



United Bancorporation of Alabama, Inc. Financial Report for the Quarter Ending March 31, 2017

May 3, 2017

Dear Fellow Shareholder,

Attitude has a direct impact on performance. A positive attitude often translates into success. Throughout the bank's communities, a recurring theme has emerged, optimism. When consumers and businesses believe things will be better, they begin to make things better.

I share this to help explain the bank's first quarter results. Across the board, we have seen the bank's performance improve. Loans continue to grow and have increased \$22.4 million since December 2016. Net income is up 50% over the same period in 2016. These results have been driven by initiatives begun in 2016 and continue into the new year. As we progress in 2017, additional initiatives which will add to these results. Included in these initiatives will be the transition of the bank's debit cards to Discover and further expansion of New Market Tax Credit transactions through UB Community Development, LLC. As previously reported in quarterly updates, the company was awarded \$65 million in New Market Tax Credits. The deployment of the credits began in earnest in 2017. The pipeline of deals is building with one transaction closed and funded to date.

These opportunities create positive changes in communities by combining the bank's capabilities along with business and community leaders. This typifies the power of community banking.

The Board of Directors of United Bancorporation, Inc. declared a six and half cent cash dividend to shareholders of record as of December 31st, 2016 paid on January 17th, 2017. This distribution

continues to reward our shareholders with consistent stock or cash dividends.

Embracing new technologies, we were happy to offer alternative access to proxy voting. One of the benefits of being a shareholder is your right to vote. Previously the main channel of voting was to mail in your proxy vote. This year added features include both online and telephone voting. We hope you found them convenient and took advantage of this added feature.

Measurable results bring significant impact. United Bank is committed to expanding economic opportunity in our communities by providing innovative financial products and services that meet the needs of local residents and businesses. Many of these initiatives and measurable results can be found on our website www.unitedbank.com. Within the Community Development heading, you will find a listing of the Community Advantage Programs we lead and the advantages of each offering.

The bank's overall performance continues to earn the highest ratings from outside sources. The information contained on our Investor Relations link is maintained to share updates. As always, we appreciate your continued support and welcome your feedback.

Sincerely,



Robert R. Jones, III
President & CEO



United Bancorporation  *of Alabama, Inc.*

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Investor Relations Page

Stock Symbol: UBAB





Select Financial Data For the Three Months Ended March 31, 2017

Diluted Earnings Per Share	\$ 0.38	Return on Average Assets	0.65%
Net Interest Margin	3.54%	Loans to Deposits	62.06%
Cost of Funds	0.36%	NIB Deposits to Total Deposits	41.48%
Non Interest Income to Average Assets		Allowance to Gross Loans, HFI	1.26%
(Less ORE and Securities Gains)	1.03%	Leverage Ratio	8.11%

Financial Summary

(M=Thousands / MM = Millions)

United Bancorporation of Alabama, Inc. (UBAB) has set loan growth as its primary initiative for 2017. As of March 2017, Loans, net of reserve, have grown \$28.5 MM as compared to March of 2016 and \$22.4 MM as compared to December 2016, respectively. UBAB strategically targets Agricultural, Residential mortgage, and Commercial loan sectors and loan growth has been realized in accordance with these emphases. Future loan growth will build on these initiatives and incorporate activities related to New Market Tax Credits and the USDA Re-lending programs that are being propelled by UB Community Development. Asset quality continues to be managed vigorously as the loan portfolio grows and \$134 M was provided into the Allowance for loan losses accordingly.

Total Assets were \$573 MM as of March 2017, an annual increase of \$22 MM, or 4%. The increase in assets was largely driven by \$25 MM of growth in deposits, with \$8 MM growth in noninterest bearing deposits and the remaining \$17 MM in lower-interest bearing transactional accounts.

Net interest income has grown 7% as compared to the year-earlier period. The deployment of lower-yielding assets into loans and investments have driven the growth. Interest income for Q1, 2017 is approximately \$345 M higher than the prior year. Interest expense increased \$58 M, or 14%, on a comparative basis as the impact of rising rates and the \$5 MM borrowing in Q4, 2016 were realized. (The borrowing assisted in the redemption of \$10.3 MM of preferred stock and the interest expense associated with the borrowing was \$9 M less than the preferred dividends as compared to Q1, 2016.) UBAB's cost of funds rose to 36 basis points. The combined results produced a net interest margin of 3.54% which was 6 basis points higher than Q1, 2016.

Non-interest income net of securities gains grew \$122 M as of Q1, 2017 and was primarily associated with card-based revenue and continued growth in conforming mortgage production. UBAB continues to perform ahead of peers in this area as the 1.03% of Non-interest Income to Average Assets, remains well ahead of historical, peer performance. Noninterest expense held steady at \$4 MM as lower personnel costs relative to Q1, 2016 offset higher occupancy and operational expenses.

Balance Sheet

(\$ in 000s)

	2017	2016
Assets		
Cash and due from banks	\$ 49,384	\$ 78,435
Investment securities	169,071	146,592
Loans, net of reserve	317,997	289,515
Fixed assets	13,238	13,316
Other real estate	3,893	5,336
Other assets	19,344	18,038
Total assets	\$ 572,927	\$ 551,232
Liabilities and Stockholders' Equity		
Non-interest bearing deposits	\$ 215,094	\$ 207,586
Interest bearing deposits	303,506	285,880
Total deposits	518,600	493,466
Note payable to Trust	10,310	10,310
Other liabilities	8,801	3,065
Total Liabilities	537,711	506,841
Total stockholders' equity	35,216	44,391
Total liabilities and stockholders' equity	\$ 572,927	\$ 551,232

Income Statement

(\$ in 000s)

	2017	2016
Loan income, including fees	\$ 3,922	\$ 3,770
Securities income	853	631
Short-term investments	39	68
Total interest income	4,814	4,469
Deposits	346	338
Borrowings	123	73
Total interest expense	469	411
Net interest income	4,345	4,058
Provision for loan losses	134	75
Net interest income after provision for loan losses	4,211	3,983
Non-interest income	1,459	1,341
Non-interest expense	4,409	4,407
Taxable Earnings	1,261	917
Income tax expense	345	253
Net Earnings	916	664
Preferred stock dividends	-	52
Net Earnings available to common shareholders	\$ 916	\$ 612