ahead for the banking community as a whole, notes UBB's Dwight Larsen. "One is excess liquidity with the tsunami of cash flowing into the economy through the various recovery programs," he said, "all of which have helped cushion the economic shock of the pandemic. However, bankers will need to become better cash managers, at the same time monitoring their Tier 1 capital ratios."

"The pandemic forced us to become better at using technology to conduct our business, which we did profitably all while meeting the needs of our customers."

– Dwight Larsen, UBB President & CEO

Larsen also sees asset quality issues lurking on the horizon. "Given the financial pain certain sectors are experiencing due to shutdowns, job losses, reduced travel, etc., loan quality problems will potentially arise in 2021 and beyond," said Larsen. "For the record, I'm a fiscal conservative, but on this one, I think the government needs to help borrowers impacted in these sectors, perhaps with some type of loan guarantee program."

Nevertheless, when asked if community banking and UBB were better positioned at the end of 2020 than at the beginning, both Larsen and Wilcox answered with a resounding "Yes!"

"We've survived generational challenges in 2020 with a global pandemic, not to mention civil unrest and a contested presidential election," Larsen said. "But as the old saying goes, necessity is the mother of invention. The pandemic forced us to become better at using technology to conduct our business, which we did profitably all while meeting the needs of our customers. And by the way, I think we proved to community banks once again that a bankers' bank will always have their backs when the chips are down," he pointed out. "Always!"

"When we bring our voices together, that chorus is significant, and it gets things done."
– Noah Wilcox, President/CEO, Grand Rapids State Bank, MN

Wilcox tells of participating in a recent discussion with his fellow ICBA leadership bankers. "We were asked to talk about 2020, and several of us told our PPP stories. At the end, the moderator asked us, 'How does hearing all of that make you feel?' I was the first to pipe up," remembered Wilcox, "and I said 'Proud as hell! Totally inspired!'

"I mean Brad's story is my story. Alice's story is my story. Bob's story is my story. We've all done it, and I think when we bring our voices together, that chorus is significant, and it gets things done."

"In the midst of every crisis

is great opportunity."

– Albert Einstein

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

Brian Nicklason - *Chair*
Woodland Bank
Grand Rapids, MN

Greg Raymo - *Vice Chair*
First State Bank Southwest
Worthington, MN

Bryan Grove
American State Bank of Grygla
Grygla, MN

Curt Johnson
Cherokee State Bank
Cherokee, IA

Dean Miller
First National Bank of Bellevue
Bellevue, OH

Dwight Larsen
United Bankers' Bank
Bloomington, MN

Jae Evans
Isabella Bank Corporation
Mount Pleasant, MI

Mike Johnson
University of Minnesota –
Technology Leadership Institute
Minneapolis, MN

OFFICERS OF UBBI

Dwight Larsen
President

John Peterson
Secretary

Karen Knafla
Treasurer

Kayla Linder
Asst. 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
EVP Chief Credit Officer

