

**This Issue:**

- 1-2 Maintaining Your Cyber Security Sanity**
- 3 BankValue Regional Bank Performance Update**
- 4 Employee Spotlight Dawn Tollefsrud**
- 5 USource Webinar and New Compensation Report**
- 6 Keeping the Community in Community Banking**
- 7 Tokenization and Mobilization Make Card Payments Anybody's Game**

## Maintaining Your Cyber Security Sanity

Every banker – or maybe every person – has heard more about cyber security in the last year than most of us care to hear in a lifetime. How much of what we hear is hype? And if it's really that bad out there, how is a community banker supposed to keep up with it?

The reality is that the internet is a risky place, and to every degree that we conduct business over the internet, we expose ourselves and our customers to some of that risk. The internet was originally conceived with collaboration, not security, in mind. I clearly remember working at a bank data processing center in the early 1990's when we installed our first email workstation. We all just shared the one email workstation, after all, we didn't expect to use it very much.

But around the time that banks started conducting business over the internet, cyber criminals smelled opportunity and quickly followed. Security measures have evolved at the same rapid clip as the cyber criminals' skills, and the sheer rate of change has been dizzying. The security frontier in cyberspace has been reasonably described as a new version of the "Wild Wild West".

The good news is bankers know a thing or two about risk. Managing risk is part of the territory for community bankers – you've probably been managing credit risk since the day you walked into the bank. If you focus on the facets of the risk that you CAN mitigate or control, it's a lot easier to keep your sanity.

With that approach in mind, we'd like to offer some tools for a community banker's **cyber security sanity**:

1. **Stay informed.** You don't have the luxury of being naive about cyber security risks. So keep yourself informed, and hold your

### Bill Rosacker *A Note from the President*



As we flip the page on another year, it's exciting to think of all the wonderful opportunities that lay ahead in 2017, while at the same time remembering some of the milestones that made 2016 another great year here at UBB. In 2016, we hit the ground running with the launch of

our innovative and completely redesigned website, [ubb.com](http://ubb.com), followed by hosting a record 19 UBB shareholder and customer events throughout our 14 state territories. The year culminated with the successful completion of our bank's merger with Ohio based Great Lakes Bankers Bank.

In this issue's cover story, UBB's SVP, Chief Information Officer, Barb Fugate, covers the ever-evolving topic of *cyber security*. With over 30 years of technology experience, Barb provides firsthand knowledge of the types of cyber security concerns targeting financial institutions, combined with some applicable best practice examples to help your bank operate more securely.

Also included in this issue, we spotlight Dawn Tollefsrud, UBB's VP, Credit Administration Manager, and we learn how Huron Valley State Bank in Michigan is "Keeping the Community in Community Banking." UBB Card Services provides a payment industry update on the advances in tokenization and mobilization, while USource (UBB's Human Resources Consulting service) introduces a new addition to their suite of services: PayScale Compensation Reports.

While the year on the calendar may have changed, one thing that hasn't is our commitment to providing each and every one of our customers with the same high level of customer service they've come to expect from UBB. With our products, services and expertise, we will ensure our customers remain competitive and successful in all of the communities they serve. We wish you all a happy and prosperous New Year and as always, United Bankers' Bank is **First for Your Success**.

team accountable to stay informed. Because they travel across shared internet infrastructure, our email conversations and online banking transactions pass through inherently risky places. We are doing business with our customers' identity and bank accounts in those places. The bad guys would always like a piece of that, so following good "cyber security hygiene" is your first and best response.

2. **Adjust your habits.** Some industry statistics tell us that over 80%\* of actual breaches could have been deterred if the people on the receiving end had just used basic cyber security hygiene. For ourselves and our teams in community banks, this is all about changing habits. We've all learned to change our habits when boarding airplanes over the last 15 years – there is nothing convenient about standing in an extra line, removing your shoes or being scanned, but we accept that some security measures are justified. There is no question that we trade away some convenience any time that we add security steps, but this is the world we live in now. Please see the box below for our top 8 cyber security hygiene habits – you'll probably agree that these are not difficult or expensive efforts, and these simple steps are well worth the added time and attention.

