UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
May 15, 2003

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

FORM 10-Q
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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)	(IRS Employer Identification Number)

P.O. Drawer 8, Atmore, AL 36504
(Address of principal executive offices)

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 Sections 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 the number of shares outstanding of each of the issuer's classes of common stock, as of May 1, 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 March 31, 2003

INDEX

ITEM 1.

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

	March 31, 2003 Unaudited	D
Assets:		
Cash and cash equivalents	$ 18,568,008	$
Securities available for sale (amortized cost of $45,587,781 and 49,414,161 respectively)	47,532,834	
Loans	162,255,841	
Allowance for loan losses	2,255,573	
Net loans	160,000,269	
Premises and equipment, net	6,734,635	
Interest receivable and other assets	7,829,098	
Total assets	240,664,844	
Liabilities and Stockholders' Equity:		
Deposits:		
Non-interest bearing	40,387,501	
Interest bearing	150,129,512	
Total deposits	190,517,013	
Securities sold under agreements to repurchase	9,038,961	
Other borrowed funds	11,439,546	
Accrued expenses and other liabilities	1,569,894	
Guaranteed preferred beneficial interest in junior subordinate debt securities net of debt issuance cost of $149,037 and $151,563 respectively	3,974,963	
Total liabilities	216,540,377	

Stockholders' equity:	
Class A common stock. Authorized 5,000,000 shares of $.01 par value; 1,161,481 and 1,161,481 shares issued respectively	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	995,417
Retained earnings	18,867,110
	24,966,121
Less: 74,583 and 74,759 treasury shares, at cost respectively	841,654
Total stockholders' equity	24,124,467
Total liabilities and stockholders' equity	$240,664,844

3

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31 2003	2002
Interest income:		
Interest and fees on loans	$ 2,755,608	$ 2,929,058
Interest on investment securities available for sale:		
Taxable	310,695	347,004
Nontaxable	240,671	222,255
Total investment income	551,365	569,259
Other interest income	16,042	54,725
Total interest income	3,323,016	3,553,042
Interest expense:		
Interest on deposits	856,890	1,139,701
Interest on other borrowed funds	143,335	136,665
Total interest expense	1,000,225	1,276,366
Net interest income	2,322,791	2,276,676
Provision for loan losses	186,000	186,000

Net interest income after provision for loan losses	2,136,791	2,090,676
Noninterest income:		
Service charge on deposits	484,427	375,778
Commission on credit life	8,775	11,868
Investment securities gains, net	140,316	0
Other	212,543	138,598
Total noninterest income	846,060	526,244
Noninterest expense:		
Salaries and benefits	1,304,148	1,093,934
Net occupancy expense	415,125	409,915
Other	625,082	589,130
Total non-interest expense	2,344,355	2,092,979
Earnings before income tax expense	638,496	523,941
Income tax expense	170,210	127,617
Net earnings	$ 468,286	$ 396,324
Basic earnings per share	$ 0.43	$ 0.36
Diluted earnings per share	$ 0.43	$ 0.36
Basic weighted average shares outstanding	1,086,798	1,098,352
Diluted weighted average shares outstanding	1,100,717	1,110,902

Statement of Comprehensive Income

Net Income	468,286	396,324
Other Comprehensive Income, net of tax:		
Unrealized holding gain (losses) arising during the period	198,166	(83,127)
Less: Reclassification adjustment for gains (losses) included in net income	103,132	--
Comprehensive income	563,320	313,197

4

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

	2003	2002
Operating Activities		
Net Income	$ 468,286	396
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		

