UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
August 14, 2002

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 June 30, 2002

Commission file number 2-78572

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

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

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

(251) 368-2525
(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 X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of June 30, 2002.

Class A Common Stock	1,086,735	Shares
Class B Common Stock	-0-	Shares

UNITED BANCORPORATION OF ALABAMA, INC.

FORM 10-Q

For the Quarter Ended June 30, 2002

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2002	Decembe 2001

Assets		
Cash and due from banks	$ 7,751,863	16,70
Federal funds sold	7,143,000	2,64
Cash and cash equivalents	14,894,863	19,34
Securities available for sale (amortized cost of $45,527,588 and 41,167,492 respectively)	46,617,317	41,61
Loans	152,599,474	149,04
Less allowance for loan losses	1,956,208	1,99
Net loans	150,643,266	147,05
Premises and equipment, net	5,884,770	5,90
Interest receivable and other assets	5,833,396	6,03
Total assets	$223,873,612	219,95
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 33,800,506	33,40
Interest bearing	145,780,564	147,10
Total deposits	179,581,070	180,50
Securities sold under agreements to repurchase	11,166,841	9,06
Guarantee preferred beneficial interest in junior subordinated debt securities	4,000,000	
Other borrowed funds	4,708,315	6,23
Accrued expenses and other liabilities	1,959,614	2,29
Total liabilities	201,415,839	198,10
Stockholders' equity:		
Class A common stock. Authorized 5,000,000 shares of $.01 par value; 1,161,481 and 1,159,481 respectively shares issued and outstanding	11,615	1
Class B common stock of $.01 par value Authorized 250,000 shares; -0- shares issued and outstanding	0	
Preferred stock of $.01 par value. Authorized 250,000 shares; -0- shares issued and outstanding	0	
Surplus	5,092,728	5,05
Accumulated other comprehensive income	653,838	26
Retained earnings	17,546,299	16,96
	23,304,479	22,29
Less 74,746 and 62,649 treasury shares, at cost	846,707	45
Total stockholders' equity	22,457,773	21,84
Total liabilities and stockholders' equity	$223,873,612	219,95

See notes to condensed consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
CONDENSED CONSOLIDATED
STATEMENT OF EARNINGS AN COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30 2002	Three Months Ended June 30 2001
Interest income:		
Interest and fees on loans	2,890,327	3,301,160
Interest on securities available for sale:		
Taxable	369,112	497,290
Nontaxable	235,500	248,011
Total investment income	604,612	745,301
Other interest income	30,407	31,096
Total interest income	3,525,346	4,077,557
Interest expense:		
Interest on deposits	1,022,005	1,700,955
Interest on other borrowed funds	88,209	231,131
Total interest expense	1,110,214	1,932,086
Net interest income	2,415,132	2,145,471
Provision for loan losses	186,000	120,000
Net interest income after provision for loan losses	2,229,132	2,025,471
Noninterest income:		
Service charges on deposits	491,784	403,282
Commissions on credit life	19,355	17,476
Investment securities gains and losses, net	48,522	106,829
Other	133,163	100,996
Total noninterest income	692,824	628,583
Noninterest expense:		
Salaries and benefits	1,210,843	1,082,552
Net occupancy expense	429,479	341,693
Other	653,360	548,443
Total non-interest expense	2,293,682	1,972,688
Earnings before income tax expense	628,274	681,366
Income tax expense	168,248	164,533
Net earnings	460,026	516,833
Basic earnings per share (Note 3)	$ 0.42	$ 0.47

Diluted earnings per share (Note 3)	$ 0.42	$ 0.47
Basic weighted average shares outstanding	1,099,214	1,096,100
Diluted weighted average shares outstanding	1,099,271	1,107,740

Statement of Comprehensive Income

Net Income	460,026	516,833
Other Comprehensive Income, net of tax:		
Unrealized Holding gains arising during the period	468,104	254,590
Less: Reclassification adjustment for gains included in net income	48,522	64,097
Comprehensive income	879,608	707,326

See notes to condensed consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)

