



# United Bancorporation of Alabama, Inc. Financial Report for the Quarter Ending September 30, 2016

November 30, 2016

Dear Fellow Shareholder,

In the 80's there was an action television show, The A Team. You probably know the catchphrase from the show, "I love it when a plan comes together." United Bank has always been focused on making an impact in our communities as well as rewarding our shareholders for their confidence and investment. These are not conflicting objectives. They do require leveraging local investments, deposits and public resources to create a value based sustainable economic and social impact.

In this update, we will highlight announcements and accomplishments that reflect many strategic plans that have come together. Some of these accomplishments required years of work. There is a common thread through all of these; a foundation built on service. The preparation in knowledge and capacity allows the company to proactively respond to new opportunities and challenges. Outlined below are brief details of the announcements made since our last report:

### NMTC

United Bancorporation received a direct allocation of \$65 million for New Market Tax Credits to be dispersed throughout Alabama and three counties in Florida. This allocation will directly stimulate private investment and economic growth in low income urban neighborhoods and rural communities. These communities lack access to the capital needed to support and grow business, create jobs, and sustain healthy local economies.

### USDA

A \$40 million allocation was received through the U.S. Department of Agriculture (USDA) Relending Program. Having received 10 percent of the total funds awarded, these funds will facilitate projects across the region. Projects include fire and rescue stations, village and town halls, hospitals, adult and child care centers, assisted living facilities, public libraries, schools and many other community based initiatives.

### Brewton Expansion

This expansion puts us on the path to providing full service banking across Escambia County, making it easier for our existing customers and those looking for new options and opportunities to do business with us.

### SSBCI

United Bank ranked 11th in the nation, by number of loans, in the State Small Business Credit Initiative (SSBCI). Our contribution accounts for 37% of the guaranteed loan transactions, stimulating small business growth and job creation.

### Extraordinary Banking Awards/ABA Honorable mention

United Bank was a finalist for three categories including Thought Leadership, MoneySmarts and Banksgiving or Philanthropy at the Institute for Extraordinary Banking Awards. In addition, United Bank was the overall Banky Award winner in the Banksgiving category. The recognition validated our commitment to service and the countless ways



**United Bancorporation**  *of Alabama, Inc.*

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Stock Symbol: UBAB 



we stay involved in our communities. We were acknowledged for the unique ways we serve our clients and the multiple ways we remain agile and flexible in serving our customers. In addition to our Banky Award, United Bank received an honorable mention for the 2016 American Bankers Association Foundation Commitment Awards for the Nontraditional Borrower & Underbanked category.

**Maintained our Bauer 5 Star Rating**

The 5 Star Award recognizes the financial strength and performance of United Bank. The rating criteria is based on profitability, capital, level of delinquent loans, charge offs, repossessed assets and liquidity. The award is a direct reflection of management decisions and strategies implemented over time resulting in improved profitability and stronger credit quality.

**Repayment of Community Development Capital Initiative**

This initiative was created in 2010 to help Community Development Financial Institutions and the communities they serve by receiving capital investments to promote financial sustainability in rural underserved communities.

**Recertified as a CDFI**

In conjunction with our ongoing commitment to enhancing the economic vitality of low to moderate income communities and by going above and beyond traditional banking involvement, United Bank earned its recertification as a Community Development Financial Institution.

**Stock Performance**

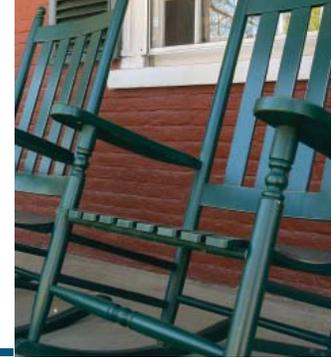
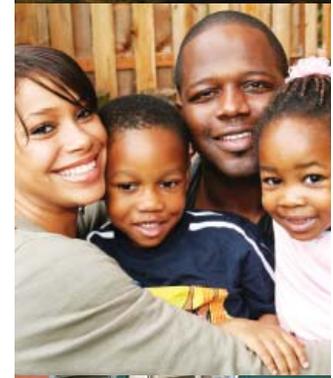
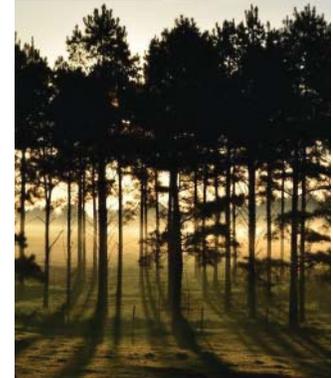
Since June 30th 2016, United Bancorporation (UBAB) stock has increased in value from \$8.00 to \$12.75 per share.

Any one of these announcements warrant celebration, combined they represent unprecedented opportunities. Some reflect recognition for work accomplished, while others humble us to leverage these resources to make positive impacts in our region and state. The expansion of services beyond our traditional communities is exciting. We welcome the chance to expand our outreach across Alabama and the Panhandle of Florida.

