UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
August 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 June 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 the number of shares outstanding of each of the issuer's classes of common stock as of June 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 June 30, 2003

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

Item 1.

	June 30, 2003 Unaudited

Assets	
Cash and due from banks	$ 9,398,55
Federal funds sold	15,180,20
Cash and cash equivalents	24,578,75
Securities available for sale (amortized cost of $46,527,147 and $49,414,161 respectively)	48,121,78
Loans	167,160,04
Less: Allowance for loan losses	2,296,17
Net loans	164,863,86
Premises and equipment, net	7,104,92
Interest receivable and other assets	6,275,75
Total assets	$ 250,945,09
Liabilities and Stockholders' Equity	
Deposits:	
Non-interest bearing	$ 41,127,90
Interest bearing	150,630,87
Total deposits	191,758,78
Securities sold under agreements to repurchase	16,764,88
Guaranteed preferred beneficial interest in junior subordinate debt securities net of debt issuance cost of $146,511 and $151,563 respectively	3,977,48
Other borrowed funds	10,971,38
Accrued expenses and other liabilities	2,926,57
Total liabilities	226,399,11
Stockholders' equity:	
Class A common stock. Authorized 5,000,000 shares of $.01 par value; 1,161,481 shares issued and outstanding	11,61
Class B common stock of $.01 par value Authorized 250,000 shares; -0- shares issued and outstanding	
Preferred stock of $.01 par value. Authorized 250,000 shares; -0- shares issued and outstanding	
Additional paid in capital	5,091,97
Accumulated other comprehensive income	1,097,96
Retained earnings	19,186,07
	25,387,63
Less 74,583 and 74,759 treasury shares, at cost, respectively	841,65
Total stockholders' equity	24,545,97
Total liabilities and stockholders' equity	$ 250,945,09

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 June 30		
	2003	2002	2
Interest income:			
Interest and fees on loans	2,832,079	2,890,327	5,5
Interest on investment securities Available for Sale:			
Taxable	261,742	369,112	5
Nontaxable	226,480	235,500	4
Total investment income	488,222	604,612	1,0
Other interest income	34,833	30,407	
Total interest income	3,355,134	3,525,346	6,6
Interest expense:			
Interest on deposits	808,012	1,022,005	1,6
Interest on other borrowed funds	162,377	88,209	3
Total interest expense	970,389	1,110,214	1,9
Net interest income	2,384,745	2,415,132	4,7
Provision for loan losses	162,704	186,000	3
Net interest income after provision for loan losses	2,222,041	2,229,132	4,3
Noninterest income:			
Service charge on deposits	622,586	491,784	1,1
Commission on credit life	24,800	19,355	
Investment securities gains, net	151,892	48,522	2
Other	102,053	133,163	3
Total noninterest income	901,331	692,824	1,7
Noninterest expense:			
Salaries and benefits	1,313,938	1,210,843	2,6
Net occupancy expense	434,593	429,479	8
Other	548,499	653,360	1,2
Total non-interest expense	2,297,030	2,293,682	4,6
Earnings before income tax expense	826,342	628,274	1,4
Income tax expense	237,263	168,248	4
Net earnings	589,079	460,026	1,0
Basic earnings per share (Note 2)	$ 0.54	$ 0.42	$
Diluted earnings per share (Note 2)	$ 0.54	$ 0.42	$

Basic weighted average shares outstanding	1,086,898	1,099,214	1,0
Diluted weighted average shares outstanding	1,094,560	1,099,271	1,0
Statement of Comprehensive Income			
Net Income	589,079	460,026	1,0
Other Comprehensive Income, net of tax:			
Unrealized Holding gains arising during the period	102,547	468,104	3
Less: Reclassification adjustment for gains included in net income	151,892	48,522	2
Comprehensive income	539,734	879,608	1,0

