UNITED BANCORPORATION OF ALABAMA INC
Form 10-K
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
- THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002 — Commission File No. 2-78572

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

Delaware	63-0833573
(State or other jurisdiction Identification of incorporation or organization)	(I.R.S. Employer No.)

P.O. Drawer 8, Atmore, Alabama 36504
(Address of principal executive offices)

Registrant's telephone number, including area code: (251) 368-2525

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, Par Value $.01 Per Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ___ No X

Aggregate market value of voting and nonvoting common equity held by non affiliates as of June 30, 2002 was $29,463,053 computed by reference to the price reported to the registrant at which the common equity was last sold on or prior to that date and using beneficial ownership of stock rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude voting stock owned by directors and executive officers, some of whom might not be held to be affiliates upon judicial determination.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Par Value	Outstanding at March 20,2003	
Class A...............	$.01	1,086,898	Shares*
Class B...............	$.01	0	Shares

*Excludes 74,583 shares held as treasury stock.

PART I

ITEM 1. BUSINESS

United Bancorporation of Alabama, Inc. (the "Corporation") is a one-bank holding company, that is a financial holding company, with headquarters in Atmore, Alabama. The Corporation was incorporated under the laws of Delaware on March 8, 1982 for the purpose of acquiring all of the issued and outstanding capital stock of The Bank of Atmore, Atmore, Alabama ("Atmore") and Peoples Bank, Frisco City, Alabama ("Peoples"). Atmore was merged into United Bank of Atmore, a wholly-owned subsidiary of the Corporation, and Peoples was merged into United Bank of Frisco City ("Frisco City"), also a wholly-owned subsidiary of the Corporation, later in 1982. Effective March 30, 1984, Frisco City merged into United Bank of Atmore, which had previously changed its name to simply "United Bank."

The Corporation and its subsidiary, United Bank (herein "United Bank" or the "Bank"), operate primarily in one business segment, commercial banking. United Bank contributes substantially all of the total operating revenues and consolidated assets of the Corporation. The Bank serves its customers from nine full service banking offices located in Atmore, Frisco City, Monroeville, Flomaton, Foley, Lillian, Bay Minette, Silverhill, and Magnolia Springs Alabama, a drive up facility in Atmore, and a loan production office in Jay, Florida.

United Bank offers a broad range of banking services. Services to business customers include providing checking and time deposit accounts and various types of lending services. Services provided to individual customers include checking accounts, NOW accounts, money market deposit accounts, statement savings accounts, repurchase agreements and various other time deposit savings programs and loans, including business, personal, automobile, home and home improvement loans. United Bank offers securities brokerage services, Visa and Master Card, multi-purpose, nationally recognized credit card services, and trust services through Morgan Keegan Trust of Memphis, Tennessee. The Bank also offers internet banking, bill pay and online brokerage services at its web site, www.ubankal.com. The Bank also owns an insurance agency, United Insurance Services Inc., which opened and began business in the last half of 2001.

Competition - The commercial banking business is highly competitive and United Bank competes actively with state and national banks, savings and loan associations, insurance companies, brokerage houses, and credit unions in its market areas for deposits and loans. In addition, United Bank competes with other financial institutions, including personal loan companies, leasing companies, finance companies and certain governmental agencies, all of which engage in marketing various types of loans and other services. The regulatory environment affects competition in the bank business as well.

Employees - The Corporation and its subsidiary had approximately 130 full-time equivalent employees at December 31, 2002. All of the employees are engaged in the operations of United Bank, its subsidiary, or the Corporation. The Corporation considers its employee relations good, and has not experienced and does not anticipate any work stoppage attributable to labor disputes.

Supervision, Regulation and Government Policy - Bank holding companies, banks and many of their nonbank affiliates are extensively regulated under both federal and state law. The following brief summary of certain statutes, rules and regulations affecting the Corporation and the Bank is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and is not intended to be an exhaustive description of the statutes or regulations applicable to the Corporation's business. Any change in applicable law or regulations could have a material effect on the business of the Corporation and its subsidiary. Supervision, regulation and examination of banks by bank regulatory agencies are intended primarily for the protection of depositors rather than holders of Corporation common stock.

