



## United Bancorporation of Alabama, Inc. Financial Report for the Quarter Ending December 31, 2015

Dear Fellow Shareholder,

As part of our strategic planning discussions this year, we asked every team in the bank to participate in crafting their own set of priorities for 2016 to complement United Bank's overarching goals. We asked them to consider their contributions toward our plans for continued loan growth, improved shareholder value and liquidity, improved efficiency and improved profitability.

As I visited our branches and divisions in December to see the results of this project, I was encouraged by the personal commitment reflected in the content of their work. Each team drafted very specific goals, plans and priorities -- examples included reducing supply expenses by 10%, making 12 outside calls per month, and developing an online loan application and approval system -- that if followed to their end in 2016 will make a tremendous impact for the future of United Bank.

I was also reminded that it's this same dedication and commitment that contributed to the growth and momentum we've experienced in 2015. As you will see in our financial results, United Bank has reason to celebrate, particularly due to an increase in net earnings available to common shareholders of 46.35 percent.

As I've mentioned throughout the year, the momentum we're experiencing and our improved profitability are the result of decisions made regarding asset mix, investment strategies, enhanced products and services, improved technology and expense control. It's also the result of a staff and board completely committed to improved performance.

Financially we've seen evidence of this in several areas, including our Mortgage Division which experienced an 18 percent improvement in revenue over 2014. Beyond mortgages, United Bank experienced growth in every area of lending over the prior year, including consumer loans. Local customers are beginning to feel more secure

about making borrowing decisions for their families. For our businesses -- and to spur economic development -- United Bank leveraged New Markets Tax Credits to create a revolving loan fund and we saw immediate interest. More than 450 employees in businesses and communities across our markets have benefited from the job growth or retention afforded by the \$12 million loan fund.

In a highly anticipated move, the Federal Reserve raised its benchmark funds rate by .25 percent in December. To put this in perspective, the last time there was a rate increase, the iPhone had not yet been invented. Expecting such a move, United immediately began taking steps to reinforce with our customer facing teams the products and services that will not only assist clients in maximizing savings opportunities but also in bolstering interest income for the bank. We are prepared to capitalize on the opportunities that a rising rate environment provides.

Because enhancing shareholder value is always at the forefront of our efforts, I was pleased that the Board approved a semi-annual dividend of \$.065 and special dividend of \$.005 per share in December. The decision was a reflection of the Board's commitment to finding ways to reward our investors when results allow.

I look forward to sharing more with you at our Annual Meeting scheduled for Wednesday, May 4, 2016 at 3 p.m. on the second floor of our Atmore headquarters.

As always, I appreciate your continued support.

Sincerely,

Robert R Jones, III  
President and CEO





**United Bancorporation of Alabama, Inc.**  
**Select Financial Data**  
**For the Year Ended December 31, 2015**

Diluted Earnings Per Share	\$ 1.10	Return on Average Assets	0.55%
Net Interest Margin	3.47%	Loans to Deposits	60.95%
Cost of Funds	0.34%	NIB Deposits to Total Deposits	41.25%
Non Interest Income to Average Assets		Allowance to Gross Loans, HFI	1.32%
(Less ORE and Securities Gains)	1.05%	Leverage Ratio	9.88%

## Financial Summary

(M=Thousands / MM = Millions)

In 2015, United Bancorporation of Alabama, Inc. (UBAB) produced earnings available to common shareholders of \$2.6 MM, an increase of 46% as compared to 2014. Total Assets stand at \$530MM as of December 31, 2015. Loans, net of allowance, totaled \$285MM and represent a \$27.2MM increase during the year. Loan growth has occurred in the major categories -- Residential Mortgage, Commercial, Agricultural, and Consumer -- which were strategically targeted throughout the year. Total loans declined during the fourth quarter, as the agricultural production segment of the portfolio followed its multi-year trend and paid down as a result of harvest. The investment portfolio now contains \$144MM of securities, an increase of \$9MM from the year-earlier period. The majority of investments purchased in 2015 have been designated as held-to-maturity in order to minimize the impact on capital in future periods.

The addition of higher-yielding, earning assets has produced \$718M, or 4%, more interest income than the year-earlier period. Interest expense continued its trend of gradual decline to \$1.6MM. The cost of funds stands at 34 bps. The decline is the result of both the higher-than-peer non-interest bearing deposit holdings and the continued reduction of time deposits (\$7.7MM year-over-year) as of December 31, 2015. The combined results produced a net interest margin of 3.47%, a 1 basis point improvement as compared to the year-earlier period.

Core non-interest income growth was a strategic goal for UBAB. The Val-U Checking launch, continued strength in our conventional mortgage offerings, and growth in UBAB's card-based programs fueled an increase of \$382M, or 8%, in core non-interest income. Non-core items include gains on the sale of securities (\$128M) and ORE gains (\$680M). The Bank Enterprise Award (\$265M) was recognized in the third quarter of 2015. UBAB earned 1.05% of Core non-interest income to average assets, well ahead of the 0.76% earned by peers.

Non-interest expense, less ORE reserves, was \$16.8MM, an increase of 2.1% as compared to the year ended December 31, 2014. Increases pertaining to employee costs and IT expenses in support of strategic initiatives and customer-facing technologies represent the major areas of expense increase.

## Balance Sheet

(\$ in 000s)

	2015	2014
<b>Assets</b>		
Cash and due from banks	\$ 62,739	\$ 54,954
Investment securities	143,553	135,060
Loans, net of reserve	285,008	257,808
Fixed assets	13,437	14,062
Other real estate	6,330	8,821
Other assets	19,226	18,690
<b>Total assets</b>	<b>\$ 530,293</b>	<b>\$ 489,395</b>
<b>Liabilities and Stockholders' Equity</b>		
Non-interest bearing deposits	\$ 195,323	\$ 155,617
Interest bearing deposits	278,203	279,890
<b>Total deposits</b>	<b>473,526</b>	<b>435,507</b>
Note payable to Trust	10,310	10,310
Other liabilities	3,374	2,920
<b>Total Liabilities</b>	<b>487,210</b>	<b>448,737</b>
<b>Total stockholders' equity</b>	<b>43,083</b>	<b>40,658</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 530,293</b>	<b>\$ 489,395</b>

## Income Statement

(\$ in 000s)

	2015	2014
Loan income, including fees	\$ 14,807	\$ 14,376
Securities income	2,349	2,057
Short-term investments	101	106
<b>Total interest income</b>	<b>17,257</b>	<b>16,539</b>
Deposits	1,356	1,417
Borrowings	265	270
<b>Total interest expense</b>	<b>1,621</b>	<b>1,687</b>
<b>Net interest income</b>	<b>15,636</b>	<b>14,852</b>
Provision for loan losses	295	325
<b>Net interest income after provision for loan losses</b>	<b>15,341</b>	<b>14,527</b>
Non-interest income	6,271	5,398
Non-interest expense	17,586	17,140
<b>Taxable Earnings</b>	<b>4,026</b>	<b>2,785</b>
<b>Income tax expense</b>	<b>1,183</b>	<b>777</b>
<b>Net Earnings</b>	<b>2,843</b>	<b>2,008</b>
Preferred stock dividends	206	206
<b>Net Earnings available to common shareholder</b>	<b>\$ 2,637</b>	<b>\$ 1,802</b>