



# United Bancorporation of Alabama, Inc. Financial Report for the Quarter Ending September 30, 2017

October 27, 2017

Dear Shareholders,

Without strategy, content is just stuff. As we begin the quarter with our strategic planning discussions, our goals and vision remain in alignment with our bank mission of "Strength Through Service Excellence." Our systematic vision for our desired future and objectives remains to optimize creative niches that drive overall profitability and brand as a market trend setter.

Success doesn't come from what you do occasionally. It comes from consistency. In recognition for our consistent investment in distressed communities, United Bank was the recent recipient of the Bank Enterprise Award (BEA). The BEA award provides funding that accelerates the growth of small business, generates jobs, affordable housing, improves access to financial products and services while creating real change in distressed communities.

During the quarter, our Brewton office transitioned from a loan production office to full service. This transition gives us a competitive advantage with offices serving all of Escambia County, Alabama and adjoining Jay, Florida. This transition highlights the ongoing commitment to expand our market presence and service area.

In the first quarter of this year, UB Community Development, LLC (UBCD), a wholly owned subsidiary of UBAB, was created with the mission of stimulating commercial investment and job creation in Alabama and the Florida panhandle. UBCD is a community development partner of United Bank that manages a \$65 million New Market Tax Credit allocation and a \$40 million Community Facilities Loan Program. As detailed in the financial discussion, these efforts along with the improved financial performance of United Bank are producing sustainable results.

UBCD is actively seeking projects to utilize these programs for the benefit of targeted communities. Projects funded to date include the financing of a rural healthcare facility and the creation of a small business loan fund managed by UBCD. The programs offered by UBCD provide the Company with a strategic advantage in Alabama and the panhandle of Florida that is expected to complement and extend United's brand and realize growth opportunities and economic benefits for United and its markets.

In our second quarter report, I mentioned the evaluation of the bank's technology. To improve efficiencies and processes, a strategic decision has been made to move forward with a technology investment in the conversion of our core processor. The significance of the enhancement will give us the tools needed to streamline processes and improve our customer experience further strengthening our brand and value.

In closing, our community engagement and involvement has never been stronger or more unified. We have a persistent momentum in our culture throughout our organization to not just invest financially into our communities, but more importantly, to give of our time and talents in the form of advocacy and commitment to our industry. UBAB has a strong presence to our customers, communities and shareholders. We appreciate your support and welcome your feedback and suggestions.

Sincerely,

Robert R. Jones, III  
President & CEO





## United Bancorporation of Alabama, Inc.

### Select Financial Data

For the Nine Months Ended September 30, 2017

Diluted Earnings Per Share	\$ 1.48	Return on Average Assets	0.82%
Net Interest Margin	3.63%	Loans to Deposits	65.74%
Cost of Funds	0.37%	NIB Deposits to Total Deposits	42.92%
Non Interest Income to Average Assets (Less ORE and Securities Gains)	1.12%	Allowance to Gross Loans	1.22%
		Leverage Ratio	8.35%

## Financial Summary

(M=Thousands / MM = Millions)

United Bancorporation of Alabama, Inc. (UBAB) remains intently focused on its initiative to grow revenues, predominantly through loan growth via United Bank (UB) and revenue generation from UB Community Development (UBCD). As of September 2017, Loans, net of reserve, have grown \$47.2 MM as compared to September of 2017 and \$51.8 MM as compared to December 2016, respectively. UB's loan growth has occurred in consistently-targeted loan segments of strategic expertise and management remains focused on the overall quality of the loan portfolio. UB Community Development continues to achieve results utilizing New Market Tax Credits and its Community Facility Loan Program. UB CD has generated additional revenues of \$227 M through September 2017.

Balance sheet fluctuation is primarily driven by the operations of UB. Total Assets of UBAB were \$594 MM as of September 2017, an annual increase of \$23 MM, or 4%. Deposits have grown in-line with Assets as compared to September 2016. Noninterest bearing deposits remain a strong component of UB's balance sheet. The growth in Interest bearing deposits has been realized in lower-yielding accounts which serve to limit growth in non-interest expense. Deposit pricing and market competition are a focus of the retail bank leadership. The reduction in Stockholders' equity, as compared to September 2016, was the result of UBAB's redemption of \$10 MM of CDCI funds offset by current earnings.

Net interest income has grown 13% as compared to the year-earlier period. Interest income as of Q3, 2017 is approximately \$1.8 MM higher than the prior year. Loan income is responsible for \$1.3 MM of the growth and is inclusive of the UB CD revenue. UB's investment portfolio has provided an additional \$480 M as compared to 2016. Interest expense increased \$239 M, or 19%. Interest on deposits grew \$69 M, or 7%, as compared to September 2016. The remaining \$170 M is due to the impact of rising rates on UBAB's Trust Preferred securities and a \$5 MM note that was utilized to redeem approximately 50% of the CDCI funds in Q4, 2016. UBAB's cost of funds rose to 37 basis points. The combined results produced a net interest margin of 3.63% which was 15 basis points higher than the year earlier period.

Non-interest income net of securities gains grew \$459 M as of September 2017, driven by revenues from card-based programs, conforming mortgage offerings, and the receipt of the 2016 Bank Enterprise Award related to UB's community development efforts. Noninterest expense increased 3% to \$13.5 MM with personnel, business development, technology, and revenue-related segments as the primary influences.

Revenue growth, rigorous deposit-pricing discipline, and expense containment have combined to produce net earnings of \$3.6 MM as of September 2017 as compared to \$2.5 MM as of September 2016, or 44%.

## Balance Sheet

(\$ in 000s)

	2017	2016
<b>Assets</b>		
Cash and due from banks	\$ 43,307	\$ 75,398
Investment securities	164,215	160,857
Loans, net of reserve	347,441	300,205
Fixed assets	13,159	13,522
Other real estate	3,525	3,872
Other assets	22,615	17,568
<b>Total assets</b>	<b>\$ 594,262</b>	<b>\$ 571,422</b>
<b>Liabilities and Stockholders' Equity</b>		
Non-interest bearing deposits	\$ 229,599	\$ 227,832
Interest bearing deposits	305,335	283,821
<b>Total deposits</b>	<b>534,934</b>	<b>511,653</b>
Note payable to Trust	10,310	10,310
Other liabilities	10,445	3,300
<b>Total Liabilities</b>	<b>555,689</b>	<b>525,263</b>
<b>Total stockholders' equity</b>	<b>38,573</b>	<b>46,159</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 594,262</b>	<b>\$ 571,422</b>

## Income Statement

(\$ in 000s)

	2017	2016
Loan income, including fees	\$ 12,957	\$ 11,627
Securities income	2,483	2,003
Short-term investments	193	177
<b>Total interest income</b>	<b>15,633</b>	<b>13,807</b>
Deposits	1,109	1,041
Borrowings	391	220
<b>Total interest expense</b>	<b>1,500</b>	<b>1,261</b>
<b>Net interest income</b>	<b>14,133</b>	<b>12,546</b>
Provision for loan losses	383	200
<b>Net interest income after provision for loan losses</b>	<b>13,750</b>	<b>12,346</b>
Non-interest income	4,896	4,625
Non-interest expense	13,546	13,137
<b>Taxable Earnings</b>	<b>5,100</b>	<b>3,834</b>
Income tax expense	1,520	1,190
<b>Net Earnings</b>	<b>3,580</b>	<b>2,644</b>
Preferred stock dividends	-	155
<b>Net Earnings available to common shareholders</b>	<b>\$ 3,580</b>	<b>\$ 2,489</b>