3. **Don't go it alone.** You don't have to. Call me crazy, but I like working with most IT auditors and IT examiners. They have a wider view of our peers in the industry, know what is working and what isn't, and have some great stories to tell. And they are on our side when it comes to cyber security – they want us to succeed as deeply as we do. So if they give me a list of recommendations, I try not to view it as a punitive measure – I see it as a consultation to help me prioritize. There are a thousand things we could do to constantly improve cyber security, and our auditor or examiner can help us focus our efforts on first things first. In the end, I would far rather learn about a potential weakness in our structure from our auditor or examiner, than from a cyber-criminal. So for that reason, consider taking advantage of your IT auditors' and examiners' expertise - tell them, ask them, and listen to them.

At UBB, our commitment to your success extends to your security and safety from threats. As always, we are ready to work alongside you through cyber-related challenges. Please feel free to contact me directly if you have questions or would like more information.

### Top 8 Cyber Security Hygiene Habits:

1. When it comes to passwords, *Longer is Stronger*. It doesn't rhyme as nicely, but *Longer and Complicated is Even Stronger* would be more accurate. Mix in upper- and lower- case letters, special characters, and numerals, and avoid names, places, and dictionary words. It's also best to make unique passwords for each system. If it's easier for you to use the same password, it's also easier for a hacker to find and use it.
2. Don't click if you don't know - never click on links or open email attachments from sources you don't know or trust. If you receive an email from someone you know, but the context doesn't make sense or it contains a link or attachment you didn't expect, STOP. Call or separately contact that person to confirm that the message is legitimate, before you open the attachment or follow the link.
3. Never communicate confidential information (such as Tax ID numbers or account information) by email – it's like writing it on a postcard and dropping it in the mail, so anyone could see what you've written. If you

need to communicate confidential information with UBB, please use our secure delivery service, [secure.ubb.com](https://secure.ubb.com). For more information on how to set up a [secure.ubb.com](https://secure.ubb.com) account, please contact your bank's Correspondent Banking Officer.

4. Don't use public internet file sharing sites (like Dropbox or Google Docs) for work-related files like customer tax returns or loan documents; instead, use a secure file transfer.
5. Never use public WiFi (from a coffee shop, airport, hotel, etc.) to conduct business activity.
6. Use the locking keypad on your smart phone, and keep your smart phone Operating System versions updated. Security patches are issued frequently, and the upgrades are usually quick and easy.
7. Don't be "social engineered" – don't provide information to an inquirer unless you are positive of their identity.
8. Know your customer – if you think a transaction doesn't make sense, follow your instincts and ask a few more questions.

\*[www.SANS.org](http://www.SANS.org) Newsletter, 2015

# BankValue

## Regional Bank Performance Update

Regional Bank* Performance - Year-to-Date Comparison			
	9/30/2016	9/30/2015	9/30/2014
Loan Growth Rate (%)	3.43	3.35	3.34
Deposit Growth Rate (%)	0.87	0.70	0.67
Return on Average Assets (%)	0.88	0.86	0.83
Non-Interest Income/ Average Assets (%)	0.45	0.45	0.46
Net Interest Margin (Non-FTE) (%)	3.50	3.46	3.44
Leverage Ratio (%)	10.50	10.26	10.10
Non-Performing Assets /Total Assets (%)	0.69	0.75	0.90
Reserves/Loans (%)	1.25	1.28	1.36
Yield on Loans and Leases (%)	5.01	5.06	5.17
Cost of Funds (%)	0.51	0.51	0.55

\*Banks in: IA, ID, IL, IN, MI, MN, MT, ND, NE, OH, OR, SD, WA, WY; Less than \$1 Billion Assets

Part of our role in BankValue Advisory Services is to regularly examine the performance of community banks within UBB's 14 state trade area. The chart above compares the performance metrics of community banks over the past three time periods. When compared to the two previous years, the September 2016 results provide a positive outlook, reflecting steady improvement across most metrics.

### Observations from the performance metrics indicate that:

- Deposit and Loan growth continue to accelerate at a modest pace
- Non-interest income remains steady
- Net interest margin has improved slightly
- Non-performing assets as a percentage of total assets continue to decline
- Loan yields have deteriorated slightly
- Cost of Funds levels have remained consistent with the past three years

While the data indicates that community banks continue to perform well, a rising interest rate environment presents new opportunities and challenges. For only the second time in a decade, the Federal Reserve on

December 14, 2016 raised its target for short-term interest rates by 0.25 percentage points to a range of 0.50% and 0.75%. While many economists believe that this is just the first in a series of interest rate increases, community bankers should begin to assess the impact of higher rates on their operations. As community bankers are able to keep their cost of funds low while increasing the yield on their loans and leases, bank profit margins should increase.

