

UNITED BANCORPORATION OF ALABAMA INC  
Form 10-Q  
May 15, 2012

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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 March 31, 2012

Commission file number 000-25917

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

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

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

(251) 446-6000  
(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as define in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 15, 2012.

Class A Common Stock.... 2,367,903 Shares

Class B Common Stock.... -0- Shares

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UNITED BANCORPORATION OF ALABAMA, INC.

FORM 10-Q

For the Quarter Ended March 31, 2012

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PART I - FINANCIAL INFORMATION  
 UNITED BANCORPORATION OF ALABAMA, INC.  
 AND SUBSIDIARY  
 Consolidated Balance Sheets

## ITEM 1. Financial Statements

|   | March 31,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|---|----------------------------------|----------------------|
| Assets  |                                  |                      |
| Cash and due from banks   | \$ 11,784,158                    | \$ 14,940,877        |
| Interest bearing deposits in banks  | 54,176,907                       | 41,333,309           |
| Cash and cash equivalents   | 65,961,065                       | 56,274,186           |
| Securities available for sale (amortized cost of \$72,670,242 and \$70,951,957 respectively)  | 73,340,403                       | 71,493,832           |
| Securities held to maturity (fair values of \$20,809,424 and \$22,012,073 respectively)       | 19,804,308                       | 21,048,977           |
| Loans held for sale   | 137,755                          | 169,400              |
| Loans held for investment   | 269,811,732                      | 263,093,320          |
| Less: Allowance for loan losses   | 5,111,534                        | 4,901,550            |
| Net loans   | 264,700,198                      | 258,191,770          |
| Premises and equipment, net   | 15,785,171                       | 15,853,633           |
| Interest receivable   | 1,891,623                        | 2,155,497            |
| Other real estate owned   | 9,400,591                        | 9,946,107            |
| Other assets  | 13,408,848                       | 11,745,770           |
| <b>Total assets</b>   | <b>464,429,962</b>               | <b>446,879,172</b>   |
| Liabilities and Stockholders' Equity  |                                  |                      |
| Deposits:   |                                  |                      |
| Non-interest bearing  | 136,075,305                      | 126,469,004          |
| Interest bearing  | 277,673,880                      | 268,984,934          |
| Total deposits  | 413,749,185                      | 395,453,938          |
| Advances from Federal Home Loan Bank of Atlanta   | 1,058,050                        | 1,115,500            |
| Treasury, tax, and loan account   | 0                                | 991,750              |
| Interest payable  | 255,970                          | 287,686              |
| Note payable to Trust   | 10,310,000                       | 10,310,000           |
| Accrued expenses and other liabilities  | 1,451,473                        | 1,451,275            |
| Total liabilities   | 426,824,678                      | 409,610,149          |
| Stockholders' equity  |                                  |                      |
| Preferred stock of \$.01 par value. Authorized 250,000 shares; 10,300 shares, net of discount | 10,167,226                       | 10,149,323           |

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|  |               |               |
|--|---------------|---------------|
| Class A common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,388,676 shares in 2012 and 2011, respectively | 23,887        | 23,891        |
| Class B common stock, \$0.01 par value. Authorized 250,000 shares; no shares issued or outstanding   | -             | -             |
| Additional paid in capital   | 7,139,894     | 7,114,042     |
| Accumulated other comprehensive loss net of tax  | 402,091       | 325,119       |
| Retained earnings  | 20,038,645    | 19,984,862    |
|  | 37,771,743    | 37,597,237    |
| Less: 20,773 and 40,943 treasury shares, at cost, respectively   | 166,459       | 328,214       |
| Total stockholders' equity   | 37,605,284    | 37,269,023    |
| Total liabilities and stockholders' equity   | \$464,429,962 | \$446,879,172 |

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.  
AND SUBSIDIARY  
Consolidated Statements of Earnings  
(Unaudited)

|   | Three Months Ended<br>March 31 |             |
|---|--------------------------------|-------------|
|   | 2012                           | 2011        |
| Interest income:  |                                |             |
| Interest and fees on loans                                | \$3,970,899                    | \$3,896,988 |
| Interest on investment securities:                        |                                |             |
| Taxable   | 317,190                        | 438,129     |
| Nontaxable  | 57,712                         | 84,646      |
| Total investment income                                   | 374,902                        | 522,775     |
| Other interest income                                     | 32,615                         | 45,692      |
| Total interest income                                     | 4,378,416                      | 4,465,455   |
| Interest expense:   |                                |             |
| Interest on deposits                                      | 634,181                        | 866,407     |
| Interest on other borrowed funds                          | 74,642                         | 69,054      |
| Total interest expense                                    | 708,823                        | 935,461     |
| Net interest income                                       | 3,669,593                      | 3,529,994   |
| Provision for loan losses                                 | 200,000                        | 300,000     |
| Net interest income after provision for loan losses       | 3,469,593                      | 3,229,994   |
| Noninterest income:                                       |                                |             |
| Service charge on deposits                                | 743,274                        | 796,682     |
| Mortgage loan and related fees                            | 95,390                         | 63,570      |
| Other   | 258,468                        | 171,088     |
| Total noninterest income                                  | 1,097,132                      | 1,031,340   |
| Noninterest expense:                                      |                                |             |
| Salaries and benefits                                     | 2,177,428                      | 2,207,870   |
| Net occupancy expense                                     | 455,932                        | 483,691     |
| Other   | 1,516,138                      | 1,278,364   |
| Total noninterest expense                                 | 4,149,498                      | 3,969,925   |
| Earnings before income tax expense                        | 417,227                        | 291,409     |
| Income tax expense  | 110,184                        | 64,047      |
| Net earnings  | 307,043                        | 227,362     |
| Preferred stock dividends                                 | 51,500                         | 51,500      |
| Accretion on preferred stock discount                     | 17,903                         | 16,904      |
| Net earnings available to common shareholders             | \$237,640                      | \$158,958   |
| Basic earnings per share available to common shareholders | \$0.10                         | \$0.07      |

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|   |           |           |
|---|-----------|-----------|
| Diluted earnings per share available to common shareholders | \$0.10    | \$0.07    |
| Basic weighted average shares outstanding                   | 2,363,027 | 2,314,019 |
| Diluted weighted average shares outstanding                 | 2,363,027 | 2,314,019 |
| Cash dividend per share                                     | \$-       | \$-       |

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.  
AND SUBSIDIARY  
Consolidated Statement of Comprehensive Income  
(Unaudited)

|   | Three Months Ended<br>March 31 |            |
|---|--------------------------------|------------|
|   | 2012                           | 2011       |
| Net income  | \$ 307,043                     | \$ 227,362 |
| Other comprehensive income (loss)   |                                |            |
| Unrealized holding gains (losses) on securities available for sale arising during the period, net of tax (benefits) of \$51,315 and \$(78,203), respectively. | 76,972                         | (117,305 ) |
| Comprehensive income  | \$ 384,015                     | \$ 110,057 |

See Notes to Consolidated Financial Statements



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UNITED BANCORPORATION OF ALABAMA, INC.  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

|   | Three Months Ended |              |
|---|--------------------|--------------|
|   | March 31           |              |
|   | 2012               | 2011         |
| Cash flows from operating activities  |                    |              |
| Net earnings  | \$307,043          | \$227,362    |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities          |                    |              |
| Provision for loan losses   | 200,000            | 300,000      |
| Depreciation of premises and equipment  | 207,136            | 235,719      |
| Net amortization of premium on investment securities available for sale                               | 151,367            | 110,801      |
| Net amortization of premium on investment securities held to maturity                                 | 41,213             | 42,941       |
| Gain on sale of other real estate   | (46,095 )          | (31,594 )    |
| Originations of loans held for sale   | (3,026,363 )       | -            |
| Proceeds from sales of loans held for sale  | 3,058,008          | -            |
| Stock-based compensation  | 6,080              | 6,223        |
| Decrease in deferred income taxes   | 144,451            | 87,018       |
| Provision for other real estate losses  | 230,000            | 41,095       |
| Decrease in interest receivable   | 263,874            | 188,291      |
| (Increase) decrease in other assets   | (1,858,845 )       | 1,216,563    |
| Decrease in interest payable  | (31,716 )          | (27,935 )    |
| Increase in accrued expenses and other liabilities  | 198                | 3,055        |
| Net cash provided by (used in) by operating activities  | (353,649 )         | 2,399,539    |
| Cash flows from investing activities  |                    |              |
| Proceeds from maturities, calls, and principal repayments of investment securities available for sale | 4,555,000          | 2,108,335    |
| Proceeds from maturities, calls, and principal repayments of investment securities held to maturity   | 1,203,456          | 2,325,000    |
| Purchases of investment securities available for sale   | (6,424,650 )       | (7,145,308 ) |
| Net increase in loans   | (6,742,887 )       | (2,183,599 ) |
| Purchases of premises and equipment, net  | (138,674 )         | (30,022 )    |
| Proceeds from sale of other real estate   | 396,070            | 380,122      |
| Net cash used in investing activities   | (7,151,685 )       | (4,545,472 ) |
| Cash flows from financing activities  |                    |              |
| Net increase (decrease) in deposits   | 18,295,247         | (18,788,763) |
| Cash dividends - preferred stock  | (51,500 )          | (51,500 )    |
| Cash dividends - common stock   | (2,334 )           | (3,233 )     |
| Repayments of advances from FHLB Atlanta  | (57,450 )          | (57,450 )    |
| Decrease in other borrowed funds  | (991,750 )         | (81,004 )    |
| Net cash provided by (used in) financing activities   | 17,192,213         | (18,981,950) |
| Net increase (decrease) in cash and cash equivalents  | 9,686,879          | (21,127,883) |

|  |              |              |
|--|--------------|--------------|
| Cash and cash equivalents, beginning of period             | 56,274,186   | 80,966,109   |
| Cash and cash equivalents, end of period                   | \$65,961,065 | \$59,838,226 |
| Supplemental disclosures                                   |              |              |
| Cash paid during the period for:                           |              |              |
| Interest   | \$740,539    | \$963,396    |
| Income taxes   | 41,144       | 46,642       |
| Noncash transactions                                       |              |              |
| Transfer of loans to other real estate through foreclosure | \$34,459     | \$106,128    |

See Notes to Consolidated Financial Statements

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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”) 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, 2011.