John Peterson
EVP Chief Marketing Officer

Karen Knafla
EVP Chief Financial Officer, Cashier

Mary Williams
EVP Chief Operations Officer

Christopher Knight
SVP Regional Sales Manager

Jay Syverson
SVP Regional Sales Manager

Kayla Linder
SVP Controller

James Radtke
SVP Investment Sales &
Trading Desk Manager

William Phelps
SVP Senior Lending Officer

Anthony Venditte III
VP Correspondent Banking Officer

Donna Blake
VP Correspondent Banking Officer

Elizabeth Woodruff
VP Correspondent Banking Officer

F. Trey Moore
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

David Kvist
VP Investment Operations Manager

Eric Sundberg
VP Investments

Grant McNulty
VP Investments

James Nowak
VP Risk Management

Joseph Gilboe
VP Investments

Patrick Burnette
VP Investments

Ria Maharaj
VP Operations Manager

Craig Nelsen
VP Information Technology Infrastructure

Kristine Thoman
VP IT Business Partner &
Service Manager

Mark Luukkonen
VP Information Security Manager

Paul Rogers
VP Strategic Project Manager

Tamara Gavin
VP Manager of Project Management

Anthony Girard
VP Lending

Bryan Haines
VP Lending

Edwin Janssen
VP Lending

Jack Youngberg
VP Lending

Jeanne Berg
VP Loan Operations Manager

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

Jennifer Brown
AVP Senior HR Business Partner

Ashley Lemke
AVP Portfolio Manager

Brian Leonard
AVP Portfolio Manager

Cynthia Rundorff
AVP Portfolio Manager

Michael Klinger
Senior Financial Analyst

Suzanne Rosenthall
Senior Compliance Specialist

Donna Lindboe
Assistant Controller

Jason Olson
Accounting Officer

Cha Thao-Vang
Operations Support Supervisor

Jillian Johnson
Operations Customer Service Officer

Reeta Badhwa
Wires Support Supervisor

Gerald Hamlin
Compliance Officer Investments

Steven Shierts
Development Manager

Matthew Bremer
Portfolio Manager

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

Consolidated Balance Sheets

	2020
Assets	
Cash and Due from Banks	$ 454,835,449
Available-For-Sale Securities	194,260,968
Federal Funds Sold & Securities Purchased Under Agreements to Resell	20,072,000
Loans	654,355,646
Allowance for Loan Losses	(12,203,039)
Trading Account Securities	1,032,393
Other Assets	32,721,336
Total Assets	$ 1,345,074,753
Liabilities & Stockholders' Equity	
Deposits:	
Demand Deposits	$ 895,072,474
Time Deposits	114,698,000
Federal Funds Purchased	211,836,000
Other Liabilities	8,442,342
Total Stockholders' Equity	115,025,937
Total Liabilities and Stockholders' Equity	$ 1,345,074,753
Loan Participations Sold	$ 206,926,302
Common Stock Outstanding	57,272

2019	2018	2017
$ 101,445,769	$ 54,919,563	$ 29,495,174
5,676,957	70,638,346	108,211,360
33,980,000	117,456,000	106,447,000
622,881,349	649,596,678	616,890,863
(9,140,297)	(7,905,347)	(6,953,798)
1,438,056	1,986,941	4,643,532
32,478,793	27,315,974	29,013,124
$ 788,760,627	$ 914,008,155	$ 887,747,255
$ 372,394,343	$ 349,472,720	$ 404,722,632
265,359,000	362,673,000	274,444,000
36,783,000	92,227,000	59,374,000
7,860,035	7,333,287	51,343,536
106,364,249	102,302,148	97,863,087
$ 788,760,627	$ 914,008,155	$ 887,747,255
$ 225,792,423	$ 230,321,118	$ 255,424,261
56,580	56,580	56,580

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

Consolidated Statements of Income

	2020
Interest Income	
Loans, Including Fees	$ 27,749,410
Securities/Other	1,547,151
Federal Funds Sold & Securities Purchased Under Agreements to Resell	228,262
	29,524,823
Interest Expense	
Demand and Time Deposits	5,004,197
Federal Funds Purchased/Other	103,029
	5,107,226
Net Interest Income	24,417,597
Provision for Loan Losses	3,486,000
Noninterest Income	
Service Charges	7,093,202
Trading Commissions	5,940,514
Other	6,114,812
	19,148,528
Noninterest Expense	
Salaries & Employee Benefits	17,272,230
Federal Reserve Service Charges	2,371,014
Occupancy	3,807,262
Data Processing	2,794,515
Other	4,010,698
	30,255,719
Net Income Before Tax	9,824,406
Provision for Income Taxes	2,468,928
Net Income	$ 7,355,478

2019	2018	2017
$ 29,639,308	$ 29,123,659	$ 25,125,755
1,966,212	1,767,468	2,653,685
1,567,057	2,110,841	952,002
33,172,577	33,001,968	28,731,442
7,781,037	5,105,652	3,015,614
1,013,682	1,681,565	786,090
8,794,719	6,787,217	3,801,704
24,377,858	26,214,751	24,929,738
1,378,000	2,132,000	577,000
4,176,013	4,407,514	4,889,497
3,225,300	2,537,946	3,358,041
6,547,699	6,132,888	5,742,100
13,949,012	13,078,348	13,989,638
15,559,268	15,054,021	14,962,362
2,243,838	2,229,877	2,193,458
3,852,749	3,997,982	4,066,341
3,024,498	3,012,266	2,980,876
6,192,588	6,175,776	6,686,826
30,872,941	30,469,922	30,889,863
6,075,929	6,691,177	7,452,513
1,531,264	1,754,374	4,045,247
$ 4,544,665	$ 4,936,803	$ 3,407,266

"Many of the banks I talked to said that COVID caused them to be short-handed at times … exposure, positive cases, closed lobbies. They just worked longer hours and took on new tasks and roles to make sure everything ran smoothly."

– Tamara Umberhandt,
Senior Operations
Support Specialist

"Due to the pandemic, there was significant fraud going on with the stimulus checks. Many of our customers needed ACH credits returned because their customer had been scammed. It was a huge undertaking. Especially during times like these, our customers become like family!"

– Jeri Cullen,
Operations
Support Specialist

Rising to the Challenge – Community Banks and UBB Together

"Not only did one Ohio community bank take care of its own PPP loan customers, it supported four other community banks as well. And they did it in the background, allowing their fellow community banks to work directly with their business customers and provide needed PPP loans."

– Chris Knight,
Senior Vice President,
Regional Sales Manager

UBB *First* for Your Success™

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