The Corporation is registered as a bank holding company with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). As such, the Corporation is subject to the supervision, examination, and reporting requirements in the BHC Act and the regulations of the Federal Reserve. The Corporation is a "Financial Holding Company" (FHC). See discussion of the Gramm-Leach-Bliley Financial Services Modernization Act below.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire substantially all of the assets of any bank or control of any voting shares of any bank, if, after such acquisition, it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. The BHC Act requires the Federal Reserve to consider, among other things, anticompetitive effects, financial and managerial resources and community needs in reviewing such a transaction. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, enacted in September 1994, bank holding companies were permitted to acquire banks located in any state without regard to whether the transaction is prohibited under any state law (except that states may establish a minimum age of not more than five years for local banks subject to interstate acquisitions by out-of-state bank holding companies), and interstate branching was permitted beginning June 1, 1997 in certain circumstances.

With the prior approval of the Superintendent of the Alabama State Department of Banking ("Superintendent") and their primary federal regulators, state banks are entitled to expand by branching within Alabama.

The Corporation is a legal entity separate and distinct from the Bank. Various legal limitations restrict the Bank from

lending or otherwise supplying funds to the Corporation. Such transactions, including extensions of credit, sales of securities or assets and provision of services, also must be on terms and conditions consistent with safe and sound banking practices, including credit standards, that are substantially the same or at least as favorable to the Bank as prevailing at the time for transactions with unaffiliated companies. Also, as a subsidiary of a bank holding company, the Bank is generally prohibited from conditioning the extension of credit or other services, or conditioning the lease or sale of property, on the customer's agreement to obtain or furnish some additional credit, property or service from or to such subsidiary or an affiliate.

The Bank is a state bank, subject to state banking laws and regulation, supervision and regular examination by the Alabama State Department of Banking (the "Department"), and as a member of the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation (the "FDIC"), is also subject to FDIC regulation and examination. The Bank is not a member of the Federal Reserve System. Areas subject to federal and state regulation include dividend payments, reserves, investments, loans, interest rates, mergers and acquisitions, issuance of securities, borrowings, establishment of branches and other aspects of operation, including compliance with truth-in-lending and usury laws, and regulators have the right to prevent the development or continuance of unsafe or unsound banking practices regardless of whether the practice is specifically proscribed or otherwise violates law.

Dividends from United Bank constitute the major source of funds for the Corporation. United Bank is subject to state law restrictions on its ability to pay dividends, primarily that the prior written approval of the Superintendent is required if the total of all dividends declared in any calendar year exceeds the total of United Bank's net earnings of that year combined with its retained net earnings of the preceding two years, less any required transfers to surplus. United Bank is subject to restrictions under Alabama law which also prohibits any dividends from being made from surplus without the Superintendent's prior written approval and the general restriction that dividends in excess of 90% of United Bank's net earnings (as defined by statute), may not be declared or paid unless United Bank's surplus is at least equal to 20% of its capital. United Bank's surplus is significantly in excess of 20% of its capital. Federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks and bank holding companies if such payment is deemed to constitute an unsafe and unsound practice. Federal law provides that no dividends may be paid which would render the Bank undercapitalized. United Bank's ability to make funds available to the Corporation also is subject to restrictions imposed by federal law on the ability of a bank to extend credit to its parent company, to purchase the assets thereof, to issue a guarantee, acceptance or letter of credit on behalf thereof or to invest in the stock or securities thereof or to take such stock or securities as collateral for loans to any borrower.

The Bank is also subject to the requirements of the Community Reinvestment Act of 1977 ("CRA"). The CRA and the regulations implementing the CRA are intended to encourage regulated financial institutions to help meet the credit needs of their local community, including low and moderate-income neighborhoods, consistent with the safe and sound operation of financial institutions. The regulatory agency's assessment of the Bank's CRA record is made available to the public.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") recapitalized the BIF and included numerous revised statutory provisions. FDICIA established five capital tiers for insured depository institutions: "well capitalized", "adequately capitalized","undercapitalized", "significantly undercapitalized", and "critically undercapitalized", as defined by regulations adopted by the Federal Reserve, the FDIC and other federal depository institution regulatory agencies. At December 31, 2002, the Bank was "well capitalized" and was not subject to restrictions imposed for failure to satisfy applicable capital requirements. BIF premiums for each member financial institution depend upon the risk assessment classification assigned to the institution by the FDIC.

Banking is a business that primarily depends on interest rate differentials. In general, the difference between the interest rate paid by a bank on its deposits and other borrowings and the interest rate received by the bank on its loans and securities holdings constitutes the major portion of the bank's earnings. As a result, the earnings and business of the Corporation are and will be affected by economic conditions generally, both domestic and foreign, and also by the policies of various regulatory authorities having jurisdiction over the Corporation and the Bank, especially the Federal Reserve. The Federal Reserve, among other functions, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans and other extensions of credit and deposits and the interest rates paid on liabilities and received on assets.