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NOTE 2 – Net Earnings per Share

Basic net earnings per share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three month periods ended March 31, 2012 and 2011. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three month periods ended March 31, 2012 and 2011 were computed by dividing net earnings by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options and restricted stock grants awarded under the Corporation's equity incentive plans, based on the treasury stock method using an average fair market value of the stock during the respective periods. There was no dilutive effect for the three months ended March 31, 2012 and 2011 because the exercise price of the stock awards, described in Note 7 below, was greater than the fair value of the stock as of March 31, 2012.

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## NOTE 3 – Investment Securities

The amortized cost and fair value of investment securities available for sale at March 31, 2012 and December 31, 2011 were as follows:

|                                    | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair<br>value |
|------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| March 31, 2012                     |                   |                              |                               |               |
| U.S. Treasury securities           | \$2,053,139       | \$1,710                      | \$(4,224 )                    | \$2,050,625   |
| U.S. Government sponsored agencies | 63,629,652        | 495,474                      | (70,652 )                     | 64,054,474    |
| State and political subdivisions   | 6,977,298         | 276,792                      | (27,951 )                     | 7,226,139     |
| Equity securities                  | 10,153            | -                            | (988 )                        | 9,165         |
|                                    | \$72,670,242      | \$773,976                    | \$(103,815 )                  | \$73,340,403  |
| December 31, 2011                  |                   |                              |                               |               |
| U.S. Treasury securities           | \$4,003,429       | \$10,009                     | \$-                           | \$4,013,438   |
| U.S. Government sponsored agencies | 59,403,763        | 413,643                      | (76,732 )                     | 59,740,674    |
| State and political subdivisions   | 7,534,612         | 245,003                      | (45,940 )                     | 7,733,675     |
| Equity securities                  | 10,153            | -                            | (4,108 )                      | 6,045         |
|                                    | \$70,951,957      | \$668,655                    | \$(126,780 )                  | \$71,493,832  |

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The amortized cost and fair value of investment securities held to maturity at March 31, 2012 and December 31, 2011 were as follows:

|                                    | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair<br>value |
|------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| March 31, 2012                     |                   |                              |                               |               |
| U.S. Government sponsored agencies | \$ 13,738,523     | \$ 672,996                   | \$-                           | \$ 14,411,519 |
| Mortgage-backed securities         | 6,065,785         | 332,120                      | -                             | 6,397,905     |
|                                    | \$ 19,804,308     | \$ 1,005,116                 | \$-                           | \$ 20,809,424 |
| December 31, 2011                  |                   |                              |                               |               |
| U.S. Government sponsored agencies | \$ 14,777,587     | \$ 679,208                   | \$-                           | \$ 15,456,795 |
| Mortgage-backed securities         | 6,271,390         | 283,888                      | -                             | 6,555,278     |
|                                    | \$ 21,048,977     | \$ 963,096                   | \$-                           | \$ 22,012,073 |

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Those investment securities classified as available for sale which have an unrealized loss position at March 31, 2012 and December 31, 2011 are detailed below:

March 31, 2012

| Description of Securities             | Less than 12 months |                   | 12 months or more |                   | Total        |                   |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
|                                       | Fair Value          | Unrealized losses | Fair Value        | Unrealized losses | Fair Value   | Unrealized losses |
| U.S. Treasury securities              | \$1,047,188         | \$(4,224 )        | \$-               | \$-               | \$1,047,188  | \$(4,224 )        |
| U.S. government sponsored agencies    | 15,130,846          | (70,652 )         | -                 | -                 | 15,130,846   | (70,652 )         |
| State and political subdivisions      | -                   | -                 | 302,049           | (27,951 )         | 302,049      | (27,951 )         |
| Equity securities                     | -                   | -                 | 9,165             | (988 )            | 9,165        | (988 )            |
| Total temporarily impaired securities | \$16,178,034        | \$(74,876 )       | \$311,214         | \$(28,939 )       | \$16,489,248 | \$(103,815 )      |

December 31, 2011

| Description of Securities             | Less than 12 months |                   | 12 months or more |                   | Total        |                   |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
|                                       | Fair Value          | Unrealized losses | Fair Value        | Unrealized losses | Fair Value   | Unrealized losses |
| U.S. Treasury securities              | \$-                 | \$-               | \$-               | \$-               | \$-          | \$-               |
| U.S. government sponsored agencies    | 31,544,265          | (76,732 )         | -                 | -                 | 31,544,265   | (76,732 )         |
| State and political subdivisions      | -                   | -                 | 1,150,186         | (45,940 )         | 1,150,186    | (45,940 )         |
| Equity securities                     | -                   | -                 | 6,045             | (4,108 )          | 6,045        | (4,108 )          |
| Total temporarily impaired securities | \$31,544,265        | \$(76,732 )       | \$1,156,231       | \$(50,048 )       | \$32,700,496 | \$(126,780 )      |

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No investment securities classified as held to maturity had an unrealized loss position as of March 31, 2012 or December 31, 2011.

U.S. Treasury securities. The unrealized loss on a single U.S. Treasury Note was caused by normal interest rate fluctuations. The contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Corporation does not currently intend to sell the investment and it is not more likely than not that the Corporation will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity, the Corporation does not consider this investment to be other-than-temporarily impaired at March 31, 2012.

U.S. Government sponsored agencies. The unrealized losses on ten investments in direct obligations of U.S. government sponsored agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at March 31, 2012.

States and political subdivisions. The unrealized loss associated with one security issued by a state or political subdivision is primarily driven by wider credit spreads and changes in interest rates. The contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Corporation does not currently intend to sell the investment and it is not more likely than not that the Corporation will be required to sell the investment before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider this investment to be other-than-temporarily impaired at March 31, 2012.

Mortgage-backed securities. There were no unrealized losses related to investments in mortgage-backed securities as of March 31, 2012.

Equity securities. The Corporation's investment in equity securities consists of a single investment in the common stock of a government-sponsored enterprise. Because of the Corporation's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider this investment to be other-than-temporarily impaired at March 31, 2012.



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The following table presents the amortized cost, fair value and weighted-average yield of securities available for sale by contractual maturity at March 31, 2012. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal Income Tax rate.

|                                    | Within 1<br>Year   | 1 to 5<br>Years     | 5 to 10<br>Years   | Over 10<br>Years   | Total               |
|------------------------------------|--------------------|---------------------|--------------------|--------------------|---------------------|
| <b>Amortized Cost</b>              |                    |                     |                    |                    |                     |
| U.S. Treasury securities           | \$1,001,727        | \$1,051,412         | \$-                | \$-                | \$2,053,139         |
| U.S. government sponsored agencies | 1,008,987          | 59,281,217          | 3,339,448          | -                  | 63,629,652          |
| State and political subdivisions   | 154,885            | 892,154             | 3,630,713          | 2,299,546          | 6,977,298           |
| Equity securities                  | 10,153             | -                   | -                  | -                  | 10,153              |
| <b>Total</b>                       | <b>\$2,175,752</b> | <b>\$61,224,783</b> | <b>\$6,970,161</b> | <b>\$2,299,546</b> | <b>\$72,670,242</b> |
| <b>Fair Value</b>                  |                    |                     |                    |                    |                     |
| U.S. Treasury securities           | \$1,003,437        | \$1,047,188         | \$-                | \$-                | \$2,050,625         |
| U.S. government sponsored agencies | 1,011,880          | 59,736,530          | 3,306,064          | -                  | 64,054,474          |
| State and political subdivisions   | 157,359            | 928,462             | 3,827,729          | 2,312,589          | 7,226,139           |
| Equity securities                  | 9,165              | -                   | -                  | -                  | 9,165               |
| <b>Total</b>                       | <b>\$2,181,841</b> | <b>\$61,712,180</b> | <b>\$7,133,793</b> | <b>\$2,312,589</b> | <b>\$73,340,403</b> |
| <b>Total Average Yield</b>         | <b>1.28</b>        | <b>% 1.08</b>       | <b>% 2.62</b>      | <b>% 4.13</b>      | <b>% 1.33</b>       |