While not captured explicitly in the performance metrics, the greatest challenge to growing community bank profits is the increasing regulatory burden placed on them. Since the passage of Dodd-Frank legislation in 2010, community banks have faced an increased regulatory compliance burden. In a 2015 survey of community banks conducted by the Saint Louis Federal Reserve, it was found that community banks spent \$4.5 billion to comply with the various banking regulations. Unfortunately, there is no relief in sight to the high costs of compliance.

Going forward, those community banks that are most effective at managing their net interest margin while dealing with ever increasing costs of regulation, will be the ones best positioned to increase their bank's value.



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

**United Bankers' Bank  
Call Report (unaudited)  
12/31/2016**

**Balance Sheet (000's)**

**Assets:**

Cash and Due from Banks	\$	36,152
Investments	\$	187,538
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$	84,362
Loans		
Outstanding	\$	539,951
Loss Reserve	\$	(6,636)
Other Assets	\$	32,455
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>873,822</b>

**Liabilities and Capital:**

Deposits	\$	719,634
Fed Funds Purchased	\$	20,792
Other Liabilities	\$	40,796
Equity Capital	\$	92,600
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$</b>	<b>873,822</b>

**INCOME STATEMENT (YTD)**

Interest Income	\$	24,277
Interest Expense	\$	3,043
Net Interest Income	\$	21,234
Loss Provision	\$	—
Net Interest Income (After Provision)	\$	21,234
Other Income	\$	15,450
Total Income	\$	36,684
Operating Expenses	\$	30,336
Securities Gains (Losses)	\$	—
Net Income Before Taxes	\$	6,348
Tax	\$	2,300
<b>NET INCOME</b>	<b>\$</b>	<b>4,048</b>



**Family Members:** Husband, Jeff, and 2 daughters, Taylor (15) and Marissa (10).

**Pets:** A border collie/lab mix named Addie.

**Played most on iPod:** Shuffle. I love listening to a variety of rock music from the 1960's to current music.

**Interests:** I love to travel, read, watch movies, play golf, and attend live music events.

**If I could live anywhere in the world, I would live:** Hawaii, the weather there can't be beat.

**If I could have one super power (besides flying) it would be:** Mind reading. I'm always wondering what others are really thinking.

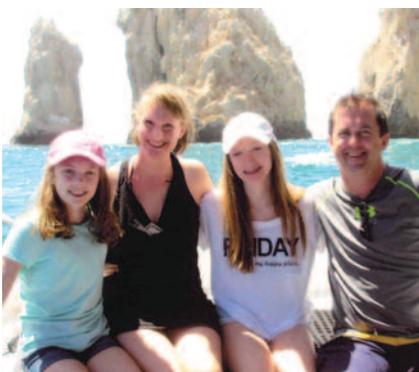
**Many people don't know that I:** Have an unusual fear of wild turkeys due to a bad childhood experience.

**If I was not working in banking I would be:** I don't know, I've been in banking for over 22 years.

**I started working at UBB in:** August 2008, in the Credit Card Department.

**My favorite part of working in banking is:** Getting the more obscure holidays such as President's Day and Columbus Day off.

**The best advice I ever got was:** Don't sweat the small stuff, however I don't always follow it.



Marissa, Dawn, Taylor and Jeff at Cabo San Lucas.



Jeff, Marissa, Taylor and Dawn at Mt. Rushmore.



## New Compensation Report Available!

USource can now provide you with a focused, real-time compensation report for a specific job, in a specific labor market using PayScale's database of more than 60 million salary profiles. Traditional compensation surveys typically publish reports once a year, months after data is collected. PayScale data is refreshed daily, so you can order reports as you need them.

With PayScale you will have access to their large compensation database of individual salary profiles that will provide a better match to your bank's specific job and labor market. As a result, accurate market compensation data will help your bank determine what you need to pay in order to hire your top candidate and retain your high performers without overpaying.



Thank you to all that participated and purchased the The USource Compensation and Benefits Survey over the years. The USource Compensation and Benefits Survey has been discontinued and replaced by PayScale's compensation

reports which will provide community banks with more reliable salary data for positions at their bank and in their specific geographical region.