See notes to condensed consolidated financial statements

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

	2003 Unaudited
Operating Activities	
Net Income	$ 1,057,366
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Provision for Loan Losses	348,704
Depreciation on Premises and Equipment	368,527
(Accretion) Amortization of Investment Securities Available for Sale	112,313
Gain on Sale of Investment Securities Available for Sale	(292,208)
Gain on Disposal of Premises and Equipment	(13,400)
Increase in Interest Receivable and Other Assets	86,022
Increase (Decrease) in Accrued Expenses and Other Liabilities	1,152,944
Net Cash Provided by Operating Activities	2,820,268
Investing Activities	
Proceeds From Sales of Investment Securities Available for Sale	6,466,368
Proceeds From Maturities of Investment Securities Available for Sale	9,667,475
Purchases of Investment Securities Available for Sale	(12,831,628)
Net Increase in Loans	(4,893,205)
Purchases of Premises and Equipment	(1,162,401)
Proceeds From Sales of Premises and Equipment	13,400
Net Cash Provided (Used) by Investing Activities	(2,739,991)

Financing Activities	
Net Increase (Decrease) in Deposits	9,193,466
Net Increase in securities sold under agreement to repurchase	8,624,382
Exercise of stock options	--
Proceeds from sale of treasury stock	4,712
Cash Dividends	(271,725)
Purchase of Treasury Stock	--
(Decrease) Increase in Other Borrowed Funds	(2,139,672)
Net Cash Provided by Financing Activities	15,411,163
Increase (Decrease) in Cash and Cash Equivalents	15,491,440
Cash and Cash Equivalents at Beginning of Period	9,087,315
Cash and Cash Equivalents at End of Period	24,578,755
Supplemental disclosures	
Cash paid during the year for:	
Interest	2,050,259
Income Taxes	483,000
Transfer of loans to other real estate through foreclosure	920,000

See notes to condensed consolidated financial statements

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 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 and

six-month periods ended June 30, 2003 and 2002. Common stock outstanding consists of issued shares less treasury stock. Diluted net income per share for the three and six-month periods ended June 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 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 and six months ended June 30, 2003 and 2002:

	Three Months Ended June 2003	2002	2003
Diluted earnings per share:	$ 0.54	0.42	0.97
Weighted average common shares outstanding	1,086,898	1,099,214	1,086,848
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	7,662	57	7,923
Total weighted average common shares and potential common stock outstanding	1,094,560	1,099,271	1,094,771

In addition the Company has issued 16,032 outstanding options that 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 for the three and six months ended June 30, 2003.

NOTE 3 - Allowance for Loan Losses

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

	2003	2002
Balance at beginning of year	2,117	1,983
Provision charged to expense	349	372
Loans charged off	215	442
Recoveries	45	33
Balance at end of period	2,296	1,956

At June 30, 2003 and at December 31, 2002, the amounts of nonaccrual loans were $2,299,823 and $1,166,919, respectively.

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 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 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.

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.

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 Company.

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 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 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 six months ended June 30, 2003, and 2002, would have been impacted as shown in the following table:

	2003	2002
Reported net earnings	1,057,366	856,350
Compensation expense, net of taxes	4,411	6,061
Pro forma net earnings	1,052,955	850,289
Reported basic earnings per share	0.97	0.78
Pro forma basic earnings per share	0.97	0.78
Reported diluted earnings per share	0.97	0.78
Pro forma diluted earnings per share	0.96	0.77

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 provisions 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 six months ended June 30, 2003, and 2002. This review should be used in conjunction with the condensed consolidated financial statements included in the Form 10-Q.

Six Months ended June 30, 2003 and 2002, Compared

Summary

Net income for the six months ended June 30, 2003, increased by $201,016, or 23.47%, as compared to the same period in 2002, as a result of increases in net interest income and noninterest income.

Net Interest Income

Total interest income decreased $400,238, or 5.65%, in 2003. Average interest-earning assets were $220,862,155 for the first six months of 2003, as compared to $202,574,026 for the same period in 2002, an increase of $18,288,129, or 9.03%. A substantial portion of the increase is due to the increase in deposits by one existing Bank customer. The average rate earned in 2003 was 6.12% as compared to 7.06% in 2002, reflecting the continual impact of the decrease in rates by the Federal Reserve Board during 2002 and 2003.