Provision for Loan Losses	186,000	186
Depreciation on Premises and Equipment	181,357	215
Amortization of Investment Securities Available for Sale	(43,703)	
Gain on Sale of Investment Securities Available for Sale	(140,316)	
Writedown of Other Real Estate	--	17
(Increase) Decrease in Interest Receivable and Other Assets	(537,117)	707
Decrease in Accrued Expenses and Other Liabilities	(136,977)	(2,545
Net Cash Used by Operating Activities	(22,470)	(1,024
Investing Activities		
Proceeds From Sales of Investment Securities Available for Sale	2,844,962	
Proceeds From Maturities of Investment Securities Available for Sale	6,161,973	2,046
Purchases of Investment Securities Available for Sale	(5,282,560)	(6,465
Net Increase in Loans	(797,102)	(2,349
Purchases of Premises and Equipment	(604,941)	(168
Net Cash Provided by Investing Activities	2,322,332	(6,937
Financing Activities		
Net Increase in Deposits	7,951,698	932
Net Increase in securities sold under agreement to repurchase	898,455	2,801
Proceeds from Sale of Treasury Stock	4,712	6
Exercise of stock options	--	12
Increase (Decrease) in Other Borrowed Funds	(1,674,034)	631
Net Cash Provided by Financing Activities	7,180,831	4,385
Increase (Decrease) in Cash and Cash Equivalents	9,480,693	(3,575
Cash and Cash Equivalents at Beginning of Period	9,087,315	19,348
Cash and Cash Equivalents at End of Period	18,568,008	15,772
Supplemental disclosures		
Cash paid during the year for:		
Interest	1,020,005	1,621
Income Taxes	100,000	

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Notes to Consolidated Condensed Financial Statements
(UNAUDITED)

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 Company'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-month periods ended March 31, 2003 and 2002. Common stock outstanding consists of issued shares less treasury stock. Diluted net income per share for the three-month periods ended March 31, 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 awarded under the Company'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 months ended March 31, 2003 and 2002:

	2003	2002
Diluted earnings per share:	.43	.36
Weighted average common shares Outstanding	1,086,798	1,098,352
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	13,919	12,550
Total weighted average common shares and potential common stock outstanding	1,100,717	1,110,902

NOTE 3 - Allowance for Loan Losses

The allowance for loan losses for the three month periods ended March 31, 2003 and 2002 are summarized as follows (in thousands).

	2003	2002
Allowance for Loan Losses:		
Balance at the beginning of period	2,116	1,993

Provision charged to operating expense	186	186
Losses charged off	53	183
Recoveries	7	4
	-----	-----
Balance at the end of period	2,256	2,000
	=====	=====

NOTE 4 - Operating Segments

The 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 Company operates in only one segment - commercial banking.

NOTE 5 - New Accounting Standards

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosures, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123, Accounting for Stock Based Compensation to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this statement did not have a material impact to the Consolidated Financial Statements. (See Note 6-Stock Based Compensation.)

In November 2002, the 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. The adoption of these recognition provisions will result in recording liabilities associated with certain guarantees provided by the Company. 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 beginning after June 15, 2003. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements.

8

Management does not expect this Interpretation to have a material impact to the Consolidated Financial Statements.

On April 30, 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company does not expect this statement to have a material impact on the consolidated financial statements.

NOTE 6 - STOCK BASED COMPENSATION

The Company 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 fixed plan 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 hypothetical fair value method application.

Had compensation expense for the Company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the three months ended March 31, 2003, and 2002, would have been impacted as shown in the following table:

	2003	2002
Reported net earnings	468,286	396,324
Compensation expense, net of taxes	4,411	6,061
Pro forma net earnings	463,875	390,263
Reported basic earnings per share	0.43	0.36
Pro forma basic earnings per share	0.43	0.36
Reported diluted earnings per share	0.43	0.36

Pro forma diluted earnings per share	0.42	0.35

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, 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 credit losses is established through a provision for loan losses, which is a charge against earnings. Provision for loan losses are made to reserve for estimated probable losses within the loan portfolio.

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.

Results of Operations

The following financial review is presented to provide a comparative analysis of the results of operations of United Bancorporation of Alabama, Inc. (the "Corporation") and its subsidiary for the three months ended March 31, 2002 and 2003. This review should be read in conjunction with the consolidated financial statements included in this Form 10-Q.

Summary

Net income after taxes for the three months ended March 31, 2003 increased $71,962, or 18.16%, as compared to the same period in 2002.

