UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
November 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

Commission file number 2-78572

UNITED BANCORPORATION OF ALABAMA, INC.
(Exact name of registrant as specified in its charter)

Delaware	63-0833573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

200 East Nashville Avenue, Atmore, Alabama 36502
(Address of principal executive offices) (Zip Code)

(251) 368-2525
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 30, 2003.

Class A Common Stock	1,086,898 Shares
Class B Common Stock	-0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.

FORM 10-Q

For the Quarter Ended September 30, 2003

INDEX

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

Item 1.

	September 30, 2003
Assets	
Cash and due from banks	$ 7,757,689
Federal funds sold	12,932,305
Cash and cash equivalents	20,689,994
Securities available for sale (amortized cost of $45,273,735 and $49,414,161 respectively)	46,085,138
Loans	171,002,977
Less: Allowance for losses	2,404,684
Net loans	168,598,293
Premises and equipment, net	7,266,074
Interest receivable and other assets	9,160,034
Total assets	$ 251,799,533
Liabilities and Stockholders' Equity	
Deposits:	
Non-interest bearing	$ 41,651,274
Interest bearing	153,064,719
Total deposits	194,715,993
Securities sold under agreements to repurchase	16,251,139
Guaranteed preferred beneficial interest in junior subordinate debt securities net of debt issuance cost of $143,985 and $151,563 respectively	3,980,015
Other borrowed funds	11,129,390
Accrued expenses and other liabilities	1,261,046
Total liabilities	227,337,584
Stockholders' equity:	
Class A common stock. Authorized 5,000,000 shares of $.01 par value; 1,161,481 shares issued and outstanding	11,615
Class B common stock of $.01 par value Authorized 250,000 shares; -0- shares issued and outstanding	0
Preferred stock of $.01 par value. Authorized 250,000 shares; -0- shares issued and outstanding	0
Additional paid in capital	5,091,979
Accumulated other comprehensive income, net of tax:	486,842
Retained earnings	19,713,167
	25,303,603
Less 74,583 and 74,759 treasury shares, at cost, respectively	841,654
Total stockholders' equity	24,461,949

Total liabilities and stockholders' equity	$ 251,799,533

See notes to condensed consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONDENSED CONSOLIDATED
STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September	
	2003	2002
Interest income:		
Interest and fees on loans	$ 2,831,461	$ 2,866,0
Interest on investment securities Available for Sale:		
Taxable	195,871	344,4
Nontaxable	241,953	227,0
Total investment income	437,824	571,5
Other interest income	29,074	25,5
Total interest income	3,298,359	3,463,1
Interest expense:		
Interest on deposits	730,805	962,2
Interest on other borrowed funds	143,693	158,5
Total interest expense	874,498	1,120,8
Net interest income	2,423,861	2,342,2
Provision for loan losses	186,000	186,0
Net interest income after provision for loan losses	2,237,861	2,156,2
Noninterest income:		
Service charge on deposits	550,920	524,3
Commissions on credit life	14,031	9,3
Investment securities gains, net	71,464	18,7
Other	178,965	156,8
Total noninterest income	815,380	709,3

Noninterest expense:		
Salaries and benefits	1,343,601	1,202,6
Net occupancy expense	424,736	467,2
Other	574,816	564,5
Total non-interest expense	2,343,153	2,234,4
Earnings before income tax expense	710,088	631,1
Income tax expense	182,995	164,9
Net earnings	$ 527,093	$ 466,2
Basic earnings per share	$ 0.48	$ 0.
Diluted earnings per share	$ 0.48	$ 0.
Basic weighted average shares outstanding	1,086,898	1,086,7
Diluted weighted average shares outstanding	1,094,056	1,100,1
Statement of Comprehensive Income		
Net earnings	$ 527,093	$ 466,2
Other Comprehensive Income, net of tax:		
Unrealized Holding (losses) gains arising during the period	(611,123)	468,1
Less: Reclassification adjustment for gains included in net income	42,878	11,2
Comprehensive(loss) income	$ (126,909)	$ 923,0

See notes to condensed consolidated financial statements

4

UNITED BANCORPORATION OF ALABAMA, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED)