The enactment of the Gramm-Leach-Bliley Financial Services Modernization Act (the "GLB Act") on November 12, 1999 represented an important development in the powers of banks and their competitors in the financial services industry by removing many of the barriers between commercial banking, investment banking, securities brokerages and insurance. Inter-affiliation of many of these formerly separated businesses is now common. The GLB Act includes significant provisions regarding the privacy of financial information. These new financial privacy provisions generally require a financial institution to adopt a privacy policy regarding its practices for sharing nonpublic personal information and to disclose such policy to their customers, both at the time the customer relationship is established and at least annually during the relationship. These provisions also prohibit

the Company from disclosing nonpublic personal financial information to third parties unless customers have the opportunity to opt out of the disclosure. The GLB Act gives the Federal Reserve broad authority to regulate FHCs, but provides for functional regulation of subsidiary activities by the Securities Exchange Commission, Federal Trade Commission, state insurance and securities authorities and similar regulatory agencies.

On October 26, 2001, President Bush signed into law the Uniting and Strengthening American by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). Among its provisions, the USA Patriot Act requires each financial institution: (1) to establish an anti-money laundering program, (ii) to establish due diligence policies, procedures and controls with respect to its pivate banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. The federal banking agencies have begun proposing and implementing regulations interpreting the USA Patriot Act. It is not anticipated that the USA Patriot Act will have a significant impact on the financial condition or results of operations of the Corporation.

In July 2002 the Sarbanes-Oxley Act of 2002 (the "SOA") was enacted. The SOA establishes many new operational and disclosure requirements, with the stated goals of, among other things, increasing corporate responsibility and protecting investors by improving corporate disclosures. The SOA applies generally to companies that file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act"). As an Exchange Act reporting company, the Corporation is subject to some SOA provisions. Other SOA requirements apply only to companies which, unlike the Corporation, have stock traded on a national stock exchange or the NASDAQ. Because rules implementing the SOA are not fully implemented, all of the effects of the SOA requirements on the Corporation remain to be determined. It is likely, however, that the Company's cost will increase, at least in the short term, as a result of SOA implementation, and the Company is continuing to assess the financial and other effects of the SOA on its operations.

Selected Statistical Information - The following tables set forth certain selected statistical information concerning the business and operations of the Corporation and its wholly-owned subsidiary, United Bank, as of December 31, 2002, 2001 and 2000. Averages referred to in the following statistical information are generally average daily balances.

AVERAGE CONSOLIDATED BALANCE SHEETS
December 31,
2002, 2001 and 2000

(Dollars In Thousands)

Assets	2002	2001	2000
Cash and due from bank	$ 5,520	$ 7,916	$ 8
Interest-bearing deposits with other financial institutions	1,486	3,867	
Federal funds sold and repurchase Agreements	2,772	2,122	6
Taxable securities available for Sale	29,024	30,072	36
Tax-exempt securities available for sale	19,110	19,233	13
Taxable investment securities held to Maturity	0	0	4
Tax-exempt investment securities held to maturity	0	0	10

Loans, net	152,869	146,868	131
Premises and equipment, net	5,913	4,626	4
Interest receivable and other assets	7,826	4,071	3
Total assets	$ 224,520	218,775	220

Liabilities and Stockholders' Equity			
Demand deposits - noninterest-bearing	$ 33,449	30,425	29
Demand deposits - interest-bearing	28,147	29,069	43
Savings deposits	16,638	14,917	15
Time deposits	101,444	102,003	91
Other borrowed funds	10,269	8,403	8
Repurchase agreements	10,734	11,628	10
Accrued expenses and other liabilities	1,137	1,959	1
Total liabilities	201,818	198,404	201
Stockholders' equity:			
Common Stock	12	12	
Additional Paid In Capital	5,059	5,008	4
Retained earnings	17,759	15,409	14
Accumulated other comprehensive Income net of deferred taxes	521	396	
Less shares held in treasury, At cost	(649)	(454)	
Total stockholders' equity	22,702	20,371	18
Total liabilities and stockholders' equity	$ 224,520	218,775	220