Total interest expense decreased by $415,966, or 17.42%, in 2003, when compared to the same period in 2002. Average interest bearing liabilities increased to $170,450,745 in 2003 from $164,824,557 in 2002, an increase of $5,626,188, or 3.41%. The average rate paid fell to 2.21% in 2003 as compared to 2.92% 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 4.16% for the first six months of 2003 as compared to 4.67% 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 $239,451, or 27.60%, for the first six

months of 2003. This increase is primarily due to an increase in insufficient fund charges on checks. Total noninterest income increased $528,324 or 43.38% for the first six months of 2003. Gains on sale of

investments increased to $292,208 in 2003, as compared to $48,522 in 2002. Management elected 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 $2,352 in 2003, or 7.53%. Other income increased during the first six months of 2003 by $42,835 or 15.76%. This increase is primarily the result of fees collected on loans originated for third party mortgage companies.

Noninterest Expense

Total noninterest expense increased $254,724, or 5.81% during the first six months of 2003. Salaries and benefits increased $313,309 or 13.59%, in the first six months of 2003 primarily due to the addition of senior management personnel. Occupancy expense increased $10,324 or 1.23%. Other expenses decreased $68,909, or 5.55%, during the first six months of 2003. This decrease is due to reduced marketing expenses from the prior year and due to the fact that the Company had higher levels of OREO write-downs in 2002 than in 2003.

Provision for Loan Losses

The provision for loan losses decreased to $348,704 for the first six months of 2003 as compared to $372,000 for the same period in 2002. This decrease is due to a determination of improved credit quality in the current loan portfolio. See further discussion under Allowance for Loan Losses below.

Income Taxes

Earnings before taxes for the first six months of 2003 was $1,464,839 as compared to $1,152,215 for the first six months of 2002, an increase of $312,624, or 27.13%. Income tax expense for the first six months increased by $111,608, to $407,473 or by 37.72%, when compared to $295,865 for the same period in 2002. The effective tax rate increased to 27.82% from 25.68%.

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

Summary

Net income for the three months ended June 30, 2003 increased $129,053, or 28.05%, due to a decrease in loan loss provision and an increase in noninterest income.

Net Interest Income

Total interest income decreased $170,212, or 4.83%, in the second quarter of 2003. Average interest-earning assets were $225,172,019 for the second three months of 2003, as compared to $201,939,7886 for the same period in 2002, an increase of $23,232,231, or 11.50%. A substantial portion of the increase is due to the increase in deposits by one existing Bank customer. The

average rate earned in 2003 was 5.98% as compared to 6.98% in 2002, reflecting the continual impact of the decrease in rates by the Federal Reserve Board during 2002 and 2003.

Total interest expense decreased by $139,825, or 12.59% in the second quarter of 2003, when compared to the same period in 2002. Average interest bearing liabilities increased to $171,889,878 in 2003 from $163,089,951 in 2002, an increase of $8,779,927, or 5.40%. The average rate paid fell to 2.15% in 2003 as compared to 2.73% in 2002.

The net interest margin decreased to 4.35% for the second quarter of 2003, as compared to 4.73% for the same period in 2002.

Provision for Loan Losses

The provision for loan losses decreased to $162,704 for the second quarter of 2003 as compared to $186,000 for the same period in 2002. That reflected a determination of improvement in credit quality in the loan portfolio. See further discussion under Allowance for Loan Losses below.

Noninterest Income

Service charges on deposits increased $130,802, or 26.60%, for the second quarter of 2003. This increase is primarily due to an increase in insufficient fund charges on checks. Total noninterest income increased $105,137 or 16.31% for the second quarter of 2003. Gains on sale of investments increased to, $151,892 in 2003, as compared to $48,522 in 2002 in the second quarter. Management elected to capture gains on interest bearing securities given its assessment of a high probability that the securities would be called at par in future periods. Commissions on credit life insurance increased $5,445 in 2003, or 28.13% for the second quarter of 2003. Other income increased during the second quarter of 2003 by $31,110 or 23.36%.

Noninterest Expense

Total noninterest expense increased $3,348, or .15%, during the second quarter of 2003 compared to the same quarter of 2002. Salaries and benefits increased $103,095, or 8.51%, in the second quarter 2003. This increase is primarily due to the annual salary increases in March and the additional hiring of new senior officers of the Bank. Occupancy expense increased $5,114, or 1.91%, in the second quarter of 2003. Other expenses decreased $104,861 during the second quarter of 2003. This decrease is partly due to a reduction in marketing expenses of $21,266. The Bank also had approximately $30,000 in bad check charges in 2002 and higher professional fees and regulatory charges in the 2002 period.