	2002 Unaudited
Operating Activities	
Net Income	$ 856,350
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Provision for Loan Losses	372,000
Depreciation on Premises and Equipment	435,930
(Accretion) of Investment Securities Available for Sale, net	(10,606)
Loss on Sale of Investment Securities held to maturity	--
Gain on Sale of Investment Securities Available for Sale	(48,522)
Increase in Interest Receivable	--
and Other Assets	719,619
Increase (Decrease) in Accrued Expenses	
and Other Liabilities	(592,290)
Compensation expenses recognized under - stock option plan	--
Net Cash Provided by Operating Activities	1,732,480
Investing Activities	
Proceeds From Interest-bearing Deposits in Bank	
Proceeds From Sales of Investment Securities Available for Sale	611,278
Proceeds From Maturities of Investment Securities Available for Sale	4,285,481
Purchases of Investment Securities Available for Sale	(9,197,726)
Net Increase in Loans	(3,962,902)
Purchases of Premises and Equipment	(419,668)
Purchases of Other Real Estate	(515,283)

Net Cash Provided (Used) by Investing Activities	(9,198,819)
Financing Activities	
Net Decrease in Deposits	(928,099)
Net Increase in securities sold under agreement to repurchase	2,097,549
Exercise of stock options	32,000
Proceeds from sale of treasury stock	6,963
Cash Dividends	(271,684)
Purchase of Treasury Stock	(397,327)
Increase in Other Borrowed Funds	2,472,988
Net Cash Provided (used) by financing activities	3,012,390
Decrease in Cash and Cash Equivalents	(4,453,949)
Cash and Cash Equivalents at Beginning of Period	19,348,812
Cash and Cash Equivalents at End of Period	14,894,863
Supplemental disclosures	
Cash paid during the year for:	
Interest	2,868,448
Income Taxes	200,000
Transfer of Held to Maturity to Available for Sale	--

See notes to condensed consolidated financial statements

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"). In the opinion of management, all adjustments necessary to present fairly the financial position, the results of operations and comprehensive income and the statement of cash flows 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 included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001.

NOTE 2 - New Accounting Pronouncements

In May 2002, the Financial Accounting Standards Board (FASB) issued Statement of

Financial Accounting Standard (SFAS) No. 145, "Recission of FASB Statements No. 4, 44, and 64 Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt,", SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking Fund Requirements. These recissions eliminate the requirement to report gains and losses from the extinguishment of debt as an extraordinary item, net of any related income tax effect. This statement also amends SFAS No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this statement became effective for fiscal years beginning after May 15, 2002. The Corporation currently does not expect the adoption of Statement 145 to have an impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

NOTE 3 - Net Income per Share

Presented below is a summary of the components used to calculate diluted earnings per share for the three months and six months ended June 30, 2002 and 2001.

	Three months ended June 30, 2002	2001	en 2002
Weighted average common shares outstanding	1,099,214	1,096,100	1,098,5
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the quarter	57	10,526	6
Total weighted average common shares and potential common stock outstanding	1,099,271	1,107,740	1,098,8

NOTE 4 - Trust Preferred Securities

On June 27, 2002, the Corporation raised approximately $4 million in net proceeds from an offering of "trust preferred" securities in a private placement conducted as a part of a pooled offering pursuant to an agreement with SAMCO Capital Markets, a division of Service Asset Management Company (the "Placement Agent").

The Corporation formed a wholly-owned Delaware business trust subsidiary, United Bancorp Capital Trust I (the "Trust"), for the specific purpose of: (1) investing in the Corporation's Floating Rate Junior Subordinated Deferrable

Interest Debentures (the "Debt"), due June 30, 2032; (2) selling Trust Preferred Securities (the "Preferred Securities") to certain institutional investors; and (3) issuing Common Securities (the "Common Securities") to the Corporation.

Effective as of June 27, 2002, the Corporation and the Trust entered into a Placement Agreement with the Placement Agent. On June 27, 2002, the Corporation issued $4,125,000 in Debt to the Trust. Concurrently, the Trust issued $4 million of the Preferred Securities to the Placement Agent and $125,000 of the Common Securities to the Corporation. The Debt was purchased by the Trust concurrently with the Trust's issuance of the Preferred Securities and the Common Securities. The proceeds to the Corporation, net of the Placement Agent's fees and other offering expenses, was approximately $4 million, which will be treated as Tier I capital for regulatory purposes.

The Corporation guarantees the Trust's obligations with respect to the Preferred Securities.

The Corporation has the right, assuming that no default has occurred regarding the Debt, to defer interest payments on the Debt, at any time and for a period of up to twenty consecutive calendar quarters.

The Preferred Securities will mature concurrently with the Debt on June 30,2032; but can be called after June 30, 2007 or earlier upon the occurrence of a "Special Event," as defined in the governing documents for the Preferred Securities. For additional information see the Corporation's Current Report on Form 8-K filed on July 19, 2002.