	2003
Operating Activities	
Net Income	$ 1,584,458
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Provision for Loan Losses	534,704
Depreciation on Premises and Equipment	561,884
(Accretion) Amortization of Investment Securities Available for Sale	203,880
Gain on Sale of Investment Securities Available for Sale	(363,672)
(Gain) Loss on Sale of Other Real Estate	--
Gain on Disposal of Premises and Equipment	(13,400)

Writedown of Other Real Estate	--
(Increase) Decrease in Interest Receivable and Other Assets	(2,798,253)
Increase (Decrease) in Deferred Income Taxes	--
Decrease in Accrued Expenses and Other Liabilities	(97,585)
Net Cash (used) Provided by Operating Activities	(387,985)
Investing Activities	
Proceeds From Interest-bearing Deposits in	
Proceeds From Sales of Investment Securities Available for Sale	8,913,246
Proceeds From Maturities of Investment Securities Available for Sale	14,543,007
Purchases of Investment Securities Available for Sale	(19,156,035)
Net Increase in Loans	(8,813,630)
Purchases of Premises and Equipment	(1,516,907)
Proceeds From Sales of Premises and Equipment	13,400
Purchases of Other Real Estate	--
Proceeds From Sales of Other Real Estate	--
Net Cash Provided (Used) by Investing Activities	(6,016,919)
Financing Activities	
Net Increase (Decrease) in Deposits	12,150,678
Net Increase (Decrease) in securities sold under agreement to repurchase	8,110,633
Exercise of stock options	--
Proceeds from sale of common stock	--
Proceeds from sale of treasury stock	4,712
Cash Dividends	(271,725)
Purchase of Treasury Stock	--
(Decrease) Increase in Other Borrowed Funds	(1,986,716)
Net Cash Provided by Financing Activities	18,007,582
Increase (Decrease) in Cash and Cash Equivalents	11,602,679
Cash and Cash Equivalents at Beginning of Period	9,087,315
Cash and Cash Equivalents at End of Period	$ 20,689,994
Supplemental disclosures	
Cash paid during the year for:	
Interest	$ 3,001,483
Income Taxes	$ 563,000
Non Cash Investing Activities	
Transfer of loans to other real estate through foreclosure	$ 920,000

See notes to consolidated financial statements

5

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

NOTE 1 - General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the "Corporation" or the "Company") and its wholly-owned subsidiary United Bank (the "Bank"). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002.

NOTE 2 - Net Income per Share

Basic net income per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the three- and nine-month periods ended September 30, 2003 and 2002. Common stock outstanding consists of issued shares less treasury stock. Diluted net income per share for the three- and nine-month periods ended September 30, 2003 and 2002 were computed by dividing net income by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options awarded under the Corporation's Stock Option Plan, based on the treasury stock method using an average fair market value of the stock during the respective periods. Presented below is a summary of the components used to calculate diluted earnings per share for the three and nine months ended September 30, 2003 and 2002:

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2
Diluted earnings per share:	$ 0.48	0.42	1.45	
Weighted average common shares outstanding	1,086,898	1,086,735	1,086,865	1,
Effect of the assumed exercise of stock options based on the treasury stock method using average market price*	7,158	13,454	7,674	
Total weighted average common shares and potential common stock outstanding	1,094,056	1,100,189	1,094,539	1,

*11,632 and 2,448 shares subject to outstanding options were not included in the calculation of diluted earnings per share, as the exercise price of these options was in excess of average market price or the options were not vested for the three and nine months ended September 30, 2003 and 2002, respectively.

NOTE 3 - Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the nine month periods ended September 30 ($ in thousands):

	2003	2002
Balance at beginning of year	$ 2,117	$ 1,993
Provision charged to expense	535	558
Loans charged off	308	614
Recoveries	61	38
Balance at end of period	$ 2,405	$ 1,975

At September 30, 2003 and 2002, the amounts of nonaccrual loans were $2,282,484 and $1,144,682, respectively.

NOTE 4 - Operating Segments

Statement of Financial Accounting Standard 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the disclosure made by public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Corporation operates in only one segment - commercial banking.

NOTE 5 - New Accounting Standards

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others: an interpretation of FASB Statements 5, 57, and 107 and rescission of FIN No. 34," which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applied prospectively to guarantees issued or modified after December 31, 2002. These currently include standby letters of credit and first-loss guarantees on securitizations. The adoption of this Interpretation did not have a material impact on the consolidated financial statements.