Our volume discount translates into substantial savings for you. The regular retail cost if you order one report through PayScale is \$259. Your cost if you order through USource is \$140; USource members receive an even greater discount. Just use the Compensation Report Request Form on [UBB.com/news](http://UBB.com/news) to order.

## Conflict Resolution Webinar

The American Management Association reports that managers spend 18-26% of their time resolving conflict, which is a huge investment of time. In more diverse workplaces, we experience differences among employees in terms of generational status, cultural background, race, gender, personality, cognitive styles, and work experiences. These differences can create even more conflict in the workplace.

In this webinar, we will define conflict, explore the tendency of managers to avoid conflict, and present best practices for constructive conflict resolution. Resolving conflict effectively can increase your bank's productivity and improve its culture. Feel free to invite managers to attend this webinar with you.

The Conflict Resolution Webinar will be presented on March 16th at 10:00 am CST. USource Webinars are free for USource members and \$85 for non-members. Go to [UBB.com/events](http://UBB.com/events) for more information and click on the link to register.



## UBB Events

*In October, we celebrated our annual Grand Event for Standard Bearer Shareholders. Pictured with Bill Rosacker are Featured Speaker Navy F-14 Tomcat fighter pilot Carey Lohrenz and Keynote Speaker former Arkansas Governor Mike Huckabee.*



## Keeping the Community in Community Banking

### Huron Valley State Bank • Milford, MI

Milford, Michigan can be found where the Pettibone Creek flows into the Huron River. This quaint but vibrant town is home to Huron Valley's first community bank, Huron Valley State Bank.

Huron Valley State Bank serves both consumers and small businesses from manufacturing companies to family dentistry. They are well known for their fresh baked cookies in the lobby, a personal warmth, a professional staff and an "Everybody Knows Your Name" quality of service that keeps customers coming back and business thriving.



HVSB Heritage Elem. School Ribbon Cutting



HVSB Highland Location

#### Bank Name:

Huron Valley State Bank

#### Bank Charter Location:

Oakland County, Michigan

#### Bank Representative:

Jack Shubitowski, President & CEO

#### Asset Size:

\$126,662,471

#### Number of Locations:

3 – 2 branch locations and 1 loan center

#### Number of Employees:

30

#### Year Bank was Incorporated:

2005

#### City Population:

Milford Twp. – 24,986 (The bank itself is located in the village with a population of approximately 6,100 people).



To learn more about how Huron Valley State Bank is keeping the community in community banking, we visited with Jack Shubitowski, President and CEO, and compiled the following Q&A.

#### What is your community most known for?

Officially incorporated in 1869, Milford began with a sawmill built on the Huron River. Hydropower soon followed, and it would later become known as one of the nation's first communities with electric lights as well as home to the country's first automobile testing facility.

#### How is your bank involved in the community?

At Huron Valley State Bank, employees invest a considerable amount of time in supporting their community. They are involved in a number of organizations including the local Chamber of Commerce, YMCA, Rotary Club, the Huron Valley Promise (which increases awareness of the need for post high school education and provides payment options) and Tuesday's Lunch in the Valley (which supports local restaurants through patronage). In 2015, the bank partnered with the Downtown Development Authority to offer "Currents" - a night of free music at our local amphitheater for the community. In 2016 alone, Huron Valley State Bank and its employees actively supported close to one hundred different community initiatives.

Huron Valley State Bank is also active in the local elementary schools, where they offer in school banking to three schools. The school banks are run solely by the students and provide hands-on experience of basic financial management and banking.

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

Part of our bank's culture is to encourage our employees to be active in the community. One program in particular that our employees actively participate in is called "Casual for a Cause". It occurs the last Friday of every month and allows employees to dress casually in exchange for a monetary donation.

#### What makes community involvement important to you and your bank?

Getting involved with the local community is essential for our bank's success. It builds name recognition, provides networking opportunities and most importantly, helps the community. Since people want to do business with those they know and trust, community involvement helps build this essential relationship. It is just part of our culture and who we are as a community bank.

#### What do you like best about your community?

After college, I took a job in banking and moved around southeast Michigan building my banking career. Born and raised in this community, I returned to raise my family. It is a great place to live, with a beautiful downtown area, access to several large parks, and regular community activities. The business owners on Main Street and throughout the area are the friendliest people that sincerely appreciate their customers. They offer unique, locally made products that help support our economy.

#### What do you like best about being a community banker at Huron Valley State Bank?

It is definitely the people! The directors lead by example with their own commitment to this community, the employees are the best bankers and committed to the bank and the community, and the customers are by far what I enjoy most about my job.