NOTE 5 - Stock Repurchase

The Corporation commenced an issuer tender offer on April 15, 2002 pursuant to which it offered to purchase up to 32,250 shares of its Class A Common Stock ("Common Stock") at a price of $31.00 per share. Upon completion of the offer on June 28, 2002, the Corporation purchased 12,817 shares of Common Stock for an aggregate purchase price of $397,327. Additional information regarding the stock repurchase offer is set forth in the Schedule TO-I of the Corporation filed with the Securities and Exchange Commission on April 15, 2002, as amended by Amendments Nos. 1 and 2 thereto filed on April 22, 2002 and July 1, 2002, respectively.

NOTE 6 - Loans

The following table summarizes the activity in the allowance for loan losses for the six month periods ended June 30 ($in thousands):

	2002	2001
Balance at beginning of year	1,993	1,939
Provision charged to expense	379	240
Loans charged off	442	266
Recoveries	26	35
Net Charge-offs	419	231
Balance at end of period	1,956	1,949

At June 30, 2002 and 2001, the carrying amounts of nonaccrual loans were $1,269,823 and $2,184,316, respectively. No material amounts of interest income was recognized on impaired loans or nonaccrual loans for the second quarter of

2002.

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

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions. Management believes that its determination of the allowance for loan losses involves a higher degree of judgment and complexity than the Bank's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Bank's borrowers, subjecting the Bank to significant volatility of earnings. The allowance for credit losses is established through a provisions for loan losses, which is a charge against earnings. Provision for loan losses are made to reserve for estimated probable losses on loans.

The allowance for loan losses is a significant estimate and is regularly evaluated by management and reviewed by the Board of Directors for accuracy by taking into consideration factors such as changes in the nature and volume of the loan portfolio; trends in actual and forecasted portfolio credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. The use of different estimates or assumptions could produce different provisions for loan losses.

Results of Operations

The following financial review is presented to provide an analysis of the results of operations of United Bancorporation of Alabama, Inc. (the "Corporation"), and its subsidiary for the six months ended June 30, 2002, and 2001, compared. This review should be used in conjunction with the consolidated financial statements included in the Form 10-Q.

Six Months ended June 30, 2001 and 2000, Compared

Summary

Net income for the six months ended June 30, 2002, decreased by $160,288, or 15.77%, as compared to the same period in 2001.

Net Interest Income

Total interest income decreased $1,368,068, or 16.20%, in 2002. Average interest-earning assets were $202,574,026 for the first six months of 2002, as compared to $204,643,251 for the same period in 2001, a decrease of $2,069,225, or 1.01%. The average rate earned in 2002 was 7.06% as compared to 8.31% in

2001, reflecting the falling interest rate environment during the first half of 2001 and more stable lower rates in 2002.

Total interest expense decreased by $1,784,335, or 42.78%, in 2002, when compared to the same period in 2001. This decrease in interest expense can be attributed primarily to higher interest rates paid in 2001 on slower repricing deposits, compared to lower rates paid on deposits which have repriced in 2002 at the current lower interest rates. Average interest bearing liabilities decreased to $164,824,557 in 2002 from $168,467,495 in 2001, a decrease of $3,642,938, or 2.16%. The average rate paid fell to 2.92% in 2002 as compared to 5.00% in 2001.

Net interest margin increased to 4.67% for the first six months of 2002 as compared to 4.20% for the same period in 2001. This increase is the result of longer term CD's repricing at the current lower rates.

Noninterest Income

Total noninterest income increased $16,103 or 1.34% for the first six months of 2002. Gains on sale of investments decreased to, $48,522 in 2002, as compared to $172,500 in 2001. Service charges on deposits increased $97,517, or 12.66%, for the first six months of 2002. This increase is primarily due to an increase in insufficient fund charges on checks. Commissions on credit life insurance increased $1,880 in 2002, or 6.41%. Other income increased during the first six months of 2001 by $40,684 or 17.61%. This increase is primarily the result of fees collected on loans originated for third party mortgage companies.