The following table presents the amortized cost, fair value and weighted-average yield of securities held to maturity by contractual maturity at March 31, 2012. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal income tax rate.

|                                    | Within 1<br>Year   | 1 to 5<br>Years     | 5 to 10<br>Years   | Over 10<br>Years   | Total               |
|------------------------------------|--------------------|---------------------|--------------------|--------------------|---------------------|
| <b>Amortized Cost</b>              |                    |                     |                    |                    |                     |
| U.S. government sponsored agencies | \$2,002,596        | \$10,626,813        | \$1,109,114        | \$-                | \$13,738,523        |
| Mortgage-backed securities         | -                  | -                   | -                  | 6,065,785          | 6,065,785           |
| <b>Total</b>                       | <b>\$2,002,596</b> | <b>\$10,626,813</b> | <b>\$1,109,114</b> | <b>\$6,065,785</b> | <b>\$19,804,308</b> |
| <b>Fair Value</b>                  |                    |                     |                    |                    |                     |
| U.S. government sponsored agencies | \$2,036,503        | \$11,205,339        | \$1,169,677        | \$-                | \$14,411,519        |
| Mortgage-backed securities         | -                  | -                   | -                  | 6,397,905          | 6,397,905           |
| <b>Total</b>                       | <b>\$2,036,503</b> | <b>\$11,205,339</b> | <b>\$1,169,677</b> | <b>\$6,397,905</b> | <b>\$20,809,424</b> |
| <b>Total Average Yield</b>         | <b>2.36</b>        | <b>% 2.47</b>       | <b>% 2.56</b>      | <b>% 3.12</b>      | <b>% 2.66</b>       |

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There were no gains or losses realized by the Corporation from sales of investment securities available for sale for the three months ended March 31, 2012 and 2011.

There were no sales of securities held to maturity for the three months ended March 31, 2012 or 2011.

Investment securities available for sale with fair values of \$25,019,867 and \$25,335,254 at March 31, 2012 and December 31, 2011, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Investment securities held to maturity with amortized costs of \$13,738,523 and \$13,778,456 at March 31, 2012 and December 31, 2011, respectively, were pledged to secure federal funds lines and public and trust deposits as required by law and for other purposes.

Subsequent to March 31, 2012, the Corporation transferred all of the securities designated as held to maturity to the available for sale designation. Had the transfer occurred as of March 31, 2012, the unrealized gain on securities available for sale would have increased \$1,005,116, to \$1,675,277.

Restricted equity securities (included in Other assets in the Consolidated Balance Sheets) primarily consist of the following as of March 31, 2012 and December 31, 2011:

|                                    | March 31,<br>2012 | December 31,<br>2011 |
|------------------------------------|-------------------|----------------------|
| Federal Home Loan Bank stock       | \$ 842,500        | \$ 842,500           |
| First National Bankers' Bank stock | 825,000           | 825,000              |
|                                    | \$ 1,667,500      | \$ 1,667,500         |

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## NOTE 4 – Loans and Allowance for Loan Losses

At March 31, 2012 and December 31, 2011, the composition of the loan portfolio was as follows:

|                                   | March 31<br>2012 | December 31,<br>2011 |
|-----------------------------------|------------------|----------------------|
| Real estate:                      |                  |                      |
| Construction and land loans       | \$ 34,060,769    | \$ 37,436,067        |
| Farmland                          | 32,704,234       | 30,360,189           |
| 1-4 family residential mortgage   | 54,696,230       | 53,905,156           |
| Multifamily                       | 4,227,996        | 4,083,577            |
| Commercial                        | 80,312,419       | 76,210,622           |
| Agriculture                       | 21,128,904       | 16,504,150           |
| Commercial                        | 25,072,682       | 26,861,247           |
| Consumer                          | 13,037,410       | 13,533,716           |
| States and political subdivisions | 4,530,180        | 4,108,510            |
| Other loans                       | 40,908           | 90,086               |
| Gross loans held for investment   | 269,811,732      | 263,093,320          |
| Allowance for loan losses         | (5,111,534 )     | (4,901,550 )         |
| Net loans held for investment     | 264,700,198      | 258,191,770          |
| Loans held for sale               | 137,755          | 169,400              |
| Total loans                       | \$ 264,837,953   | \$ 258,361,170       |

Historically, the Bank has acted in an agent or broker capacity when originating mortgage loans for customers. During 2011, the Bank began to originate mortgage loans in a principal capacity and hold them for resale.

The following table summarizes the activity in the allowance for loan losses for the three month periods ended (in thousands):

|                              | March 31,<br>2012 | 2011   |
|------------------------------|-------------------|--------|
| Balance at beginning of year | 4,902             | 5,140  |
| Provision charged to expense | 200               | 300    |
| Loans charged off            | (32 )             | (121 ) |
| Recoveries                   | 42                | 85     |
| Balance at end of period     | 5,112             | 5,404  |

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At March 31, 2012 and 2011, nonaccrual loans totaled \$13,815,000 and \$17,280,000, respectively.

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officers and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by United Bank certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well defined source of repayment.

Grade 3: Attractive Credit Risk - The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

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Grade 6: Monitor - This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion and they are fully leveraged. If liquidation were to take place there could be a minimal loss and thus an analysis should be made to determine if a specific reserve is needed.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure. If the loan is determined to be impaired, an analysis will be performed to determine the amount of reserve, if any, to be recognized.

Grade 8: Doubtful – A loss is highly likely and there probably will be a default. There is no ability to refinance. At this point collection effort should be in full process. Loans in this category will be reserved at a specific amount in line with the impairment analysis performed if the loan is determined to be impaired.

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with a Grade of 6, and Substandard / Doubtful include loans with Grades 7 and 8.

The following tables summarize the credit risk profile of the loan portfolio by internally assigned grades as of March 31, 2012 (in thousands).

|                                   | Pass       | Special<br>Mention | Substandard<br>/ Doubtful | Total      |
|-----------------------------------|------------|--------------------|---------------------------|------------|
| Real estate:                      |            |                    |                           |            |
| Construction and land loans       | \$ 20,289  | \$ 3,013           | \$ 10,759                 | \$ 34,061  |
| Farmland                          | 24,448     | 6,474              | 1,782                     | 32,704     |
| 1-4 family residential mortgage   | 51,267     | 2,838              | 591                       | 54,696     |
| Multifamily                       | 4,228      | -                  | -                         | 4,228      |
| Commercial                        | 61,264     | 9,604              | 9,445                     | 80,313     |
| Agriculture                       | 17,573     | 1,958              | 1,598                     | 21,129     |
| Commercial                        | 23,326     | 924                | 823                       | 25,073     |
| Consumer                          | 12,963     | 45                 | 29                        | 13,037     |
| States and political subdivisions | 4,530      | -                  | -                         | 4,530      |
| Other loans                       | 41         | -                  | -                         | 41         |
| Total                             | \$ 219,929 | \$ 24,856          | \$ 25,027                 | \$ 269,812 |

Approximately \$551,000 of the \$25,027,000 identified as Substandard / Doubtful above were considered Doubtful as of March 31, 2012.

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The following table summarizes the credit risk profile of the loan portfolio by internally assigned grades as of December 31, 2011 (in thousands):

|                                   | Pass       | Special<br>Mention | Substandard<br>/ Doubtful | Total      |
|-----------------------------------|------------|--------------------|---------------------------|------------|
| Real estate:                      |            |                    |                           |            |
| Construction and land loans       | 23,581     | \$ 3,030           | \$ 10,825                 | \$ 37,436  |
| Farmland                          | 21,763     | 6,631              | 1,966                     | 30,360     |
| 1-4 family residential mortgage   | 50,459     | 2,822              | 624                       | 53,905     |
| Multifamily                       | 4,084      | -                  | -                         | 4,084      |
| Commercial                        | 57,259     | 9,451              | 9,501                     | 76,211     |
| Agriculture                       | 13,124     | 1,804              | 1,576                     | 16,504     |
| Commercial                        | 25,241     | 782                | 838                       | 26,861     |
| Consumer                          | 13,463     | 58                 | 13                        | 13,534     |
| States and political subdivisions | 4,108      | -                  | -                         | 4,108      |
| Other loans                       | 90         | -                  | -                         | 90         |
| Total                             | \$ 213,172 | \$ 24,578          | \$ 25,343                 | \$ 263,093 |

Approximately \$645,000 of the \$25,343,000 identified as Substandard / Doubtful above were considered Doubtful as of December 31, 2011.