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1S07
1S08
1S08/

1S07
2Q07
2Q08
2Q08/

2Q07

Tons
1,015,322
1,103,196
8.7%
524,292
570,045
8.7%

Processed Products
435,975
488,214
12.0%
225,974
245,113
8.5%

Poultry
475,025
514,058
8.2%
241,026
270,924
12.4%

Pork
71,791
70,508
-1.8%
39,681
37,438
-5.7%

Beef
32,531
30,416
-6.5%
17,611
16,570
-5.9%

R$ thousand	**4,470,858**	**5,521,676**	**23.5%**	**2,307,790**	**2,918,615**	**26.5%**
Processed Products	2,122,124	2,610,947	23.0%	1,086,089	1,355,048	24.8%
Poultry	1,663,606	2,150,794	29.3%	845,641	1,150,093	36.0%
Pork	309,278	369,984	19.6%	172,036	208,664	21.3%
Beef	180,021	178,892	-0.6%	96,134	99,813	3.8%
Others	195,829	211,059	7.8%	107,890	104,997	-2.7%

Out of the total sales, the segment of processed products accounted for 44.3% of the sales volume and for 47.3% of the revenues, up 12.0% and 23.0% when compared to the 1S07. In the 2Q08, this segment accounted for 43.0% of the volume and 46.4% of the revenues, with increases of 8.5% and 24.8%. Such performance was the result of a better marketing of the processed products both in the domestic and in the international markets.

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The poultry volume sold increased 8.2% in the 1S08 and 12.4% in the 2Q08, representing approximately 46.6% and 47.5% of the total sold by the Company in the half year and in the quarter. The revenues generated increased 29.3% in the 1S08 and 36.0% in the 2Q08. The Company redirected some of the poultry sales to the international market.

The pork segment shrunk 1.8% in physical sales in the 1S08 and 5.7% in the 2Q08 due to the allocation of this raw material to the production of processed products. Nonetheless, gross revenues rose 19.6% in the first half of the year and 21.3% in the 2Q08 due to increases in the average prices charged in the domestic and foreign markets.

Physical sales of beef protein shrunk 6.5% in the 1S08 and 5.9% in the 2Q08, mostly as a result of a shortage of animals for slaughtering. Revenue decreased in the first half of the year 0.6% compared to 1S07 and increased 3.8% in the 2Q08.

BREAKDOWN OF GROSS OPERATING INCOME

Sales

Tons	**1S07**	**1S08**	**1S08/ 1S07**	**2Q07**	**2Q08**	**2Q08/ 2Q07**
Domestic Market	**463,326**	**512,372**	**10.6%**	**238,506**	**257,150**	**7.8%**
Processed Products	383,351	429,065	11.9%	197,092	214,937	9.1%
Poultry	56,139	51,220	-8.8%	30,066	24,150	-19.7%
Pork	20,501	21,876	6.7%	9,454	12,012	27.1%
Beef	3,335	10,211	206.2%	1,894	6,051	219.5%
Export Market	**551,996**	**590,824**	**7.0%**	**285,786**	**312,895**	**9.5%**
Processed Products	52,624	59,149	12.4%	28,882	30,176	4.5%
Poultry	418,886	462,838	10.5%	210,960	246,774	17.0%
Pork	51,290	48,632	-5.2%	30,227	25,426	-15.9%
Beef	29,196	20,205	-30.8%	15,717	10,519	-33.1%
Total	**1,015,322**	**1,103,196**	**8.7%**	**524,292**	**570,045**	**8.7%**

R$ thousand	1S07	1S08	1S08/ 1S07	2Q07	2Q08	2Q08/ 2Q07
Domestic Market	**2,382,402**	**2,894,579**	**21.5%**	**1,218,928**	**1,507,072**	**23.6%**
Processed Products	1,900,905	2,330,265	22.6%	970,089	1,211,941	24.9%
Poultry	212,649	214,237	0.7%	111,647	106,503	-4.6%
Pork	80,902	113,626	40.4%	40,879	65,224	59.6%
Beef	17,477	51,496	194.7%	9,936	34,961	251.9%
Others	170,469	184,955	8.5%	86,377	88,443	2.4%
Export Market	**2,088,456**	**2,627,097**	**25.8%**	**1,088,862**	**1,411,543**	**29.6%**
Processed Products	221,219	280,682	26.9%	116,000	143,107	23.4%
Poultry	1,450,957	1,936,557	33.5%	733,994	1,043,590	42.2%
Pork	228,376	256,358	12.3%	131,157	143,440	9.4%
Beef	162,544	127,396	-21.6%	86,198	64,852	-24.8%
Others	25,360	26,104	2.9%	21,513	16,554	-23.1%
Total	**4,470,858**	**5,521,676**	**23.5%**	**2,307,790**	**2,918,615**	**26.5%**

Domestic Market

The domestic market has continued its positive sales performance. The revenue generated was 21.5% higher in the 1S08 and 23.6% in the 2Q08, compared to the same periods of 2007. The sales volume grew 10.6% and 7.8%, respectively, in the 1S08 and 2Q08. The average price also increased, 10.9% and 16.2%.