Noninterest Expense

Total noninterest expense increased $509,323, or 13.14% during the first six months of 2002. Salaries and benefits increased $195,535 or 9.27%, in the first six months of 2002 primarily due to new offices in Baldwin County. The increase in salaries is principally a result of full time equivalent employees increasing 7.43%. Occupancy expense increased $188,799 or 29.02% primarily due to the expenses related to the installation of an in house data processing system in September 2001. Other expenses increased $124,989, or 11.18%, during the first six months of 2002. This increase is due the expansion in Baldwin County and charge off of approximately $34,000 of DDA account overdrafts and losses, offset by approximately $163,000 of service fees for third party data processing which are no longer paid.

Provision for Loan Losses

The provision for loan losses increased to $372,000 for the first six months of 2002 as compared to $240,000 for the same period in 2001. This increase is partly due to loan growth of $3,553,865. See further discussion under Allowance for Loan Losses below.

Income Taxes

Earnings before taxes for the first six months of 2002 decreased $208,953, or 15.35%, compared to the same period in 2001. Income tax expense decreased $48,665, or 14.13%, for the first six months of 2002. The effective tax rate increased from 25.31% to 25.68%.

Three Months Ended June 30, 2002, and 2001, Compared

Summary

Net income for the three months ended June 30, 2002 decreased $56,807, or 10.99%.

Net Interest Income

Total interest income decreased $552,211 or 13.54% for the second quarter of 2002. This decrease is due primarily to the lower interest rate environment currently experienced. In the three months ended June 30 of 2001 the prime rate was at 7.00%, down from 9.50% at the prior year end. In the second quarter of the current year prime rate has been 4.75%. Average interest earning assets increased to $201,939,788 in 2002, from $199,032,647 in 2001, an increase of $2,907,141, or 1.46%. Interest and fees on loans decreased $410,833, or 12.45%, in 2002. The average rate earned on interest earning assets during the second quarter of 2002 was 6.98% as compared to 8.04% for the same period in 2001.

Total interest expense decreased by $821,872, or 42.54%, for the second quarter of 2002. Average interest-bearing liabilities for the second quarter of 2002 were $163,089,951 as compared to $162,421,216 for the same period in 2001, an increase of $668,735, or 0.41%. During this same period the average rate paid on interest bearing liabilities decreased from 4.77% in 2001 to 2.73% in 2002.

The net interest margin increased to 4.73% for the second quarter of 2002, as compared to 4.24% for the same period in 2001.

Provision for Loan Losses

The provision for loan losses increased to $186,000 for the second quarter of 2002 as compared to $120,000 for the same period in 2001. See further discussion under Allowance for loan losses below.

Noninterest Income

Total noninterest income increased $64,241, or 10.22%, for the second quarter of 2002. Noninterest income increased by $122,548 or 23.49% when adjusted for investment securities gains of $48,522 and $106,829 for the 2002 and 2001 quarters,respectively. Service charges on deposits increased $88,502, or 21.95% in 2002. This increase is primarily due to an increase in insufficient fund charges.

Commissions on credit life insurance increased $1,879, or 10.75%, for the second quarter of 2002. Other income increased during the second quarter of 2002 by $32,167, or 31.85%. This is primarily due to fees received for originating mortgages for third parties.

Noninterest Expense

Total noninterest expense increased $320,994, or 16.27%, during the second quarter of 2002. Salaries and benefits increased $128,291, or 11.85%, in 2002. This increase is primarily due to the growth in Baldwin County. Occupancy expense increased $87,786, or 25.69%, in 2002. This increase is primarily due to expenses related to the installation of an in house data processing system purchased in September of 2001. Other expenses increased $104,917 during the second quarter of 2002.

Income Taxes

Earnings before taxes for the second quarter of 2002 decreased by $53,092, or 7.79%. Income taxes decreased $3,715, or 2.26%, in the second quarter of 2002. The effective rate increased to 26.78% from 24.14%.

Financial Condition and Liquidity

Total assets on June 30, 2002, increased $3,918,080, or 1.78% from December 31, 2001. Average total assets for the first six months of 2002 were $219,038,054. The loan (net of allowance) to deposit ratio on June 30, 2002, was 83.89% as compared to 81.46% on December 31, 2001.

Cash and Cash Equivalents

Fed Funds Sold as of June 30, 2002 increased $4,499,000, or 170.16%, over December 31, 2001. This increase was due to the issuance of trust preferred securities. See Note 4 above.

Loans

Net loans increased by $3,553,865 or 2.38% at June 30, 2002, from December 31, 2001. Most of this growth in loans occurred in the Baldwin County region and in the agricultural lending. The net loan to deposit ratio on June 30, 2002 was 84.98%, as compared to 81.47% on December 31, 2001.