The following table details the Bank's allowance for loan loss as of March 31, 2012 and December 31, 2011 (in thousands):

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| Allowance for loan losses:                           |                   |                      |
| Real estate:   |                   |                      |
| Construction, land development, and other land loans | \$ 2,021          | \$ 1,933             |
| Farmland   | 331               | 243                  |
| 1-4 family residential mortgage                      | 462               | 387                  |
| Multifamily  | 10                | 9                    |
| Commercial   | 1,245             | 1,412                |
| Agriculture  | 161               | 159                  |
| Commercial   | 742               | 593                  |
| Consumer   | 128               | 155                  |
| States and political subdivisions                    | 10                | 9                    |
| Other loans  | 2                 | 2                    |
| Total allowance for loan losses                      | \$ 5,112          | \$ 4,902             |

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Changes in the allowance for loan losses for the three months ended March 31, 2012 and 2011 are as follows (in thousands):

|  | March 31,<br>2012 | March 31,<br>2011 |      |   |
|--|-------------------|-------------------|------|---|
| Average amount of loans outstanding              | \$262,344         | \$259,411         |      |   |
| Allowance for loan losses:                       |                   |                   |      |   |
| Beginning balance                                | \$4,902           | \$5,140           |      |   |
| Loans charged off:                               |                   |                   |      |   |
| Real estate:                                     |                   |                   |      |   |
| Construction and land loans                      | -                 | (37 )             |      |   |
| Farmland   | -                 | -                 |      |   |
| 1-4 family residential mortgage                  | -                 | (41 )             |      |   |
| Multifamily                                      | -                 | -                 |      |   |
| Commercial                                       | -                 | (9 )              |      |   |
| Agriculture                                      | -                 | (17 )             |      |   |
| Commercial                                       | (28 )             | (1 )              |      |   |
| Consumer   | (4 )              | (16 )             |      |   |
| States and political subdivisions                | -                 | -                 |      |   |
| Other loans                                      | -                 | -                 |      |   |
| Total charged off                                | (32 )             | (121 )            |      |   |
| Recoveries:                                      |                   |                   |      |   |
| Real estate:                                     |                   |                   |      |   |
| Construction and land loans                      | 1                 | 2                 |      |   |
| Farmland   | -                 | -                 |      |   |
| 1-4 family residential mortgage                  | 6                 | 3                 |      |   |
| Multifamily                                      | -                 | -                 |      |   |
| Commercial                                       | 25                | 9                 |      |   |
| Agriculture                                      | 1                 | 4                 |      |   |
| Commercial                                       | 2                 | 60                |      |   |
| Consumer   | 7                 | 7                 |      |   |
| States and political subdivisions                | -                 | -                 |      |   |
| Other loans                                      | -                 | -                 |      |   |
| Total recoveries                                 | 42                | 85                |      |   |
| Loans recovered (charged off), net               | 10                | (36 )             |      |   |
| Additions to the allowance charged to operations | 200               | 300               |      |   |
| Ending balance                                   | \$5,112           | \$5,404           |      |   |
| Net charge offs to average loans                 | 0.00              | %                 | 0.01 | % |

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A loan is considered impaired when, based on current information and events; it is probable that the Bank will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables detail the Bank's impaired loans, by portfolio class, as of March 31, 2012 (in thousands):

|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no specific allowance reserved |                        |                                |                      |                                   |                                  |
| Real estate:                        |                        |                                |                      |                                   |                                  |
| Construction and land loans         | \$1,696                | \$1,940                        | \$-                  | \$1,221                           | \$7                              |
| Farmland                            | -                      | -                              | -                    | 199                               | -                                |
| 1-4 family residential mortgage     | 815                    | 815                            | -                    | 684                               | 7                                |
| Multifamily                         | -                      | -                              | -                    | -                                 | -                                |
| Commercial                          | 1,891                  | 1,891                          | -                    | 1,368                             | 9                                |
| Agriculture                         | 1,420                  | 1,420                          | -                    | 1,420                             | 28                               |
| Commercial                          | 166                    | 2,135                          | -                    | 212                               | 3                                |
| Consumer                            | -                      | -                              | -                    | -                                 | -                                |
| States and political subdivisions   | -                      | -                              | -                    | -                                 | -                                |
| Other loans                         | -                      | -                              | -                    | -                                 | -                                |
| Total                               | \$5,988                | \$8,201                        | \$-                  | \$5,104                           | \$54                             |

|                                   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-----------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With specific allowance reserved  |                        |                                |                      |                                   |                                  |
| Real estate:                      |                        |                                |                      |                                   |                                  |
| Construction and land loans       | \$8,064                | \$9,941                        | \$1,143              | \$8,072                           | \$74                             |
| Farmland                          | 654                    | 654                            | 244                  | 457                               | -                                |
| 1-4 family residential mortgage   | 132                    | 132                            | 4                    | 341                               | 4                                |
| Multifamily                       | -                      | -                              | -                    | -                                 | -                                |
| Commercial                        | 5,248                  | 5,578                          | 689                  | 4,672                             | 87                               |
| Agriculture                       | -                      | -                              | -                    | -                                 | -                                |
| Commercial                        | 1,065                  | 1,175                          | 408                  | 825                               | 2                                |
| Consumer                          | -                      | -                              | -                    | -                                 | -                                |
| States and political subdivisions | -                      | -                              | -                    | -                                 | -                                |
| Other loans                       | -                      | -                              | -                    | -                                 | -                                |
| Total                             | \$15,163               | \$17,480                       | \$2,488              | \$14,367                          | \$167                            |



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|                                   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-----------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Total Impaired Loans              |                        |                                |                      |                                   |                                  |
| Real estate:                      |                        |                                |                      |                                   |                                  |
| Construction and land loans       | \$9,760                | \$11,881                       | \$1,143              | \$9,293                           | \$81                             |
| Farmland                          | 654                    | 654                            | 244                  | 656                               | -                                |
| 1-4 family residential mortgage   | 947                    | 947                            | 4                    | 1,025                             | 11                               |
| Multifamily                       | -                      | -                              | -                    | -                                 | -                                |
| Commercial                        | 7,139                  | 7,469                          | 689                  | 6,040                             | 96                               |
| Agriculture                       | 1,420                  | 1,420                          | -                    | 1,420                             | 28                               |
| Commercial                        | 1,231                  | 3,310                          | 408                  | 1,037                             | 5                                |
| Consumer                          | -                      | -                              | -                    | -                                 | -                                |
| States and political subdivisions | -                      | -                              | -                    | -                                 | -                                |
| Other loans                       | -                      | -                              | -                    | -                                 | -                                |
| Total                             | \$21,151               | \$25,681                       | \$2,488              | \$19,471                          | \$221                            |

The following tables detail the Bank's impaired loans, by portfolio class, as of December 31, 2011 (in thousands):

|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no specific allowance reserved |                        |                                |                      |                                   |                                  |
| Real estate:                        |                        |                                |                      |                                   |                                  |
| Construction and land loans         | \$746                  | \$990                          | \$-                  | \$1,140                           | \$9                              |
| Farmland                            | 397                    | 397                            | -                    | 1,179                             | -                                |
| 1-4 family residential mortgage     | 552                    | 552                            | -                    | 688                               | 21                               |
| Multifamily                         | -                      | -                              | -                    | -                                 | -                                |
| Commercial                          | 845                    | 845                            | -                    | 429                               | 45                               |
| Agriculture                         | 1,420                  | 1,420                          | -                    | 1,362                             | 163                              |
| Commercial                          | 257                    | 2,335                          | -                    | 547                               | 2                                |
| Consumer                            | -                      | -                              | -                    | 41                                | -                                |
| States and political subdivisions   | -                      | -                              | -                    | -                                 | -                                |
| Other loans                         | -                      | -                              | -                    | -                                 | -                                |
| Total                               | \$4,217                | \$6,539                        | \$-                  | \$5,386                           | \$240                            |

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|                                   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-----------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With specific allowance reserved  |                        |                                |                      |                                   |                                  |
| Real estate:                      |                        |                                |                      |                                   |                                  |
| Construction and land loans       | \$8,079                | \$9,957                        | \$1,142              | \$8,023                           | \$63                             |
| Farmland                          | 259                    | 259                            | 125                  | 170                               | -                                |
| 1-4 family residential mortgage   | 550                    | 550                            | 28                   | 554                               | 34                               |
| Multifamily                       | -                      | -                              | -                    | -                                 | -                                |
| Commercial                        | 4,095                  | 4,425                          | 868                  | 3,346                             | 86                               |
| Agriculture                       | -                      | -                              | -                    | 122                               | -                                |
| Commercial                        | 585                    | 585                            | 265                  | 984                               | 2                                |
| Consumer                          | -                      | -                              | -                    | -                                 | -                                |
| States and political subdivisions | -                      | -                              | -                    | -                                 | -                                |
| Other loans                       | -                      | -                              | -                    | -                                 | -                                |
| Total                             | \$13,568               | \$15,776                       | \$2,428              | \$13,199                          | \$185                            |

|                                   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-----------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| Total Impaired Loans              |                        |                                |                      |                                   |                                  |
| Real estate:                      |                        |                                |                      |                                   |                                  |
| Construction and land loans       | \$8,825                | \$10,947                       | \$1,142              | \$9,163                           | \$72                             |
| Farmland                          | 656                    | 656                            | 125                  | 1,349                             | -                                |
| 1-4 family residential mortgage   | 1,102                  | 1,102                          | 28                   | 1,242                             | 55                               |
| Multifamily                       | -                      | -                              | -                    | -                                 | -                                |
| Commercial                        | 4,940                  | 5,270                          | 868                  | 3,775                             | 131                              |
| Agriculture                       | 1,420                  | 1,420                          | -                    | 1,484                             | 163                              |
| Commercial                        | 842                    | 2,920                          | 265                  | 1,531                             | 4                                |
| Consumer                          | -                      | -                              | -                    | 41                                | -                                |
| States and political subdivisions | -                      | -                              | -                    | -                                 | -                                |
| Other loans                       | -                      | -                              | -                    | -                                 | -                                |
| Total                             | \$17,785               | \$22,315                       | \$2,428              | \$18,585                          | \$425                            |