In January 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin (ARB) 51, Consolidated Financial Statements, to certain entities (called variable interest entities) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of this Interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements apply to all variable interest entities created after January 31, 2003. In addition, public companies must apply the consolidation requirements to variable interest entities that existed prior to February 1, 2003 and remain in existence as of the beginning of annual or interim periods ending after December 15, 2003. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements.

The FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" in May 2003. This Statement establishes standards for how an issuer classifies and measures financial instruments with characteristics of both liabilities and equity. Management does not expect SFAS No. 150 to have a material impact on the financial condition or results of operations of the Corporation.

NOTE 6- STOCK BASED COMPENSATION

The Corporation applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock options. As such, compensation expense is recorded if the current market price on the date of grant of the underlying stock exceeds the exercise price.

SFAS No. 123 prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows companies to apply APB No. 25 as long as certain pro forma disclosures are made assuming a hypothetical fair value method application.

Had compensation expense for the Corporation's stock options been recognized based on the fair value on the grant date under the methodology prescribed by SFAS No. 123, the Corporation's net earnings and earnings per share for the three and nine months ended September 30, 2003 and 2002, would have been impacted as shown in the following table:

	Three Months Ended September 30		
	2003	2002	20
Reported Earnings	$ 527,093	466,226	1,
Deduct Compensation Expense determined under fair value based methods, net	6,572	7,908	
Pro forma net earnings	520,521	458,318	1,
Reported basic earnings per share	0.48	0.43	
Pro forma basic net earnings per share	0.48	0.42	
Reported diluted earnings per share	0.48	0.42	
Pro forma diluted earnings per share	0.48	0.42	

NOTE 7 - SUBSEQUENT EVENT

During the month of October 2003 the Federal Deposit Insurance Corporation (FDIC) conducted a routine examination of the safety and soundness of the Bank as of September 22, 2003. Loans in the amount of $375,000 which were previously classified and provided for in the loan loss reserve were charged off. Management believes the portfolio was adequately reserved for as of September 30, 2003. For additional information on the loan loss reserve see Allowance for Loan Losses under Item 2 below.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions. Management believes that its determination of the allowance for loan losses involves a higher degree of judgment and complexity than the Bank's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Bank's borrowers, subjecting the Bank to significant volatility of earnings.

The allowance for loan losses is a significant estimate and is regularly evaluated by management and reviewed by the Board of Directors for accuracy by taking into consideration factors such as changes in the nature and volume of the loan portfolio; trends in actual and forecasted portfolio credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. The use of different estimates or assumptions could produce different provisions for loan losses. The allowance for credit losses is established through the provision for loan losses, which is a charge against earnings.

Results of Operations

The following financial review is presented to provide an analysis of the results of operations of United Bancorporation of Alabama, Inc. (the "Corporation"), and its principal subsidiary for the three and nine months ended September 30, 2003, and 2002. This review should be used in conjunction with the condensed consolidated financial statements included in the Form 10-Q.

Nine Months ended September 30, 2003 and 2002, Compared

Summary

Net income for the nine months ended September 30, 2003 increased by $261,882, or 19.80%, as compared to the same period in 2002, as a result of increases in net interest margin and in noninterest income net of noninterest expense.

Net Interest Income

Total interest income decreased $564,995, or 5.36%, in 2003. Average interest-earning assets were $224,028,370 for the first nine months of 2003, as compared to $203,295,090 for the same period in 2002, an increase of $20,733,280, or 10.20%. A substantial portion of the increase is due to an increase in deposits by one existing Bank customer. These deposits were invested in earning assets. The average rate earned in 2003 was 5.47% as compared to 6.91% in 2002, reflecting the continuing impact of the decrease in rates by the Federal Reserve Board during 2002 and 2003.

Total interest expense decreased by $662,339, or 18.88%, in 2003, when compared to the same period in 2002. Average interest bearing liabilities increased to $173,448,799 in 2003 from $164,308,901 in 2002, an increase of $9,139,898, or 5.56%. The average rate paid fell to 1.71% in 2003 as compared to 2.81% in 2002.

This decrease in interest expense can be attributed primarily to higher interest rates paid in 2002 on slower repricing deposits, compared to lower rates paid on deposits which have repriced in 2003 at the current lower interest rates.