The segment of processed products was, again, the highlight of the period, accounting for approximately 81.0% of the total Company s revenues in the domestic market, exceeding by 22.6% and 24.9% the amounts of the 1S07 and of the 2Q07. The volumes sold during the 1S08 and the 2Q08 corresponded to approximately 84% of the Company s total in this market and added up to 429.1 thousand and 214.9 thousand tons, respectively an increase of 11.9% compared to the 1S07 and 9.1% compared to 1Q07. The average price in the first half of the year was 9.5% higher than that of the 1S07 and, in the 2Q08, 14.6% higher than that of the 2Q07. The results of the segment of processed products continue to reflect the demand and the preference of the Brazilian population for the consumption of this kind of product.

The poultry volume sold in the first semester represented 10% of the Company s total volume and was 8.8% lower than that of the 1S07, reaching 51.2 thousand tons. Physical sales of protein in the quarter dropped 19.7% compared to the 2Q07 and totaled 24.2 thousand tons. The lower percentages are in line with the strategy of targeting the foreign market. Even so, the average price rose 10.3% compared to 1S07 and 18.9% compared to 2Q07. This segment achieved revenues 0.7% higher than that of the 1S07 and corresponded to approximately 7.0% of the Company s revenues in both periods.

Physical sales of pork protein in the 1S08 were 6.7% higher than those of the 1S07 and totaled 21.9 thousand tons in the period. In the 2Q08, this volume reached 12.0 thousand tons, 27.1% higher compared to the 2Q07. The pork segment represented 4.3% of the total volume sold by the Company in the 1S08 and 4.7% in the 2Q08. Revenue in the 1S08 was 40.4% higher than that of the 1S07 and, in the 2Q08, 59.6% higher than that of the 2Q07. The lower availability of pork in the market boosted the average price in the half year, surpassing by 31.4% that charged in the 1S07 and, in the quarter, it was 25.7% higher than that charged in the same period of the prior year.

The beef volume sold in the 1S08 was 206.2% greater than that sold in the same period of 2007, with 10.2 thousand tons. Physical sales in the 2Q08 also increased 219.5% compared to 2Q07 - totaling 6.1 thousand tons due to the redirecting of protein to the domestic market in view of the European embargo. The average price in the 1S08 was 3.8% lower than that of the 1S07 and that of the 2Q08 rose 10.1%. Consequently, in the 1S08, this kind of protein generated revenues 194.7% higher than that of 1S07 and, in the 2Q08, 251.9% higher than that of the 2Q07.

BREAKDOWN OF GROSS OPERATING INCOME DOMESTIC MARKET

AVERAGE PRICES R$/KG DOMESTIC MARKET

Foreign Market

Export revenues during the 1S08 exceeded that of the 1S07 by 25.8%; in the 2Q08, by 29.6%. This performance is the result of an increase of 7.0% in physical sales of this half year and of 9.5% in the 2Q08. Further, the average prices in reais charged by the Company in the foreign market were 17.6% and 19.6% higher than those in the 1S08 and in the 2Q08, respectively. The foreign exchange devaluation was of approximately 17.0%, both in the six-month and in the three-month comparisons.

Revenue from the poultry segment in the first half of the year was 33.5% higher than that of 1S07 and 42.2% higher in the 2Q08. In both periods, the amounts were equivalent to 74.0% of the total earned by the Company in the foreign market. The poultry volume in the 1S08 represented 78.3% of the total exported by the Company and totaled 462.8 thousand tons, 10.5% higher than that of the same period last year. Physical sales in the 2Q08 surpassed by 17.0% those of the 2Q07 and also accounted for 78.9% of the total, reaching 246.8 thousand tons. The main highlight was the increase in the exports of cuts. The average price of this segment in the 1S08 was 20.8% higher in reais and 41.4% in U.S. dollars than that charged in the 1S07 and, in the 2Q08, higher by 21.6% in reais and 42.0% in U.S. dollar, when compared with the same quarter last year.