As we approach the close of 2016 we are focused on finishing with a strong performance and preparing for an exciting 2017. If interested in more detail on some of the items mentioned above, I would encourage you to visit [www.unitedbank.com](http://www.unitedbank.com). I appreciate your continued interest and support.

Sincerely,

Robert R. Jones, III  
President & CEO





## Select Financial Data For the Nine Months Ended September 30, 2016

Diluted Earnings Per Share	\$ 1.03	Return on Average Assets	0.62%
Net Interest Margin	3.48%	Loans to Deposits	59.43%
Cost of Funds	0.33%	NIB Deposits to Total Deposits	44.53%
Non Interest Income to Average Assets (Less ORE and Securities Gains)	1.09%	Allowance to Gross Loans, HFI	1.34%
		Leverage Ratio	9.92%

## Financial Summary

(M=Thousands / MM = Millions)

United Bancorporation of Alabama, Inc. (UBAB) established four primary initiatives for 2016. The four strategic initiatives were 1) Earnings Growth, 2) Loan Growth, 3) Asset Quality, and 4) Expense Containment. Through the third quarter of 2016, UBAB produced 20% higher earnings available to common shareholders of \$2.5 MM. Loans, net of allowance, totaled \$300 MM and represent a \$6 MM increase during the quarter and a \$10 MM increase relative to the prior year. UBAB strategically targets Agricultural, Residential mortgage, and Commercial loan sectors and loan growth has been realized in accordance with these emphases. Asset quality continues to be managed vigorously and levels of past due loans, nonaccrual loans, and other real estate remain at, or below management targets. Other real estate (ORE) declined \$283 M, during the third quarter. This brings the 2016 ORE reduction to \$2.4 MM, or 39%.

Total Assets were \$571 MM as of September 30, 2016, an annual increase of \$41 MM, or 8%. The increase in assets was largely driven by \$38 MM of growth in deposits, with \$33 MM growth in noninterest bearing deposits and the remaining \$5 MM in lower-interest bearing transactional accounts.

Net interest income has grown 8% as compared to the year-earlier period. Effective deployment of lower-yielding assets into loans and investments have driven the growth. Interest income for Q3, 2016 is approximately \$961 M higher than the prior year. Interest expense increased \$47 M, or 4%, on a comparative basis. UBAB's cost of funds held at 33 basis points due to the impact of non-interest bearing deposits. The combined results produced a stable net interest margin of 3.48% which was 1 basis point lower than Q3, 2015.

Non-interest income net of securities gains, ORE gains, and the Bank Enterprise Award grew \$394 M through Q3, 2016. The growth was primarily associated with higher service charges, card-based revenue, and growth in conforming mortgage production. UBAB continues to perform ahead of peers in Non-interest Income to Average Assets. Noninterest expense, net of ORE reserves, was \$13 MM, an increase of 5%. Increases pertain to personnel costs account for 71% of the increase and a large portion of the increase is due to an isolated timing issue associated with payroll. The remaining portion of the increase are driven by costs of compliance and operations.

## Balance Sheet

(\$ in 000s)

	2016	2015
<b>Assets</b>		
Cash and due from banks	\$ 75,398	\$ 25,716
Investment securities	160,857	148,240
Loans, net of reserve	300,205	290,493
Fixed assets	13,522	13,547
Other real estate	3,872	6,618
Other assets	17,568	20,774
<b>Total assets</b>	<b>\$ 571,422</b>	<b>\$ 505,388</b>
<b>Liabilities and Stockholders' Equity</b>		
Non-interest bearing deposits	\$ 227,832	\$ 174,667
Interest bearing deposits	283,821	273,659
<b>Total deposits</b>	<b>511,653</b>	<b>448,326</b>
Note payable to Trust	10,310	10,310
Other liabilities	3,300	3,564
<b>Total Liabilities</b>	<b>525,263</b>	<b>462,200</b>
<b>Total stockholders' equity</b>	<b>46,159</b>	<b>43,188</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 571,422</b>	<b>\$ 505,388</b>

## Income Statement

(\$ in 000s)

	2016	2015
Loan income, including fees	\$ 11,627	\$ 11,017
Securities income	2,003	1,761
Short-term investments	177	67
<b>Total interest income</b>	<b>13,807</b>	<b>12,845</b>
Deposits	1,041	1,015
Borrowings	220	199
<b>Total interest expense</b>	<b>1,261</b>	<b>1,214</b>
<b>Net interest income</b>	<b>12,546</b>	<b>11,631</b>
Provision for loan losses	200	230
<b>Net interest income after provision for loan losses</b>	<b>12,346</b>	<b>11,401</b>
Non-interest income	4,625	4,982
Non-interest expense	13,137	13,243
<b>Taxable Earnings</b>	<b>3,834</b>	<b>3,140</b>
Income tax expense	1,190	916
Net Earnings	2,644	2,224
Preferred stock dividends	155	155
<b>Net Earnings available to common shareholders</b>	<b>\$ 2,489</b>	<b>\$ 2,069</b>