# Tokenization and Mobilization Make Card Payments Anybody's Game

Recent technology advances in the card payments industry have the potential to alter the payments playing field and reshape customer product expectations.

## Mobilization

A reciprocal agreement between Visa® and MasterCard® permits them to access each other's tokens and enable their branded cards into each other's mobile wallets. There are currently 380 million MasterCard branded cards and 851 million Visa branded cards in the United States totaling approximately 1.23 billion US credit or debit cards that can be loaded into mobile wallets. The collaboration of these top two associations is expected to expand to global regions after the US project phase is complete, extending the reach of the associations' mobile wallets (and your customers' credit and debit cards) to virtually anywhere in the world.

## Tokenization

A new trend that is emerging in the payments industry, and is proving to be an effective way to secure digital payments while minimizing risk is tokenization. Tokenization is becoming a mandatory operating requirement for any card payments system, and as a result fraud rates on tokenized card accounts are dropping dramatically. Where there was once competition between banks, processors, and FinTech companies, we are now seeing collaboration. By working together, all parties gain utility and scale, and improve their position in the payments universe. What seemed to be a very limited, one vendor (think ApplePay) product a couple of years ago has now grown into the key tool to an individual's transaction and credit accounts.



One company that has integrated itself into the banking sphere by utilizing tokenization is PayPal®. Listed below are some examples:

- Last year, PayPal signed agreements with Visa and MasterCard to gain access to their token engines, giving them access to the physical point of sale. As a result, merchants can now accept PayPal accounts for payment in retail settings.
- Citicorp cardholders can now load digital versions of their cards into a PayPal wallet.
- Through PayPal, Fidelity Information Services (FIS) can now reach cardholders of the processor's thousands of financial institution customers. This will make it possible for cardholders to potentially track their PayPal account and bank account activity on *one mobile site*.

Why is tokenization becoming important?

Millennials, are digital natives, and now are the largest generation in history with 75.3 million members. Due to their size, they have the power to dictate consumer product design. In a survey, nearly half have already used a mobile wallet, and 90% of those polled said they have used their smart phone to make a purchase.\* Mobile devices have become the delivery system of choice for financial tools for the millennials.\*\*

Equally important is that card transaction volume continues to increase. According to the Federal Reserve Payment study of 2016, the number of debit card payments in 2015, grew to 69.5 billion, representing a value of \$2.56 trillion. In the same study, the number of credit card payments reached 33.8 billion representing a value of \$3.16 trillion.

More of your customers' transaction activity is going through these payment channels. As a result, UBB plans to enable tokenization (ApplePay, AndroidPay, and SamsungPay) to level the playing – and paying – field for your cardholders this year. We will continue to provide products and services that are safe, secure, and convenient for you and your customers. For more information about tokenization, please contact a member of UBB Card Services.

\*US Census Bureau \*\*Business Insider Intelligence



United Bankers' Bank  
Suite 1500  
1650 West 82nd Street  
Bloomington, MN 55431-1467

.....  
If you have questions about our  
products and services, please  
call us at 1-800-752-8140.  
[www.ubb.com](http://www.ubb.com) • Member FDIC



## Over 15 Million Americans Had Their Identities Stolen in 2016

### Don't Let Your Customers Become Part Of This Statistic

UBB's insurance agency, UBA, has partnered with Kroll Advisory Solutions, to provide community banks with comprehensive and affordable identity theft protection solutions that they can offer to their customers.

#### Offer UBA's ID TheftSmart Service at your bank:

- Sell the services at a profit above the wholesale price you receive
- Enhance a premium checking account or senior club program
- Enrich your employee benefits packages by providing it to your staff

#### Benefits of UBA's ID TheftSmart Solutions:

- Strengthen Customer Relationships
- Expand Your Bank's Product Offering
- Generate Non-Interest Income
- Programs have NO Minimums, NO Startup Costs & NO Ongoing Maintenance Fees



*For More Information on UBA's Identity Theft Protection Solutions Contact:*  
Tim Henry, VP, UBA Managing Agent • 952.886.9524 • [Tim.Henry@ubb.com](mailto:Tim.Henry@ubb.com)

Note: All products and services represented on this page are not insured by the FDIC or any other federal government agency, are not deposits of or guaranteed by the Bank or any Bank affiliate, and may lose value.