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Physical sales of processed products in the 1S08 exceeded by 12.4% those recorded in the 1S07 and totaled 59.1 thousand tons approximately, 10% of the Company s total sales. In the 2Q08, this segment totaled 30.2 thousand tons, 4.5% higher than that in the 2Q07. In the 1S08, revenue from this segment represented 10.7% of the total and surpassed by 26.9% the amount posted in the 1S07. Revenue in the 2Q08 evolved 23.4% when compared to the same period of the prior year and was equivalent to 10.1% of the total earned by the Company. The average price in the first half of the year exceeded by 13.1% in reais and 32.4% in U.S. dollars that of the 1S07 and, in the 2Q08, by 17.9% in reais and 37.6% in U.S. dollar that of the 2Q07. It should be emphasized that the exports of processed products were lower to the Americas due to specific factors which ended up by affecting the volume exported in the 2Q08.

The volume sold in the pork segment in the 1S08 was 5.2% lower compared to the 1S07, totaling 48.6 thousand tons 8.1% of the Company s total volume. Physical sales of protein in the 2Q08 totaled 25.4 thousand tons, 15.9% less than the same period of 2007. This was due to the strategy of directing pork raw material from the foreign market to the production of processed products in the domestic market. In spite of that, the revenue recorded by this segment in the 1S08 represented 9.8% of the total and exceeded by 12.3% that earned in the 1S07. In the 2Q08, the revenue grew 9.4% compared to an equal period in the prior year. In the 1S08, the average price was 18.4% higher in reais and 38.6% in U.S. dollars than that of the 1S07 and in the 2Q08, it surpassed by 30.0% in reais and 51.7% in U.S. dollars that of the same period of the prior year.

The beef exported volume in the 1S08 was 30.8% lower than that of the 1S07 and, in the 2Q08, physical sales fell 33.1% compared to 2Q07, a reflection of the European embargo to the Brazilian meat and the redirecting to the domestic market. The revenue recorded by this segment was 21.6% lower in the 1S08 and 24.8% lower in the 2Q08, compared to equal periods in the prior year. In the 1S08, the average price in reais exceeded by 13.3% that of the 1S07 and grew 32.7% in U.S. dollar; the average price in the 2Q08 was 12.6% higher in reais and 31.4% in U.S. dollar than those in the same period of the prior year, due to, primarily, the restriction in the supply of animals.

BREAKDOWN OF GROSS OPERATING INCOME FOREIGN MARKET

AVERAGE PRICES R$/KG FOREIGN MARKET

EXPORTS BY REGION

The higher volume and the average prices of poultry sold to the Middle East, Asia and America were reflected in the greater share of these regions in the Company s total sales.

NET OPERATING INCOME

Net revenue reached R$ 4.9 billion in the 1S08, of which R$ 2.6 billion were in the 2Q08, representing an increase of 24.6% compared to the 1S07 and 28.1% compared to the 2Q07. This increase was due to the larger volumes sold and higher average prices charged, particularly of processed products in the domestic market and of poultry in the foreign market. The average devaluations of the U.S. dollar in the six-month and three-month comparisons were close to 17.0%.

Gross Margin

Gross profits in the 1S08 reached R$ 1.2 billion and R$ 616.3 million in the 2Q08, 16.1% above that of the 1S07 and 18.6% above that of the 2Q07. The various increases in the prices of grains (corn and soybean) during the half year resulted in an increase of 27.6% and 31.3% in the cost of products sold in the 1S08 and 2Q08, respectively, compared to equal periods in the prior year. Consequently, gross margin slipped 1.8 percentage point in the 1S08 and 1.9 percentage point in the 2Q08 when compared to the same periods of the prior year.

The market prices (ESALQ North of the State of Paraná) of corn and soybean in the 1S08 were, respectively, 33.0% and 50.0% higher than those in the 1S07 and in the 2Q08/2Q07 they were 36.6% and 54.2%.

OPERATING INCOME

The ratio of operating expenses selling, general, administrative and other expenses to net income fell in the six-month comparison from 18.5% to 17.8% and in the three-month from 19.2% to 18.1%, reflecting an efficiency gain in operational management.

Selling expenses were R$ 757.8 million and its ratio to net income had a significant reduction, reducing to 15.5% in the 1S08, compared to the 17.1% in the 1S07. In the three-month comparison, the drop was from 17.4% to 15.6%. This performance reflects gains of scale and therefore a dilution of fixed expenses.

General and administrative expenses totaled R$ 66.7 million in the 1S08 and R$ 35.3 million in the 2Q08, equivalent to 1.4% of the net revenues of the 1S08 and of the 2Q08. Such increase is mostly related to the evolution of expenses to provide support to growth in the oncoming years.