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The following table summarizes the allowance related to impaired loans and the impaired loan balances by portfolio class at March 31, 2012 (in thousands):

|                                   | ALL<br>Ending<br>Balance | Individually<br>Evaluated | Collectively<br>Evaluated |
|-----------------------------------|--------------------------|---------------------------|---------------------------|
| Real estate:                      |                          |                           |                           |
| Construction and land loans       | \$ 1,143                 | \$ 9,760                  | \$ -                      |
| Farmland                          | 244                      | 654                       | -                         |
| 1-4 family residential mortgage   | 4                        | 947                       | -                         |
| Multifamily                       | -                        | -                         | -                         |
| Commercial                        | 689                      | 7,139                     | -                         |
| Agriculture                       | -                        | 1,420                     | -                         |
| Commercial                        | 408                      | 1,231                     | -                         |
| Consumer                          | -                        | -                         | -                         |
| States and political subdivisions | -                        | -                         | -                         |
| Other loans                       | -                        | -                         | -                         |
| Total                             | \$ 2,488                 | \$ 21,151                 | \$ -                      |

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The following table summarizes the allowance related to impaired loans and the impaired loan balances by portfolio class at December 31, 2011 (in thousands):

|                                   | ALL<br>Ending<br>Balance | Individually<br>Evaluated | Collectively<br>Evaluated |
|-----------------------------------|--------------------------|---------------------------|---------------------------|
| Real estate:                      |                          |                           |                           |
| Construction and land loans       | \$ 1,142                 | \$ 8,825                  | \$ -                      |
| Farmland                          | 125                      | 656                       | -                         |
| 1-4 family residential mortgage   | 28                       | 1,102                     | -                         |
| Multifamily                       | -                        | -                         | -                         |
| Commercial                        | 868                      | 4,940                     | -                         |
| Agriculture                       | -                        | 1,420                     | -                         |
| Commercial                        | 265                      | 842                       | -                         |
| Consumer                          | -                        | -                         | -                         |
| States and political subdivisions | -                        | -                         | -                         |
| Other loans                       | -                        | -                         | -                         |
| Total                             | \$ 2,428                 | \$ 17,785                 | \$ -                      |

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The table below provides an analysis of past due status as of March 31, 2012 (in thousands):

|                                   | Past Due Loans (Accruing Interest) |            |          | Total   | Nonaccrual | Current   | Total Loans |
|-----------------------------------|------------------------------------|------------|----------|---------|------------|-----------|-------------|
|                                   | 30-59 days                         | 60-89 days | 90+ days |         |            |           |             |
| Real estate:                      |                                    |            |          |         |            |           |             |
| Construction and land loans       | \$423                              | \$80       | \$-      | \$503   | \$7,655    | \$25,903  | \$34,061    |
| Farmland                          | -                                  | -          | -        | -       | 654        | 32,050    | 32,704      |
| 1-4 family residential mortgage   | 210                                | -          | -        | 210     | 97         | 54,389    | 54,696      |
| Multifamily                       | -                                  | -          | -        | -       | -          | 4,228     | 4,228       |
| Commercial                        | 251                                | -          | -        | 251     | 3,218      | 76,844    | 80,313      |
| Agriculture                       | 90                                 | 509        | -        | 599     | 1,408      | 19,122    | 21,129      |
| Commercial                        | 277                                | 40         | 20       | 337     | 773        | 23,963    | 25,073      |
| Consumer                          | 36                                 | 24         | 13       | 73      | 10         | 12,954    | 13,037      |
| States and political subdivisions | -                                  | -          | -        | -       | -          | 4,530     | 4,530       |
| Other loans                       | -                                  | -          | -        | -       | -          | 41        | 41          |
| Totals                            | \$1,287                            | \$653      | \$33     | \$1,973 | \$13,815   | \$254,024 | \$269,812   |

The table below provides an analysis of past due status as of December 31, 2011 (in thousands):

|                                   | Past Due Loans (Accruing Interest) |            |          | Total   | Nonaccrual | Current   | Total Loans |
|-----------------------------------|------------------------------------|------------|----------|---------|------------|-----------|-------------|
|                                   | 30-59 days                         | 60-89 days | 90+ days |         |            |           |             |
| Real estate:                      |                                    |            |          |         |            |           |             |
| Construction and land loans       | \$689                              | \$-        | \$-      | \$689   | \$7,671    | \$29,076  | \$37,436    |
| Farmland                          | -                                  | 26         | -        | 26      | 696        | 29,638    | 30,360      |
| 1-4 family residential mortgage   | 589                                | 77         | 80       | 746     | 331        | 52,828    | 53,905      |
| Multifamily                       | -                                  | -          | -        | -       | -          | 4,084     | 4,084       |
| Commercial                        | 1,406                              | 633        | -        | 2,039   | 2,696      | 71,476    | 76,211      |
| Agriculture                       | 21                                 | -          | -        | 21      | 1,420      | 15,063    | 16,504      |
| Commercial                        | 189                                | 47         | 30       | 266     | 765        | 25,830    | 26,861      |
| Consumer                          | 83                                 | 27         | 1        | 111     | 11         | 13,412    | 13,534      |
| States and political subdivisions | -                                  | -          | -        | -       | -          | 4,108     | 4,108       |
| Other loans                       | -                                  | -          | -        | -       | -          | 90        | 90          |
| Totals                            | \$2,977                            | \$810      | \$111    | \$3,898 | \$13,590   | \$245,605 | \$263,093   |

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Restructured loans are loans on which, because of a borrower's financial difficulties, the Bank has granted a concession that would not otherwise be considered. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, or either forgiveness of either principal or accrued interest.

The following table summarizes, as of March 31, 2012, loans that have been restructured during 2012 (in thousands):

|                                   | Number of<br>Loans | Troubled-Debt Restructurings                       |   |
|-----------------------------------|--------------------|--|---|
|                                   |                    | Recorded<br>Investment<br>Prior to<br>Modification | Recorded<br>Investment<br>After<br>Modification |
| Real estate:                      |                    |  |   |
| Construction and land loans       | 2                  | \$ 1,049   | \$ 1,049  |
| Farmland                          | 1                  | 509  | 509   |
| 1-4 family residential mortgage   | -                  | -  | -   |
| Multifamily                       | -                  | -  | -   |
| Commercial                        | -                  | -  | -   |
| Agriculture                       | -                  | -  | -   |
| Commercial                        | 1                  | 43   | 43  |
| Consumer                          | -                  | -  | -   |
| States and political subdivisions | -                  | -  | -   |
| Other loans                       | -                  | -  | -   |
| Total:                            | 4                  | 1,601  | 1,601   |

At March 31, 2012, \$607,440 of the above loans restructured in the past three months were held as non-accrual. The restructuring of the loans did not have a significant impact on the allowance for loan losses at March 31, 2012.

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The following table summarizes, as of March 31, 2012, loans that were restructured within the last 12 months that have subsequently defaulted (in thousands):

|   | Troubled-Debt Restructurings That<br>Have Subsequently Defaulted |                        |
|---|--|------------------------|
|   | Number of<br>Loans   | Recorded<br>Investment |
| Real estate mortgages:                  |  |                        |
| Construction and land development       | 2  | \$ 252                 |
| Farmland                                | -  | -                      |
| 1-4 family                              | -  | -                      |
| Multifamily                             | -  | -                      |
| Commercial                              | -  | -                      |
| Agriculture                             | -  | -                      |
| Commercial, financial, and agricultural | -  | -                      |
| Consumer and other                      | -  | -                      |
| Political Subsivisions                  | -  | -                      |
| Total:                                  | 2  | \$ 252                 |

The default of the restructured loans did not have a significant impact on the allowance for loan losses at March 31, 2012.

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## NOTE 5 – Other Real Estate Owned (OREO)

The table below presents a summary of the activity related to OREO (in thousands):

|                                     | Three Months Ended |               |
|-------------------------------------|--------------------|---------------|
|                                     | March<br>2012      | March<br>2011 |
| Beginning balance                   | \$ 9,946           | \$ 10,164     |
| Additions                           | 34                 | 106           |
| Sales inclusive of gains and losses | (349 )             | (451 )        |
| Direct write-downs                  | -                  | -             |
| Provision for losses                | (230 )             | (41 )         |
| Ending balance                      | \$ 9,401           | \$ 9,778      |

Expenses related to other real estate owned for the three months ended March 31, 2012 and 2011 are as follows:

|   | 2012         | 2011         |
|---|--------------|--------------|
| Net (gain) loss on sales of OREO        | \$ (46,095 ) | \$ (31,594 ) |
| Provision for OREO losses               | 230,000      | 41,095       |
| Writedown of OREO                       | -            | -            |
| Operating expenses, net of lease income | 26,977       | 40,819       |
|   | \$ 210,882   | \$ 50,320    |

## NOTE 6 – Operating Segments

The Corporation operates in only one segment – commercial banking.