Income Taxes

Earnings before taxes for the second quarter of 2003 was $826,342 as compared to $628,274 in the 2002 quarter an increase $198,068, or 31.53%, compared to the same period in 2002. Income tax expense for the second quarter increased $69,015 to $237,263 or by 41.02%, when compared to $168,248 for the same period in 2002. The effective tax rate increased to 28.71% from 26.78%.

Financial Condition and Liquidity

Total assets on June 30, 2003, increased $18,122,661, or 7.78% from December 31,

2002. Average total assets for the first six months of 2003 were $241,787,267. The loan (net of allowance) to deposit ratio on June 30, 2003, was 85.97% 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 June 30, 2003 increased to $15,180,203, or by 100.00%, over December 31, 2002. This increase is attributed to the increase in deposits and the increased cash flows from the sale, maturities and prepayments in the investment portfolio.

Loans

Net loans increased by $4,544,501 or 2.83% at June 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 1.37% of gross loans at June 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 $2,299,823 at June 30, 2003, as compared to $1,166,919 at December 31, 2002. This increase is due primarily to several unrelated commercial and some residential property loans becoming past due by more than ninety days.

Net charged-off loans for the first six months of 2003 were $169,000, as compared to $415,621 for the same period in 2002, reflecting a number of loans that were charged off in the second 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.

Non-performing Assets: The following table sets forth the Corporation's non-performing assets at June 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	June 30 2003
		(Dollars
(A)	Loans accounted for on a nonaccrual basis	$ 2,300
(B)	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above)	7
(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	440
(D)	Other non-performing assets	1270

The majority of the increase in other non-performing assets was due to the

foreclosure on several parcels of real estate totaling $920,000.

Investment Securities

Total investments available for sale have decreased $2,621,132 at June 30, 2003 as compared to December 31, 2002 due to securities being called due to high prepayment of loans underlying mortgage backed securities.

Premises and Equipment

Premises and equipment increased $793,874 during the first two 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.

Deposits

Total deposits increased $9,193,466, or 5.04%, at June 30, 2003 from December 31, 2002. Noninterest bearing deposits increased $5,188,513 at June 30, 2003. Interest bearing deposits

decreased $4,004,953 at June 30, 2003. Management believes that the increase has been due to the poor performance of the equity market, which has caused Bank customers to deposit 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. See Item 3 below. The Corporation's liquidity at June 30, 2003 is considered adequate by management.

Capital Adequacy

The Corporation has generally relied primarily on internally generated capital growth to maintain capital adequacy. Total stockholders' equity on June 30, 2003, was $24,545,977, an increase of $1,092,673, or 4.66% over December 31, 2002. This increase is primarily due to current period earnings, together with the unrealized gains on securities held for sale, and the sale of stock upon the exercise of options, less dividends.

Primary capital to total assets at June 30, 2003, was 9.78%, as compared to 9.93% at year-end 2002. Total capital and allowances for loan losses to total assets at June 30, 2003, was 10.70%, as compared to 10.98% at December 31, 2002.

The Corporation's risk based capital was $29,868,000, or 15.92%, at June 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 projections, 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. 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 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 June 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	42,938	8,528	25
200	41,023	6,613	19
100	38,200	3,790	11
0	34,410	0	0
(100)	30,492	(3,918)	(11)
(200)	27,042	(7,368)	(21)
(300)	24,258	(10,152)	(30)

The preceding table indicates that at June 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-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the quarter covered by this 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.

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.

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.

PART II -- OTHER INFORMATION

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

(a) A description of actions taken at the annual meeting of security holders of United Bancorporation of Alabama, Inc. on May 7, 2003 was reported under Item 4 of the Corporation's Form 10-Q for the quarter ended March 31, 2003, and is incorporated by reference herein.

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.

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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: August 14, 2003 /s/ Robert R Jones, III
Robert R Jones, III

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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