The provision for profit sharing (PPS) reached R$ 43.5 million in the 1S08, and R$ 20.4 million in the 2Q08. In equal periods in 2007, the amounts were R$ 12.0 million and R$ 6.0 million. The higher amounts in 2008 are the result of a more equitable distribution of these expenses during the year.

Earnings before financial expenses and equity in the earnings of subsidiaries (EBIT) in the half year surpassed by 7.8% that of the 1S07, reaching R$304.7 million. In the quarter, a substantial growth of 12.3% was recorded.

EBITDA (earnings before interest, tax, depreciation and amortization) reached R$ 548.4 million in the 1S08 and R$ 271.5 million in the 2Q08, amounts 19.0% and 18.4% higher than those recorded in equal periods in the prior year, respectively. The EBITDA margin in the half year was 11.3% and in the 2Q08, it was 10.5%.

EBITDA CALCULATION = EBIT + DEPRECIATION/AMORTIZATION + EMPLOYEE PROFIT SHARING				
	1S07	**1S08**	**2Q08**	**2Q08**
EBIT	**282,548**	**304,656**	**132,019**	**148,224**
(+)DEPRECIATION/AMORTIZATION	**166,170**	**200,190**	**91,290**	**102,800**
(+)EMPLOYEE PROFIT SHARING	**11,986**	**43,539**	**5,964**	**20,426**
EBITDA	**460,704**	**548,385**	**229,273**	**271,450**
EBITDA MARGIN	**11.8%**	**11.3%**	**11.4%**	**10.5%**

FINANCIAL RESULT

Sadia s financial results reflect the financial management of its financial assets and liabilities as well as the foreign exchange variations of its investments abroad.

For the half year, the result was a positive amount of R$24.6 million while in 2007 it was a negative R$3.8 million. This result is obtained basically from two factors. First the decrease in interest on financial investments was due to a reduction in the nominal amount invested. Second the foreign exchange effect caused by the variation of the currency on the exposure of the assets and liabilities as well as effects from hedges.

In the quarter, this result represented a negative amount of R$ 12.2 million in 2008 and a positive amount of R$ 2.7 million in 2007.

FINANCIAL INDEBTEDNESS R$ MILLION

	Jun 07	%	Jun 08	%	Chg,
Short Term	**1,008.8**	**28%**	**1,044.8**	**25%**	**3.6%**
Local Currency	377.7	37%	518.3	50%	37.2%
Foreign Currency	631.1	63%	526.5	50%	-16.6%
Long Term	**2,624.6**	**72%**	**3,149.6**	**75%**	**20.0%**
Local Currency	797.2	30%	1,299.5	41%	63.0%
Foreign Currency	1,827.3	70%	1,850.1	59%	1.2%
Total	**3,633.4**	**100%**	**4,194.4**	**100%**	**15.4%**
(-) Financial Investments	**2,527.2**	**100%**	**2,065.0**	**100%**	**-18.3%**
Local Currency	531.6	21%	737.7	36%	38.8%
Foreign Currency	1,995.5	79%	1,327.3	64%	-33.5%
(=) Net Financial Indebtedness	**1,106.2**	**100%**	**2,129.4**	**100%**	**92.5%**
Local Currency	643.3	58%	1,080.1	51%	67.9%
Foreign Currency	462.9	42%	1,049.3	49%	126.7%
Net Debt to Equity	42.3%		67.2%		
Net Debt to EBITDA*	1.3		1.8		

**Last 12 months*

At the end of June 2008, Sadia s net financial debt totaled R$2.1 billion, an amount 92.5% higher than that at the end of June 2007. The ratio of net debt to EBITDA closed the half year at 1.8. This was due primarily to the Company s investment plans, which totaled R$952.7 million in the 1S08.

In June 2008, the risk rating agency Standard & Poor s raised Sadia s corporate credit rating from BB to BB+ . This upgrade reflects a higher stability in Sadia´s margins as well as the measures taken to protect its cash flow during the process of growth and improvement of operational efficiency during the last years. Further, it is in line with the consistent domestic and foreign demands and should lead to a broader price flexibility and reduce the Company s exposure to the prices of commodities. This upgrade also reflects a greater diversification of the Company s mix and production. Sadia is expanding its productive capacity in Brazil with a high growth level and strengthening its brand in key export destinations such as Russia and the Middle East. This activity provides support to a broader product mix and reduces the risks of commercial and sanitary barriers.