## NOTE 7 – Stock Based Compensation

At March 31, 2012, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan are described more fully in Note 13 to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011. The Corporation recognizes compensation expense for all stock based payments based upon the grant date fair value.



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## Stock Options

## 1998 Stock Option Plan

The following table represents stock option activity for the three months ended March 31, 2012:

|  | Shares under<br>option | Weighted<br>average<br>exercise price<br>per share | Weighted<br>average<br>remaining<br>contractual<br>life |
|--|------------------------|--|---|
| Options outstanding, beginning of period | 14,326                 | 16.09  |   |
| Granted                                  | —                      | —  |   |
| Surrendered                              | —                      | —  |   |
| Exercised                                | —                      | —  |   |
| Options outstanding, end of period       | 14,326                 | 16.09  | 1.6   |
| Exercisable, end of period               | 14,326                 | 16.09  | 1.6   |

There was no intrinsic value related to option shares outstanding and exercisable for the periods ended March 31, 2012 and 2011, respectively.

The 1998 Stock Option Plan terminated pursuant to its terms effective December 22, 1998 and no additional awards will be made under such plan.

## 2007 Equity Incentive Plan

The following table represents stock option activity for the three months ended March 31, 2012:

|  | Shares under<br>option | Weighted<br>average<br>exercise price<br>per share | Weighted<br>average<br>remaining<br>contractual<br>life |
|--|------------------------|--|---|
| Options outstanding, beginning of period | 4,000                  | 14.85  |   |
| Granted                                  | —                      | —  |   |
| Surrendered                              | —                      | —  |   |
| Exercised                                | —                      | —  |   |
| Options outstanding, end of period       | 4,000                  | 14.85  | 7.2   |
| Exercisable, end of period               | 2,400                  | 14.85  | 7.2   |

There was no intrinsic value related to option shares outstanding and exercisable for the periods ended March 31, 2012 and 2011, respectively.

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## Restricted Stock

The following table represents restricted stock activity under the 2007 Equity Incentive Plan for the three months ended March 31, 2012:

|   | Restricted<br>stock<br>activity | Weighted<br>average<br>fair value |
|---|---------------------------------|-----------------------------------|
| Shares under grant at beginning of period | 3,456                           | 16.56                             |
| Granted                                   | -                               | —                                 |
| Surrendered                               | (451 )                          | 16.90                             |
| Vested                                    | (204 )                          | 16.35                             |
| Shares under grant at end of period       | 2,801                           | 16.52                             |

Shares available for future stock grants to employees and directors under the 2007 Equity Incentive Plan of United Bancorporation of Alabama, Inc. were 294,294 at March 31, 2012.

As of March 31, 2012, there was \$24,864 of total unrecognized compensation costs related to the nonvested share based compensation arrangements granted under the 1998 and 2007 Plans. That cost is expected to be recognized over a period of approximately 3 years.

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NOTE 8 – Fair Value of Financial Instruments

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Corporation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

## Assets Measured at Fair Value on a Recurring Basis

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

## Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

|                   | Fair Value Measurements at March 31, 2012 Using |  |   |   |
|-------------------|---|--|---|---|
|                   | Assets/Liabilities Measured at Fair Value       | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs Level (2) | Significant Unobservable Inputs (Level 3) |
| AFS Securities \$ | 73,340,403 \$                                   | 2,059,790 \$   | 71,280,613 \$                                 | -   |

|                   | Fair Value Measurements at December 31, 2011 Using |  |   |   |
|-------------------|--|--|---|---|
|                   | Assets/Liabilities Measured at Fair Value          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs Level (2) | Significant Unobservable Inputs (Level 3) |
| AFS Securities \$ | 71,493,832 \$                                      | 4,019,483 \$   | 67,474,349 \$                                 | -   |

No transfers were made between Level 1 or 2 assets measured at fair value on a recurring basis during the three months ended March 31, 2012 or 2011.

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Assets Measured at Fair Value on a Nonrecurring Basis

The following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate owned as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

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The following tables present the assets carried on the balance sheet by asset type and by level within the FASB ASC 820 valuation hierarchy (as described above) as of March 31, 2012 and December 31, 2011, for which a nonrecurring change in fair value has been recorded.

|                    | Carrying Value at March 31, 2012 |         |         |              | Three months ended             |
|--------------------|----------------------------------|---------|---------|--------------|--------------------------------|
|                    | Total                            | Level 1 | Level 2 | Level3       | March 31, 2012<br>Total Losses |
| Impaired loans (1) | \$13,238,582                     | \$-     | \$-     | \$13,238,582 | \$ (117,119 )                  |
| Other real estate  | 9,400,591                        | -       | -       | 9,400,591    | (183,905 )                     |

(1) Losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan loss

|                    | Carrying Value at December 31,<br>2011 |         |         |              | Twelve months ended               |
|--------------------|--|---------|---------|--------------|-----------------------------------|
|                    | Total                                  | Level 1 | Level 2 | Level3       | December 31, 2011<br>Total Losses |
| Impaired loans (1) | \$14,275,269                           | \$-     | \$-     | \$14,028,269 | \$ (2,495,123 )                   |
| Other real estate  | 9,946,107                              | -       | -       | 9,946,107    | (1,516,000 )                      |

(1) Losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan loss

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

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The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

(a) Cash and Short-term Investments

Fair value approximates the carrying value of such assets. This is characterized as a Level 1 asset in the fair value hierarchy.

(b) Investment Securities and Other Securities

The fair value of investment securities is based on quoted market prices; which is characterized as either a Level 1 or Level 2 asset in the fair value hierarchy. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value. This is characterized as a Level 2 asset in the fair value hierarchy.

(c) Loans Held for Sale

Loans are committed to be delivered to investors within 30 days of origination. Due to this short turn-around time, the carrying amounts of the Company's agreements approximate their fair values.

(d) Loans Held for Investment

The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions. This is characterized as a Level 3 asset per the fair value hierarchy.

(e) Bank Owned Life Insurance

The fair value of bank owned life insurance approximates its carrying value. This is characterized as a Level 1 asset in the fair value hierarchy.

(f) Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities which is characterized as a Level 3 liability in the fair value hierarchy.

The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

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## (g) FHLB, Other Borrowed Funds and Subordinated Debt

The fair value of the Corporation's other borrowed funds and subordinated debt approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities, which is characterized as a Level 3 liability in the fair value hierarchy.

## (h) Accrued Interest

The fair value of accrued interest receivable and payable approximates their carrying value, which are characterized as Level 1 assets and liabilities in the fair value hierarchy.

## (i) Commitments to Extend Credit and Standby Letters of Credit

There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value.

The carrying value and estimated fair value of the Corporation's financial instruments at March 31, 2012 and December 31, 2011 are as follows (in thousands):

|   | March 31, 2012  |                      | December 31, 2011 |                      |
|---|-----------------|----------------------|-------------------|----------------------|
|   | Carrying amount | Estimated fair value | Carrying amount   | Estimated fair value |
| (Dollars in Thousands)  |                 |                      |                   |                      |
| <b>Financial assets:</b>  |                 |                      |                   |                      |
| Cash and short-term investments                                 | \$65,961        | \$65,961             | \$56,274          | \$56,274             |
| Investment securities   | 93,145          | 94,150               | 92,543            | 93,506               |
| Loans held for sale   | 138             | 138                  | 169               | 169                  |
| Loans held for investment, net of the allowance for loan losses | 264,700         | 265,991              | 258,192           | 257,403              |
| Bank owned life insurance                                       | 2,980           | 2,980                | 2,954             | 2,954                |
| Correspondent bank stock  | 1,668           | 1,668                | 1,668             | 1,668                |
| Accrued interest receivable                                     | 1,892           | 1,892                | 2,155             | 2,155                |
| <b>Financial liabilities:</b>                                   |                 |                      |                   |                      |
| Deposits  | 413,749         | 416,916              | 395,454           | 398,598              |
| Other borrowed funds  | -               | -                    | 992               | 992                  |
| FHLB advances   | 1,058           | 1,207                | 1,116             | 1,274                |
| Subordinated Debt   | 10,310          | 10,310               | 10,310            | 10,310               |
| Accrued interest payable  | 256             | 256                  | 288               | 288                  |

## NOTE 9 – Recently Issued Accounting Pronouncements

ASU 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04") amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and did not have a significant impact on the Corporation's financial statements.





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ASU 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income” (“ASU 2011-05”) amends Topic 220, “Comprehensive Income,” to require that all non-owner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 “Comprehensive Income (Topic 820) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” ASU 2011-05 did not have a significant impact on the Corporation’s financial statements.

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

Forward Looking Statements

When used or incorporated by reference herein, the words “anticipate”, “estimate”, “expect”, “project”, “target”, “goal” 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 Corporation’s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Estimates

The Corporation’s accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The Corporation’s significant accounting policies are described in the notes to the consolidated financial statements at December 31, 2011 as filed in the Corporation’s annual report on Form 10-K. Certain accounting policies require management to make significant estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and results of operations for the reporting periods.