Allowance for Loan Losses

The allowance for possible loan losses represents 1.28% of gross loans at June 30, 2002, as compared to 1.34% at year-end 2001. This decrease was due primarily to charging off loans in 2002 which were previously included in the allowance for loan losses. Loans on which the accrual of interest had been discontinued has decreased to $1,269,823 at June 30, 2002, as compared to $2,184,316 at December 31, 2001. This decrease is due to loans being charged off, loans on which collateral was, foreclosed and loans returned to a performing status.

Net charged-off loans for the first six months of 2002 were $415,621, as compared to $230,649 for the same period in 2001. Bank management believes that potential nonperforming loans have been identified and will be managed to minimize further charge offs.

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 of past due loans, loans classified from the most recent regulatory examinations and internal reviews, general economic conditions and the current portfolio mix. The amount charged to operating expenses is that amount 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 classified portion and the nonclassified portion. The classified portion is based on identified problem loans and is calculated based on an assessment of credit risk related to those loans. Specific loss estimate amounts are included in the allowance based on assigned loan classifications as follows: substandard (15%), doubtful (50%), loss (100%), and specific reserves based on identifiable losses.

The nonclassified portion of the allowance is for inherent losses which probably exist as of the evaluation date even though they may not have been identified by the more specific processes for the classified 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, non-accrual, delinquent loans and general economic environment in the Corporation's markets.

While the total allowance is described as consisting of a classified and a nonclassified portion, these terms are primarily used to describe a process. Both portions are available to support inherent losses in the loan portfolio. Management realizes that general economic trends greatly affect loan losses, and no assurances can be made that future charges to the allowance for loan losses will not be significant in relation to the amount provided during a particular period, or that future evaluations of the loan portfolio based on conditions then prevailing will not require sizable charges to income.

Non-performing Assets: The following table sets forth the Corporation's non-performing assets at June 30, 2002 and December 31, 2001. Under the Corporation's nonaccrual policy, a loan is placed on nonaccrual status when collectibility of principal and interest is in doubt or when principal and interest is 90 days or more past due.

	Description	June 30 2002	December 31 2001
		(Dollars in Thousands)	
(A)	Loans accounted for on a nonaccrual basis	$1,270	$2,184
(B)	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above)	14	18
(C)	Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower	0	0
(D)	Other non-performing assets	678	210

The majority of the increase in other non-performing assets was due to the foreclosure on several parcels of real estate totaling $468,000.

Investment Securities

Total investments available for sale have increased $5,001,725 at June 30 as compared to December 31, 2001 due to the purchase of investment securities.

Premises and Equipment

Premises and equipment decreased $16,262 during the first two quarters of 2002.

Deposits

Total deposits decreased $928,000, or 0.51%, at June 30, 2002 from December 31, 2001. The decrease was caused by falling rates and customers purchasing other investment products. Noninterest bearing deposits increased $393,873 at June 30, 2002. Interest bearing deposits decreased $1,321,972 at June 30, 2002.

Liquidity

One of the Bank'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 Bank to fund earning assets and maintain the availability of funds. Management believes that the Bank'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 Bank's liquidity needs for normal operations. To provide additional liquidity, the Bank utilizes short-term financing through the purchase of federal funds, and maintains a borrowing relationship with the Federal Home Loan Bank to provide liquidity. Should the Bank's traditional sources of liquidity be constrained, forcing the Bank to purse avenues of funding not typically used, the Bank's net interest margin could be impacted negatively. The Corporation's bank subsidiary has an Asset Liability 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 liquidity at June 30, 2002 is considered adequate by management.

Capital Adequacy

The Corporation has generally relied primarily on internally generated capital growth to maintain capital adequacy. Total stockholders' equity on June 30, 2002, was $22,457,773, an increase of $611,280, or 2.80%. This increase is primarily due to current period earnings, together with the unrecognized gains on securities held for sale, and the sale of stock upon the exercise of options, less dividends declared and the purchase of $397,327 of treasury stock under a stock repurchase program. See NOTE 5 above.