Net interest margin decreased to 4.56% for the first nine months of 2003 as compared to 4.64% for the same period in 2002. This decrease is the result of the loan portfolio repricing faster than the liabilities funding the portfolio.

Noninterest Income

Service charges on deposits increased $150,815, or 10.82%, for the first nine months of 2003. This increase is primarily due to an increase in insufficient fund charges on checks. Total noninterest income increased $634,399 or 32.90% for the first nine months of 2003. Gains on sale of investments increased to $363,672 in 2003, as compared to $67,276 in 2002. Management elected to capture the gains on securities given management's assessment of a high probability that these interest bearing securities would be called at par in future periods. Commissions on credit life insurance increased $7,045 in 2003, or 17.37%. Other income increased during the first nine months of 2003 by $177,453 or 41.32%. This increase is primarily the result of fees collected on loans originated for third party mortgage companies.

Noninterest Expense

Total noninterest expense increased $363,472, or 5.49% during the first nine months of 2003. Salaries and benefits increased $454,288, or 12.95%, in the first nine months of 2003 primarily due to the addition of senior management personnel. Occupancy expense decreased $66,263 or 5.07%. Other expenses decreased $24,553, or 1.36%, during the first nine months of 2003. This decrease is due to reduced marketing expenses from the prior year and to the fact that the Corporation had higher levels of OREO write-downs in 2002 than in 2003.

Provision for Loan Losses

The provision for loan losses decreased to $534,704 for the first nine months of 2003 as compared to $558,000 for the same period in 2002. This decrease was based on a determination as of September 30, 2003 of the credit quality of the current loan portfolio. See further discussion under Allowance for Loan Losses below.

Income Taxes

Earnings before taxes for the first nine months of 2003 was $2,174,926 as compared to $1,783,360 for the first nine months of 2002, an increase of $391,566, or 21.96%. Income tax expense for the first nine months increased by $129,684, to $590,468 or by 28.14%, when compared to $460,784 the same period in 2002. The effective tax rate increased to 27.14% from 25.83%. This increase is due to a decrease in the percentage of tax exempt interest earned on tax exempt bonds as compared to income before taxes.

Three Months Ended September 30, 2003, and 2002, Compared

Summary

Net income for the three months ended September 30, 2003 increased $60,827, or 13.05%, due to an increase in net interest margin, and an increase in noninterest income net of noninterest expense.

Net Interest Income

Total interest income decreased $164,757, or 4.76%, in the third quarter of 2003. Average interest-earning assets were $230,360,799 for the three months ended September 2003, as compared to $206,640,185 for the same period in 2002, an increase of $23,720,614, or 11.48%. A substantial portion of the increase is due to an increase in deposits by one existing Bank customer. The average rate earned in 2003 was 5.46% as compared to 6.65% in 2002, reflecting the continuing impact of the decrease in rates by the Federal Reserve Board during 2002 and 2003.

Total interest expense decreased by $246,373, or 21.98%, in the third quarter of 2003, when compared to the same period in 2002. Average interest bearing liabilities increased to $179,444,909 in 2003 from $163,326,443 in 2002, an increase of $16,118,466, or 9.87%. The average rate paid fell to 1.82% in 2003 as compared to 2.72% in 2002.

The net interest margin decreased to 4.29% for the third quarter of 2003, as compared to 4.59% for the same period in 2002.

Provision for Loan Losses

The $186,000 provision for loan losses for the third quarter of 2003 was unchanged as compared to the same period in 2002. See further discussion under Allowance for Loan Losses below.

Noninterest Income

Service charges on deposits increased $26,571, or 5.07%, for the third quarter of 2003. This increase is primarily due to an increase in insufficient fund charges on checks. Total noninterest income increased $106,075 or 14.95% for the third quarter of 2003. Gains on sale of investments increased to $71,464 in 2003, as compared to $18,754 in 2002 in the third quarter. Management elected to capture the gains on interest bearing securities given the assessment of a high probability that the securities would be called at par in future periods. Commissions on credit life insurance increased $4,693 in 2003, or 50.26% for the third quarter of 2003. Other income increased during the third quarter of 2003 by $134,618 or 85.37%. This increase is due to increases in mortgage origination fees and financial services and insurance commissions.