Jumpstart Our Business Startup Act of 2012

On April 5, 2012, President Obama signed the Jumpstart Our Business Startup Act (the “JOBS Act”), which is intended to stimulate economic growth by helping smaller and emerging growth companies access the U.S. capital markets. The JOBS Act amends various provisions of, and adds new sections to, the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as provisions of the Sarbanes-Oxley Act of 2002. In addition, under the JOBS Act, a bank or bank holding company is permitted to have 2,000 shareholders before being subject to public company requirements and to deregister from the SEC when its shareholder count falls below 1,200. The SEC has been directed to issue rules implementing these amendments by April 5, 2013. The Corporation is currently evaluating the effects that these amendments, as well as the full JOBS Act, will have on the Corporation.

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Results of Operations

The following financial review is presented to provide an analysis of the results of operations of the Corporation and the Bank for the three months ended March 31, 2012 and 2011, compared. This review should be used in conjunction with the condensed consolidated financial statements included in the Form 10-Q.

Three Months Ended March 31 2012 and 2011, Compared

Summary

The Corporation recorded net earnings of \$307,043 for the three month period ended March 31, 2012 as compared to earnings of \$227,362 in the three month period ended March 31, 2011. Net earnings available to common shareholders was \$237,640 versus \$158,958 in the year earlier period, both after recording the payment of the dividend on preferred shares and the associated amortization of warrants related to the Corporation's participation in the United States Treasury's Community Development Capital Initiative ("CDCI"). The CDCI dividends were \$51,500 in both the 2012 and 2011 periods. The specifics of the changes are discussed in detail below.

In the three month period, the Bank experienced an increase in total assets of \$17,551,000. The primary contributors to this growth were 1) elevated transactional deposits related to a single customer's placement of approximately \$10.1 million on deposit in anticipation of a significant construction project in the next six months and 2) increased deposits by agricultural producers as their production cycle transitioned from harvest into a lower-cost, maintenance period. Loans increased \$6,718,000 during the three month period. The remaining amounts of the increased deposits were invested in lower interest bearing deposits with banks.

The growth of loans and a continued emphasis on deposit pricing discipline combined to increase net interest income, the difference between interest and fees earned on interest bearing assets and the interest paid on interest bearing liabilities. Net interest income increased by \$139,599 or 4.0% to \$3,669,593 and the net interest margin (tax equivalent net interest income divided by average assets) increased to 3.68% in the first three months of 2012 from 3.46% for the same period in 2011.

The provision for loan losses as of March 31, 2012 was \$200,000, a 33% improvement compared to the \$300,000 provision as of March 31, 2011. Lower current period charge offs reduced the overall reserve need. Non-interest revenue was higher by 6.4% or \$65,792 as increases in mortgage revenue, trust and brokerage fees, and gains on sales of OREO, more than offset the 6.7% reduction in service charges on deposits. Non-interest expenses were \$4,149,498 as of March 31, 2012. The increase of \$179,573 was 4.5% higher than the same period in 2011. The primary contributor to the increase was \$230,000 set aside as a provision to add to the reserve for OREO. This increase was offset by reductions in salaries and benefits and occupancy expenses during the 2012 period as compared to 2011.

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Net Interest Income

Net interest income was \$3,669,593 during the first three months of 2012, an increase of \$139,599 or 4.0% from the level experienced during the same period in 2011.

Total interest income decreased \$87,039 (1.9%) in the first three months of 2012 as compared to the 2011 period. The reduction in interest revenue is the result of lower levels of interest earned on investment securities due to the restructured investment portfolio as discussed in the Corporation's December 31, 2011 Form 10-K. Loan balances averaged approximately \$3,000,000 higher in the 2012 period than in the 2011 period. Loan yields averaged 5.82% in the first three months of both 2012 and 2011. The Corporation has targeted increases in its loan portfolio in loan types with historically lower loss experience. Increasing loan balances have provided favorable earnings as interest and fees on loans are \$73,911, or 1.9%, higher in the three months ended March 31, 2012 compared to the same period in 2011. The level of non-accrual loans noted in previous reports remains high and continues to have a negative impact on loan yields.

Interest expense declined \$226,638, or 24.2%, to \$708,823 in the three months ended March 31, 2012 as compared to the 2011 period. While total interest bearing liabilities were approximately \$1.9 million lower in 2012, the transition of approximately \$12.2 million of deposits from higher cost time deposits to lower cost transactional accounts served as the primary source of the savings. The rate of interest paid on all interest bearing liabilities declined to 0.99% in 2012 from 1.31% in 2011 or a reduction of 0.32%. Including the effect of non interest bearing demand deposits, the total cost of funds for the Corporation declined to 0.69% from 0.87%, or by 0.18 percentage points.

The net interest margin expressed as a percentage of average total earning assets increased to 3.68% in the first three months of 2012 from 3.46% in the same period in 2011.

Provision for Loan Losses

The provision for loan losses totaled \$200,000 for the first three months of 2012 as compared to \$300,000 for the same period in 2011. For further discussion of this item see Allowance for Loan Losses below.

Noninterest Income

Total noninterest income increased by \$65,792 in the 2012 period to \$1,097,132 from the \$1,031,340 reported in the 2011 period. A decrease in revenue from service charges and fees on accounts was offset by higher mortgage loan fees and increased income from other sources.

Service charges on deposits decreased by \$53,408 or 6.7% to \$743,274 in 2012 from \$796,682 in 2011. A reduction in fees for overdrafts (NSF fees) of \$58,766 was partially offset by income from increased ATM usage of \$11,768. Income from the origination of mortgage loans was higher by 50.1% or \$31,820.

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Revenue from other income items was higher by \$87,380 or 51.1%. Several items combined to cause the increase with the largest being gross revenue from sales and operation of OREO properties, which was \$66,000 higher than in the 2011 period. Revenue from the Bank's financial services area (trust, brokerage and insurance) grew in the 2012 period by \$17,038 or 48.8%.

Noninterest Expense

Total noninterest expense for the three months ended March 31, 2012 and 2011 was \$4,149,498 and \$3,969,925, respectively. This represents an increase of \$179,573 or 4.5%. The provision for possible losses on the disposal of OREO properties of \$230,000 was principally responsible for the increase.

Salaries and benefits decreased \$30,442 (1.4%). Salaries paid to employees and officers decreased by \$45,447 or 2.6% and benefit costs increased by \$15,000.

Occupancy expenses were lower by \$27,759 (5.7%) primarily due to lower depreciation expense (\$26,690) as the Corporation has limited facilities' improvement and equipment purchases to situations where efficiency or customer experience may be compromised. Other categories of occupancy expenses were also generally lower or only marginally increased.

The Other expense category totaled \$1,516,138 which is an increase of \$237,774 or 18.6% from the 2011 level of \$1,278,364. Expenses incurred relative to OREO were responsible for the increase. In the quarter, additions to the reserve for OREO property disposition were made totaling \$230,000, bringing the total of the reserve to \$477,000 at the end of the quarter. This reserve provision accounts for the increase in OREO expenses of \$227,736.

There were several other changes in expense levels which should be noted. FDIC insurance expense decreased by \$96,037 in 2012 to \$152,454 as the FDIC made a change to the method for calculating the insurance premium as defined by the Dodd Frank Act. Previously deposits were the base for calculation, but this was changed to a base of average total assets less average tier I equity and the assessment rates were lowered. The effect for smaller banks with fewer assets supported by borrowed funds is an ongoing reduction in FDIC insurance expense.

Offsetting the savings from the reduction in FDIC expenses were increases in several items. Communications expenses were increased by \$35,000 in the period. The Corporation is making changes in its communications carriers and the increase in the first quarter is the result of duplicate services during the change-over.

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Income Taxes

Earnings before taxes of \$417,227 were achieved in the first three months of 2012. This is an increase from the pre-tax income of \$291,409 recorded in the same period in 2011. For the 2012 period, the Corporation recorded an expense for taxes of \$110,184 as compared to the expense recognized in the same period in 2011 of \$64,047. The increased expense was caused by the reduction in nontaxable interest income from investment in municipal securities and the general increase in profitability.

Financial Condition and Liquidity

Total assets at March 31, 2012 were \$464,429,962, which is an increase of \$17,550,790 or 3.9% from the December 31, 2011 level of \$446,879,172. Total deposits increased by \$18,295,247 or 4.6% for the reasons discussed above. Total equity (common and preferred) increased by \$336,261 or 0.9% from December 31, 2011.

Sufficient liquidity is a major priority for the Corporation. The Corporation is taking steps to reduce the highly conservative liquidity position that has been held since 2008. As mentioned in previous reports, the Corporation will be reducing the excess liquidity at a measured pace so as to redeploy these assets to higher return categories. The liquidity position will be maintained at a level that will provide sufficient availability of funds to meet anticipated needs. The ratio of total loans to deposits at March 31, 2012 was 65.2% as compared to 66.5% at December 31, 2011. The decrease is the result of the increase in the deposit base to the current level combined with the increase in outstanding loans of \$6,718,412.

Cash and Cash Equivalents

Cash and cash equivalents were \$65,961,065 as of March 31, 2012, an increase of \$9,686,879, or 17.2%, from December 31, 2011. The increase is primarily the result of the increase in deposits discussed above and the increase in loans discussed in Loans below.

Investment Securities – Available for Sale

Investment securities available for sale increased \$1,846,571, or 2.6%, compared to December 31, 2011.