Primary capital to total assets at June 30, 2002, was 10.21%, as compared to 9.93% at year-end 2001. Total capital and allowances for loan losses to total assets at June 30, 2002, was 11.10%, as compared to 10.84% at December 31, 2001. The Corporation's risk based capital was $27,760,000, or 16.64%, at June 30, 2002, as compared to $23,993,000, or 14.54%, at year end 2001 compared to the minimum requirement of 8.00%. This increase over December 31, 2001 is primarily due to the issuance of trust preferred securities by the Corporation. See NOTE 4 above. Based on management's projection, internally generated capital and the capital raised by issuance of trust preferred securities should be sufficient to satisfy capital requirements in the foreseeable future for existing operations, and for some expansion efforts. Continued growth into new markets may require the Bank to further access external funding sources. There can be no assurance that such funding source will be available to the Corporation.

ITEM 3. MARKET RISK DISCLOSURES

Market risk is the risk of loss from adverse changes in market prices and rates. The Bank's market risk arises principally from interest rate risk inherent in its lending, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Bank manages other risk, such as credit quality and liquidity risk, in the normal course of business, management considers interest rate risk to be its most significant market risk. Interest rate risk could potentially have the largest material effect on the Bank's financial condition and results of operations. Other types of market risks, such as foreign currency exchange rate risk, generally do not arise in the Bank's normal course of business activities to any significant extent.

The Bank's profitability is affected by fluctuations in interest rates. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings. A sudden and

substantial increase in interest rates may adversely impact the Bank's earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same speed, to the same extent or on the same basis.

The Bank's Asset Liability Management Committee ("ALCO") monitors and considers methods of managing the rate and sensitivity repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of changes in the net portfolio value ("NPV") and net interest income. NPV represents the market values of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off- balance sheet items over a range of assumed changes in market interest rates. A primary purpose of the Bank's ALCO is to manage interest rate risk to effectively invest the Bank's capital and to preserve the value created by its core business operations. As such, certain management monitoring processes are designed to minimize the impact of sudden and sustained changes in interest rates on NPV and net interest income.

The Bank's exposure to interest rate risk is reviewed on a quarterly basis by the Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the Bank's change in NPV in the event of hypothetical changes in interest rates. Further, interest rate sensitivity gap analysis is used to determine the repricing characteristics of the Bank's assets and liabilities. The ALCO is charged with the responsibility to maintain the level of sensitivity of the Bank's net interest margin within Board approved limits.

Interest rate sensitivity analysis is used to measure the Bank's interest rate risk by computing estimated changes in NPV of its cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 - 300 basis points increase or decrease in the market interest rates. The Bank uses the HNC Asset Liability Model, which takes the current rate structure of the portfolio and shocks for each rate level and calculates the new market value equity at each level. The Bank's Board of Directors has adopted an interest rate risk policy, which establishes maximum allowable decreases in net interest margin in the event of a sudden and sustained increase or decrease in market interest rates. The following table presents the Bank's projected change in NPV for the various rate shock levels as of June 30, 2002. All market risk sensitive instruments presented in this table are held to maturity or available for sale. The Bank has no trading securities.

CHANGE IN INTEREST RATES (BASIS POINTS)	MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY(%)
300	43,943	3,192	8
200	43,156	2,405	6
100	42,015	1,264	3
0	40,751	0	0
(100)	37,590	(3,161)	(8)
(200)	34,415	(6,336)	(16)
(300)	31,059	(9,692)	(24)

The preceding table indicates that at June 30, 2002, in the event of a sudden and sustained increase in prevailing market interest rates, the Bank's NPV would be expected to decrease, and that in the event of a sudden decrease in prevailing market interest rates, the Bank's NPV would be expected to increase. The recent growth in loans and the previously-reported loss of the public fund account have caused the caused the Corporation to become more liability sensitive over the period of a year, but the net interest margin remains stable in all interest rate environments tested.

Computation of prospective effects of hypothetical interest rate changes included in these forward-looking statements are subject to certain risks, uncertainties, and assumptions including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank could undertake in response to changes in interest rates.

FORWARD LOOKING STATEMENTS

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

PART II -- OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(a) A description of actions taken at the annual meeting of security holders of United Bancorporation of Alabama, Inc. on May 1, 2002 was reported under Item 4 of the Corporation's Form 10-Q for the quarter ended March 31, 2002, and is incorporated by reference herein.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

99(1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

99(2) Certification of principal accounting officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) The Corporation filed on July 19, 2002 a Form 8-K Current Report dated June 27, 2002 to report the issuance of trust preferred securities.

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: August 14, 2002

/s/ Robert R Jones II
Robert R Jones II

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION

99(1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

99(2) Certification principal accounting officer pursuant to 18 U.S.C. Section 1350,adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.