Noninterest Expense

Total noninterest expense increased $108,748, or 4.87%, during the third quarter of 2003 compared to the same quarter of 2002. Salaries and benefits increased $140,979, or 11.72%, in the third quarter 2003. This increase is primarily due to the addition of senior management personnel and the additional hiring of employees in the Bank. Occupancy expense decreased $42,487, or 9.09%, in the third quarter of 2003. This decrease is due to less depreciation expense and a lower insurance cost on buildings. Other expenses increased $10,256 during the third quarter of 2003. This increase is due to higher accounting and legal fees.

Income Taxes

Earnings before taxes for the third quarter of 2003 was $710,088 as compared to $631,145 in the 2002 quarter, an increase $78,943, or 12.51%. Income tax expense for the third quarter increased $18,076 to $182,995, or by 10.96%, when compared to $164,919 for the same period in 2002. The effective tax rate decreased to 25.77% from 26.13%.

Financial Condition and Liquidity

Total assets on September 30, 2003, increased $18,977,104, or 8.15% from December 31, 2002. Average total assets for the first nine months of 2003 were $241,787,267. The loan (net of allowance) to deposit ratio on September 30, 2003, was 86.59% as compared to 87.81% on December 31, 2002.

Cash and Cash Equivalents

Federal Funds Sold and interest bearing balances in other banks as of September 30, 2003 increased to $12,932,305 by December 31, 2002. This increase is attributable to the increase in deposits and the increased cash flows from sales, maturities and prepayments in the investment portfolio.

Loans

Net loans increased by $8,278,926 or 5.16% at September 30, 2003, from December 31, 2002. Agricultural lending attributed to the majority of this loan growth.

Allowance for Loan Losses

The allowance for possible loan losses represents 1.41% of gross loans at September 30, 2003, as compared to 1.30% at year-end 2002. This increase was due primarily to the growth in the agricultural portion of the portfolio.

Loans on which the accrual of interest had been discontinued has increased to $2,282,484 at September 30, 2003, as compared to $1,166,919 at December 31, 2002. This increase is due primarily to loans secured by several commercial and residential properties and forestry equipment becoming past due by more than ninety days.

Net charged-off loans for the first nine months of 2003 were $249,000, as compared to $415,621 for the same period in 2002, reflecting a number of loans that were charged off in the third quarter of 2002.

The allowance for loan losses is maintained at a level which, in management's opinion, is appropriate to provide for estimated losses in the portfolio at the balance sheet date. Factors considered in determining the adequacy of the allowance include historical loan loss experience, the amount of past due loans, loans classified from the most recent regulatory examinations and internal reviews, general economic conditions and the current portfolio mix. The amount charged to operating expenses is that amount necessary to maintain the allowance for loan losses at a level indicative of the associated risk, as determined by management, of the current portfolio.

The allowance for loan losses consists of two portions: the classified portion and the nonclassified portion. The classified portion is based on identified problem loans and is calculated based on an assessment of credit risk related to those loans. Specific loss estimate amounts are included in the allowance based on assigned loan classifications as follows: substandard (15%), doubtful (50%), loss (100%) and specific reserves based on identifiable losses. Any loan-categorized loss is charged off in the period in which the loan is so categorized.

The nonclassified portion of the allowance is for inherent losses which probably exist as of the evaluation date even though they may not have been identified by the more specific processes for the classified portion of the allowance. This is due to the risk of error and inherent imprecision in the process. This portion of the allowance is particularly subjective and requires judgments based upon qualitative factors which do not lend themselves to exact mathematical calculations. Some of the factors considered are changes in credit concentrations, loan mix, historical loss experience, non-accrual and delinquent loans and the general economic environment in the Corporation's markets. However, unfavorable changes in the factors used by management to determine the adequacy of the allowance, including increased loan delinquencies and subsequent charge-offs, or the availability of new information, could require additional provisions, in excess of normal provisions, to the allowance for loan losses in future periods.

While the total allowance is described as consisting of a classified and a nonclassified portion, these terms are primarily used to describe a process. Both portions are available to support inherent losses in the loan portfolio. Management realizes that general economic trends greatly affect loan losses, and no assurances can be made that future charges to the allowance for loan losses will not be significant in relation to the amount provided during a particular period, or that future evaluations of the loan portfolio based on conditions then prevailing will not require sizable charges to income. Management does, however, consider the allowance for loan losses to be appropriate for the reported periods.