Net Interest Income

Total interest income decreased by $230,026, or 6.47%, during the first quarter of 2003 compared to the first quarter of 2002. Average interest-earning assets were $216,552,259 for the first quarter of 2003 as compared to $201,305,792 for the same period in 2002, an increase of $15,246,467 or 7.57%. Most of this increase came from an increase in loans and investments. The average rate earned in 2003 was 6.25% as compared to 7.14% in 2002, reflecting the continuing impact of the decrease in rates by the Federal Reserve Board during the latter part of 2001 and 2002. The net interest margin decreased to 4.47% for the first quarter of 2003, as compared to 4.57% for the same period in 2002. This decrease is attributable to the fact that although most short term interest bearing liabilities have already repriced in the lower interest rate market, longer-term loans continue to reprice at slightly lower rates.

Total interest expense decreased by $251,376 or 12.0% in 2003. The decrease in interest expense is attributed to the decrease in the average rate paid during the first quarter of 2003 as a result of the repricing discussed above. The average rate paid during the first quarter of 2003 was 2.34% as compared to 3.11% for the same period in 2002. This rate decrease is due to the lowering of CD rates over the past year which were the result of a decrease in federal funds rates. Average interest bearing liabilities increased to $173,011,611 in 2003, from $166,577,542 in 2002, an increase of $6,434,064, or 3.86%.

Noninterest Income

Total noninterest income increased to $846,060 for the first quarter of 2003, as compared to $526,244 for the same period of 2002, an increase of $319,516, or 60.77%. This increase was caused partly by the sale of portfolio securities in 2003 of $140,316, compared to no such sales in 2002. The Bank also implemented a new overdraft program in May of 2002 to increase fee income, which caused an increase $104,308 in noninterest income. The decreased interest rate environment also resulted in an increase in mortgage originations; thus mortgage origination fee income increased $59,249 over the same period in 2002.

Noninterest Expense

Total noninterest expense increased $251,376 or 12.01% during the first quarter of 2003 partly due to increased salaries and benefits of $210,214. The increase was also attributable to an increase in occupancy expenses of $5,210 due to date processing maintenance which was provided at no charge until June 2002 and is currently costing $25,406 per quarter. Other expenses included an increase legal fees of $67,757 largely due to special projects that are not expected to be recurring. The overall increase was partly offset by a decrease in other expenses attributable to lower depreciation.

Income Taxes

Earnings before taxes for the first quarter of 2003 increased $114,555, or 21.86%, compared to the same period of 2002. Income tax expense increased to $170,210 in 2003 from $127,617 in 2002, an increase of $52,380, or 29.10%. The effective tax rate decreased from 26.66% to 24.36%.

Financial Condition and Liquidity

Total assets on March 31, 2003 increased $7,842,415 or 3.37% as compared to December 31, 2002. Average total assets for the first quarter of 2003 were $236,023,738 as compared to $219,628,247 for the same period in 2002. The increase in assets is attributable to increases in cash and in noninterest bearing and interest bearing deposits during the year.

Loans

Net loans decreased by $319,098 or .20% at March 31, 2003, from December 31,

2002. This decrease is due to some unexpected loan payoffs and the maturing of certain construction loans in the 1-4 family market. The net ratio of loans to deposits and repurchase agreements on March 31, 2003 was 80.18%, as compared to 87.81% on December 31, 2002.

Allowance and Provision for Loan Losses

The allowance for loan losses represents 1.39% of gross loans at March 31, 2003, as compared to 1.30% at year-end 2002. Loans on which the accrual of interest had been discontinued amounted to $1,358,649 at March 31, 2003, as compared to $1,166,919 at December 31, 2002. The provision for loan losses was $186,000 for the first three months of 2003. Net charged-off loans for the first quarter of 2003 were $40,721, as compared to $179,623 in for the first 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 classifications as follows: substandard (15%), doubtful (50%), and loss (100%). 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 that probably exist as of the evaluation date even though they may not have been identified by the more objective processes for the classified portion of the allowance. This is due to the risk of error, and inherent imprecision in the process, and the timing of when the Corporation receives accurate financial information from borrowers. 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,

managements estimate on collateral values securing certain loans, historical loss experience, and 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.