Investment Securities – Held to Maturity

Investment securities held to maturity decreased \$1,244,669, or 5.9%. Securities designated as held to maturity are not liquid or subject to sale. The Corporation reviews the limits and target levels on this category regularly based on liquidity needs.

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In making its review in April, the Corporation considered the changing current economic conditions (because of Europe) ; the Corporation's plans for longer term growth and the possible longer term effects of the Federal Reserve Policy of temporarily holding interest rates at artificially low levels and concluded that the held to maturity portion of the portfolio was larger and longer in duration than desired given the changes in the economy. The securities in this portion of the portfolio were transferred to the available for sale portion of the portfolio. The effect of the transfer is discussed in Note 3-Investment securities to the Financial Statements.

## Loans

Gross loans increased by \$6,718,412, or 2.6%, to \$269,811,732 at March 31, 2012, from \$263,093,320 at December 31, 2011. The increase is primarily concentrated in agricultural production loans and loans secured by farmland. Agricultural production loans are generally short term in nature with advances beginning with planting during the spring; peaking in the fall; and, paying down during the harvest in late fall and winter. As such, reductions would normally occur in the fourth quarter of each year. The Corporation's banking subsidiary continues to seek quality lending opportunities in its business areas.

## Allowance for Loan Losses

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 and trend of past due loans, loans classified from the most recent regulatory examinations and internal reviews, general economic conditions, the effect of lending policies and effectiveness of management and the current portfolio mix including concentrations. The amount charged to the provision is that amount deemed 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 impaired portion and the un-impaired portion. The impaired portion is based on identified problem loans and is determined based on an assessment of credit risk related to those loans. Specific loss estimate amounts are included in the allowance based on an evaluation of the individual credits. Any loan categorized as loss is charged off or fully reserved in the period which the loan is so categorized.

The un-impaired portion of the allowance is for probable inherent losses which exist as of the evaluation date even though they may not have been identified by the more objective processes for the impaired 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, experience of loan management, effects of lending policies and general economic environment in the Corporation's markets.



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The Corporation continues to segment the loan portfolio by type of loan for analysis and to compute the needed reserve on non-impaired loans based on historical charge off performance for each segment. This methodology allows the Corporation to target loan growth by concentrating on those segments with lower loss histories and aid in identification of areas or segments requiring more attention. The effect on the calculated level of the reserve will be in direct proportion to the loss rate and volume of those sectors with loss rate histories either higher or lower than the average loss rate for the portfolio as a whole.

The ratio of reserves to loans at year end 2011 was 1.86%. At the end of the first quarter of 2012, a reserve level of \$5,111,534 was considered to be appropriate. This is equivalent to 1.89% of gross loans and includes reserves specifically allocated to specific loans and reserves that are not allocated but based on the historical loss experience of specific loan categories. During the first three months of 2012 the Corporation experienced net recoveries of \$9,984, as compared to net charge offs of \$35,524 for the same period in 2011.

The Corporation has in place procedures to identify and deal with problem loans and potential problem loans. It is the goal of the Corporation to identify any problems, to develop and execute strategies to deal with those identified and establish reserves to deal with identified and historic shortfalls. Although reserves may be considered appropriate at a point in time, future events may change the ability of a borrower to pay or the underlying value of collateral. The Bank will continue to monitor closely the condition of the portfolio and continue with its program to maintain an appropriate allowance for losses on loans.

### Premises and Equipment

Premises and equipment decreased \$68,462, or 0.4%, during the first three months of 2012. Capital expenditures continue at a low level, with depreciation reducing the level. Facilities improvements and equipment purchases have only been made when retaining the original equipment may adversely impact the customer experience or the effectiveness of operations.

### Deposits

Total deposits increased \$18,295,247, or 4.6%, at March 31, 2012 from December 31, 2011, including increases of \$9,606,301 in non-interest bearing deposits and \$8,688,946 in interest bearing deposits. The single depositor discussed above increased non interest bearing deposits by approximately \$10,050,000 between these dates as they consolidated funds to be used in a specific construction project. This project is expected to utilize the accumulated funds during the second and third quarters of 2012.

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Liquidity

One of the Corporation'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 Corporation to fund earning assets and maintain the availability of funds. Management believes that the Corporation'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 Corporation's liquidity needs for normal operations. To provide additional liquidity, the Corporation has historically utilized market based sources such as short-term financing through the purchase of federal funds, and a borrowing relationship with the Federal Home Loan Bank. In the current economy, these sources are not as reliable as in more normal times. The Corporation has chosen to maintain on balance sheet sources of liquidity such as deposits at the Federal Reserve, federal funds sold and liquid, short term investments at a high level to assure an adequate source of liquid funding. This strategy has depressed the net interest margin as these short term; highly liquid assets have lower yields than loans or longer term, less liquid assets. Should the Corporation's traditional sources of liquidity be constrained, forcing the Corporation to pursue avenues of funding not typically used, the Corporation's net interest margin could be further 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 March 31, 2012 is considered appropriate by management.

Capital Adequacy

Total stockholders' equity on March 31, 2012, was \$37,605,284, an increase of \$336,261 from December 31, 2011. This increase is comprised of current period earnings of \$307,043 and is supplemented by an increase in accumulated other comprehensive income net of tax of \$76,972; and the recognition of \$13,697 of capital related to previous years' grants of stock options; offset by dividends of \$51,500 related to the U.S. Treasury's Community Development Capital Initiative as described more fully in Note 9 to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011; and \$2,334 of cash paid on the fractional shares associated with the Corporation's stock dividend.

The table below sets forth various capital ratios for the Corporation and the Bank. Under current regulatory guidelines, debt associated with trust preferred securities qualifies for Tier 1 capital treatment. March 31, 2012, trust preferred securities included in Tier 1 capital totaled \$10 million.

Federal and State of Alabama Regulators have established quantitative measures to ensure capital adequacy requiring the Corporation and its Bank to maintain minimum capital levels. The primary target capital ratio established by the Bank is the maintenance of the Tier I Leverage Ratio by the Bank at or above 9.00% of average assets during any quarter. In its "Call Report" filed as of March 31, 2012, the Bank reported a Tier I Leverage Ratio of 9.34% of average assets for the first quarter. The payment of dividends has a direct impact on capital adequacy and is subject to approval by the State of Alabama Regulators.

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As of March 31, 2012, the most recent notification from the Bank's regulators categorized the Bank as "adequately capitalized." There are no conditions or events since that notification that management believes have changed the Bank's category.

Information regarding risk-based capital and leverage ratios of the Corporation and the Bank are set forth in the table below:

|  | March 31,<br>2012 |   | Well<br>Capitalized<br>Treatment |
|--|-------------------|---|----------------------------------|
| United Bancorporation of Alabama, Inc. |                   |   |                                  |
| Total risk-based capital               | 15.31             | % | N/A                              |
| Tier 1 risk-based capital              | 14.06             | % | N/A                              |
| Leverage Ratio                         | 9.41              | % | N/A                              |
| United Bank                            |                   |   |                                  |
| Total risk-based capital               | 15.27             | % | 10.00 %                          |
| Tier 1 risk-based capital              | 14.02             | % | 6.00 %                           |
| Leverage ratio                         | 9.34              | % | 5.00 %                           |

Based on management's projections, existing regulatory capital should be sufficient to satisfy capital requirements in the foreseeable future for existing operations. Although the Bank has suspended further immediate expansion plans, continued growth into new markets may require the Corporation to further access external funding sources. There can be no assurance that such funding sources will be available to the Corporation.

## Off Balance Sheet items

The Bank is a party to financial obligations with off-balance sheet risk in the normal course of business. The financial obligations include commitments to extend credit and standby letters of credit issued to customers.

The following table sets forth the off-balance sheet risk of the Bank as of the end of the period.

|                              | March 31,<br>2012 |
|------------------------------|-------------------|
| Commitments to extend credit | \$ 38,732,708     |
| Standby letters of credit    | 766,501           |

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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 and 15d-15 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.

There were no changes in the Corporation's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II -- OTHER INFORMATION

Item 1A. Risk Factors

Item 6. Exhibits

(a) Exhibits.

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

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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

|  | 101.INS | Instance Document                                      |
|--|---------|--|
|  | 101.SCH | XBRL Taxonomy Extension Schema Document                |
|  | 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
|  | 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
|  | 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
|  | 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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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: May 15, 2012

/s/ Robert R. Jones, III  
Robert R. Jones, III  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Allen O. Jones, Jr.  
Allen O. Jones, Jr.  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

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INDEX TO EXHIBITS

EXHIBIT  
NUMBER DESCRIPTION

|             |   |
|-------------|---|
| <u>31.1</u> | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002              |
| <u>31.2</u> | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002              |
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| <u>32.2</u> | Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |

EXHIBIT 101

XBRL Date File Submission

The following exhibits to the Form 10-Q are submitted electronically and are not included herewith:

|         |  |
|---------|--|
| 101.INS | Instance Document                                      |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

These exhibits are interactive data files filed pursuant to Rule 405 of Regulation S-T and include the following:

- (i) The Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011,
- (ii) The Consolidated Statements of Earnings for the three months ended March 31, 2012 and 2011,
- (iii) The Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011,
- (iv) The Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011, and
- (v) The notes to the Consolidated Financial Statements.