During the month of October 2003 the Federal Deposit Insurance Corporation (FDIC) conducted a routine examination of the safety and soundness of the Bank as of September 22, 2003. As a result of this examination the Corporation will charge off $375,000 of previously classified loans. Management believes the portfolio was adequately reserved for as of September 30, 2003.

Non-performing Assets

The following table sets forth the Corporation's non-performing assets at September 30, 2003 and December 31, 2002. Under the Corporation's nonaccrual policy, a loan is placed on nonaccrual status when collectibility of principal and interest is in doubt or when principal and interest is 90 days or more past due.

The amount of impaired loans determined under SFAS No. 114 and 118 has been considered in the summary of non-performing assets below. These credits were considered in determining the adequacy of the allowance for loan losses and, while current, are regularly monitored for changes within a particular industry or general economic trends, which could cause the borrowers severe financial difficulties.

	Description	September 30 2003
		(Dollars i
(A)	Loans accounted for on a nonaccrual basis	$ 2,282
(B)	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above).	8
(C)	Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.	218
(D)	Other non-performing assets	1,213

The increase in nonaccrual loans is primarily due to loans secured by several commercial and residential properties and forestry equipment becoming past due by more than ninety days. Management believes there may be some irregularities, with respect to certain of these loans, aggregating over $500,000, but the Bank believes it has adequate collateral or other recourse for all of these.

The majority of the increase in other non-performing assets was due to the foreclosure and disposal of several parcels of real estate totaling $863,000.

Investment Securities

Total investments available for sale have decreased $4,657,777 at September 30, 2003 as compared to December 31, 2002 due to securities being called due to high prepayment of loans underlying mortgage backed securities. The Corporation has also sold mortgage backed securities that had become less cost efficient to hold, and several municipal bonds for which maturities had shortened and which were subject to being called.

Premises and Equipment

Premises and equipment increased $955,023 during the first three quarters of 2003, primarily due to the remodeling of the Foley branch and the start of the construction of a new branch in Bay Minette. The Corporation expects premises and equipment expenditures to continue to increase as the Bank continues to expand in new markets.

Deposits

Total deposits increased $12,150,678, or 6.66%, at September 30, 2003 from December 31, 2002. Noninterest bearing deposits increased $5,711,878 at September 30, 2003. Interest bearing deposits increased $6,438,800 at September 30, 2003. Management believes that the increase has been due to the relatively poor performance of the equity market for most of this year which has led to Bank customers depositing greater amounts into the Bank.

Liquidity

One of the Bank's goals is to provide adequate funds to meet changes in loan demand or any potential increase in the normal level of deposit withdrawals. This goal is accomplished primarily by generating cash from operating activities and maintaining sufficient short-term assets. These sources, coupled with a stable deposit base, allow the Bank to fund earning assets and maintain the availability of funds. Management believes that the Bank's traditional sources of maturing loans and investment securities, cash from operating activities and a strong base of core deposits are adequate to meet the Bank's liquidity needs for normal operations. To provide additional liquidity, the Bank utilizes short-term financing through the purchase of federal funds, and maintains a borrowing relationship with the Federal Home Loan Bank to provide liquidity. Should the Bank's traditional sources of liquidity be constrained, forcing the Bank to purse avenues of funding not typically used, the Bank's net interest margin could be impacted negatively. The Corporation's bank subsidiary has an Asset Liability Management Committee, which has as its primary objective the maintenance of specific funding and investment strategies to achieve short-term and long-term financial goals. The Corporation's liquidity at September 30, 2003 is considered adequate by management. See Item 3 below.

Capital Adequacy

The Corporation has generally relied primarily on internally generated capital growth to maintain capital adequacy. Total stockholders' equity on September 30, 2003, was $24,461,949, an increase of $1,088,645, or 4.64% over December 31, 2002. This increase is primarily due to current period earnings, together with the unrealized losses on securities available for sale, and the sale of stock upon the exercise of options, less dividends.