Non-performing Assets: The following table sets forth the Corporation's non-performing assets at March 31, 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	March 31 2003	December 31 2002
		(Dollars in Thousands)	
(A)	Loans accounted for on a nonaccrual basis	$1,359	$1,167
(B)	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above).	17	10
(C)	Loans, the term 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.	384	968
(D)	Other non-performing assets	1,270	350

The increase in other non-performing assets is primarily due to foreclosures on commercial real estate loans during the quarter.

Investment Securities

Investment securities available for sale decreased by $3,210,081 or 6.3% in the first quarter of 2003, from December 31, 2002, because the Bank experienced a large number of prepayments in the mortgage backed securities portfolio.

Premises and Equipment

Premises and equipment increased $423,584 during the first quarter of 2003 from December 31, 2002, primarily due to the Company's purchasing of land in an existing market for a planned new branch.

Deposits

Total deposits increased $7,951,698, or 4.35%, at March 31, 2003, from December 31, 2002. Non-interest bearing deposits increased $4,448,105 or 12.38% at quarter end from the year-end total. Interest bearing deposits decreased $3,503,593, or 2.39%, at March 31, 2003, from December 31, 2002. Management believes the net increase in deposits is due to the downturn in the stock market, which has caused customers to sell stocks and put the proceeds on deposit at the Bank. Average total deposits for the first quarter of 2003 were $187,607,084, as compared to $180,796,674 for the same period in 2002.

Other Borrowed Funds

Other borrowed funds decreased $1,674,034 or 12.76% due to the Bank's repayment of FHLB advances during the quarter.

Capital Adequacy

The Corporation has historically relied primarily on internally generated capital growth to maintain capital adequacy. Total stockholders' equity on March 31, 2003, was $24,124,467, an increase of $671,163, or 2.86%, from $23,453,304 at year-end 2002.

Primary capital to total assets at March 31, 2003, was 10.02%, as compared to 9.93% at year-end 2002. Total capital and allowances for loan losses to total assets at March 31, 2003, were 10.96%, as compared to 10.98% at December 31, 2002. The Corporation had risk based capital of $29,502,000, or 16.4%, at March 31, 2003, as compared to $28,897,000, or 16.16% at year end 2002. The Corporation's minimum risk based capital requirement is 8.00% of risk weighted assets. Based on management's projections, internally generated capital should be sufficient to satisfy capital requirements in the foreseeable future for existing operations, but the growth into new markets may require the Bank to access external funding sources.

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 risks, 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.

Item 3. Market Risk Disclosures

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 or decrease 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

15

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 December 31, 2002, the most recent date for which the Corporation has a completed analysis. 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	45,379	10,394	30
200	43,179	8,194	23
100	40,456	5,471	16
0	34,985	0	0
(100)	33,647	(1,338)	(4)
(200)	29,585	(5,400)	(15)
(300)	26,512	(8,473)	(24)

16

The preceding table indicates that at December 31, 2002, 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 Corporation has not received a March 31, 2003 update of the proceeding table, but does not believe that it will be materially different.

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

(a) 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 a date within 90 days of the filing of 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.

(b) 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 in (a) above.

PART II -- OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Stockholders of United Bancorporation of Alabama, Inc. was held on May 7, 2003.

(b) The following nominees were elected as Directors of the Corporation, to serve until the 2005 Annual Meeting of Stockholders, by the votes indicated:

Nominee	For	Against
L. Walter Crim	704,402	324
H. Leon Esneul	704,402	324
William J. Justice	704,120	606

The Directors of the Corporation whose terms of office continued after the 2002 Annual Meeting are as follows:

Director	To Serve Until the Annual Meeting of Stockholders in the year
Dale Ash	2005
Robert R. Jones III	2005
David Swift	2004
William C. Grissett	2004

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

(a) Exhibits.

99.1 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.

99.2 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.

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: May 14, 2002

/s/ Robert R. Jones, III

Robert R. Jones, III

CERTIFICATION

I, Robert R. Jones, III, President and CEO, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Bancorporation of Alabama Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/Robert R. Jones, III

Robert R. Jones, III
President and CEO

I, Mitchell D. Staples, principal accounting officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Bancorporation of Alabama, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Mitchell D. Staples

Mitchell D. Staples
Principal accounting officer

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
99.1	Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.