Primary capital to total assets at September 30, 2003, was 9.71%, as compared to 10.07% at year-end 2002. Total capital and allowances for loan losses to total assets at September 30, 2003, was 10.67%, as compared to 10.98% at December 31, 2002. The Corporation's risk based capital was $30,503,000, or 15.67%, at September 30, 2003, as compared to $28,897,000, or 16.16%, at year-end 2002 compared to the minimum requirement of 8.00%. Based on management's projection, internally generated capital and the capital previously raised by issuance of trust preferred securities should be sufficient to satisfy capital requirements in the foreseeable future for existing operations, and for some expansion efforts. Continued growth into new markets may require the Bank to further access external funding sources. There can be no assurance that such funding source will be available to the Corporation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Bank's market risk arises principally from interest rate risk inherent in its lending, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Bank manages other risk, such as credit quality and liquidity risk, in the normal course of business, management considers interest rate risk to be its most significant market risk. Interest rate risk could potentially have the largest material effect on the Bank's financial condition and results of operations. Other types of market risks, such as foreign currency exchange rate risk, generally do not arise in the Bank's normal course of business activities to any significant extent.

The Bank's profitability is affected by fluctuations in interest rates. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings. A sudden and substantial increase in interest rates may adversely impact the Bank's earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same speed, to the same extent or on the same basis.

The Bank's Asset Liability Management Committee ("ALCO") monitors and considers methods of managing the rate and sensitivity repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of changes in the net portfolio value ("NPV") and net interest income. NPV represents the market values of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off- balance sheet items over a range of assumed changes in market interest rates. A primary purpose of the Bank's ALCO is to manage interest rate risk to effectively invest the Bank's capital and to preserve the value created by its core business operations. As such, certain management monitoring processes are designed to minimize the impact of sudden and sustained changes in interest rates on NPV and net interest income.

The Bank's exposure to interest rate risk is reviewed on a quarterly basis by the Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the Bank's change in NPV in the event of hypothetical changes in interest rates. Further, interest rate sensitivity gap analysis is used to determine the repricing characteristics of the Bank's assets and liabilities. The ALCO is charged with the responsibility to maintain the level of sensitivity of the Bank's net interest margin within Board approved limits.

Interest rate sensitivity analysis is used to measure the Bank's interest rate risk by computing estimated changes in NPV of its cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 -

300 basis points increase or decrease in the market interest rates. The Bank uses the HNC Asset Liability Model, which takes the current rate structure of the portfolio and shocks for each rate level and calculates the new market value equity at each level. The Bank's Board of Directors has adopted an interest rate risk policy, which establishes maximum allowable decreases in net interest margin in the event of a sudden and sustained increase or decrease in market interest rates. The following table presents the Bank's projected change in NPV for the various rate shock levels as of September 30, 2003. All market risk sensitive instruments presented in this table are held to maturity or available for sale. The Bank has no trading securities.

CHANGE IN INTEREST RATES (BASIS POINTS)	MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY (%)
300	46,041	8,495	23
200	43,754	6,208	17
100	40,982	3,436	9
0	37,546	0	0
(100)	33,678	(3,868)	(10)
(200)	29,773	(7,773)	(21)
(300)	26,380	(11,166)	(30)

The preceding table indicates that at September 30, 2003, in the event of a sudden and sustained increase in prevailing market interest rates, the Bank's NPV would be expected to increase, and that in the event of a sudden decrease in prevailing market interest rates, the Bank's NPV would be expected to decrease. The recent growth in variable rate loans has caused the Corporation to become more asset sensitive over the period of a year, but the net interest margin remains fairly stable in all interest rate environments tested.

Computation of prospective effects of hypothetical interest rate changes included in these forward-looking statements are subject to certain risks, uncertainties, and assumptions including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank could undertake in response to changes in interest rates.

Item 4. Controls and Procedures

Based on evaluation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-4(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report, the principal executive officer and the principal financial officer of the Corporation have concluded that as of such date the Corporation's disclosure controls and procedures were effective to ensure that information the Corporation is required to disclose in its filings under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by the Corporation in the reports that it files under the Exchange Act is accumulated and communicated to the Corporation's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

18

There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above.

FORWARD LOOKING STATEMENTS

When used or incorporated by reference herein, the words "anticipate", "estimate", "expect", "project", "target", "goal", and similar expressions, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risk, uncertainties, and assumptions including those set forth herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected or projected. These forward-looking statements speak only as of the date they are made. The Corporation expressly disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

19

PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of principal accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of principal accounting officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

20

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED BANCORPORATION OF ALABAMA, INC.

Date: November 14, 2003 /s/ Robert R. Jones, III
Robert R. Jones, III

21

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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