NET DEBT / EBITDA*

**Last 12 months*

NET INCOME

Net income in 1S08 was R$ 334.8 million, 62.9% higher than the result reached in the 1S07. This increase represented 9.6% in the quarter, from R$109.4 million in 2007 to R$ 119.9 million in 2008. The Company recorded a Return On Equity (ROE) of 10.6% in the 1S08 against 7.9% in the same period of 2007.

INVESTMENTS - R$ MILLION

Sadia invested R$ 952.7 million in the 1S08, of which R$ 525.7 million in the 2Q08. These amounts exceeded by R$ 600.2 million and R$ 350.1 million the amounts of the 1S07 and 1Q07, respectively. Of the total invested in the quarter, R$167.6, million (31.9%) were destined to the segment of processed products, R$ 216.6 million (41.2%) to the poultry segment, R$ 77.7 million (14.8%) to the pork segment, R$ 1.3 million (0.2%) to the beef segment and R$ 62.5 million (11.9%) to other areas.

In June, Sadia signed a letter of intent to invest in a production unit in the City of Mafra, in Santa Catarina. This unit will comprehend a pork slaughterhouse, a feed plant and integrated production farms (outgrowers). It will have a slaughtering capacity of 5 thousand heads/day and, when operating at full capacity as scheduled by 2011, will generate an annual revenue of R$ 500 million. The grain plant will produce 60 thousand tons/month. This enterprise will receive total investments of R$ 650 million up to 2010, of which R$ 400 million will be supplied by the Company and R$ 250 million by third parties.

Another investment announced by Sadia, this one in July, will be made in Campo Verde, State of Mato Grosso, in a new production unit including a poultry slaughterhouse, a feed plant, a hatchery and integrated system farms. This unit will have a slaughtering capacity of 500 thousand heads/day and will produce 80 thousand tons/month of animal feed. When operating at full capacity, by 2011, it will generate an estimated annual revenue of R$780 million. Out of the total production, 60% will be destined to the foreign market. The estimated total investment is R$ 630 million, to start as of 2009, of which R$ 400 million will come from the Company and R$ 230 million from third parties.

OUTLOOK

The investment plan for 2008 includes the amount of R$ 1.6 billion, to be distributed as follows: R$ 556 million to processed products, R$ 558 million to Lucas do Rio Verde (poultry slaughtering will start by the beginning of the second half of the year and pork slaughtering by the end of 2008), R$ 70 million to the beef segment, R$ 150 million to breedstock, R$ 60 million to Pernambuco distribution center and the remaining R$ 206 million in various expansion and enlargement projects, IT and infrastructure.

For 2008, Sadia estimates an evolution between 12% to 14% in total physical sales compared to 2007 and EBITDA margin between 11% and 12%.

The Company intends to continue investing firmly in innovative projects that leverage the strength of its brand with a focus on its core business, which is the production of processed meat products to the domestic and foreign markets.

CAPITAL MARKETS

São Paulo Stock Exchange

The Company s preferred shares are part of the theoretical portfolio of the São Paulo Stock Exchange (Ibovespa). This portfolio lists 64 securities and, for the four-month period of May-August/08, the relative weight of Sadia in the index increased from 0.98% in the prior four-month period to 1.00%.

Sadia preferred shares [Sdia4] had an accumulated appreciation of 26.5% in the last 12 months (up to June 30, 2008) while the variation of Ibovespa in the period was 19.5%.

The average daily volume grew 111.3% in the 2Q08, reaching the mark of R$ 36.9 million, compared to R$17.5 million in the 2Q07.

Sadia preferred shares are distributed among the various categories of Bovespa investors and a highlight is the steady number of foreign investors.

BREAKDOWN BY TYPE OF INVESTOR   BOVESPA

(JUNE 2008)

New York Stock Exchange

In the last 12 months (06/30/07 to 06/30/08), Sadia Level II ADRs [SDA] appreciated by 52.3% in U.S. dollars, while the Dow Jones Index depreciated by 15.4% in the period. The average daily volume grew 270.5%, to US$ 15.1 million, corresponding to 26.7% of the total securities traded with Sadia PN in the 2Q08.

Latibex

The average daily volume in the 2Q08 was € 626.2 thousand, 69.9% higher than the average volume recorded in the 2Q07 and, in the last 12 months, stock appreciated by 30.1%.

MARKET DATA - BOVESPA	2Q07	2Q08	2Q08/2Q07
Sadia Common Shares / SDIA3 - thousands (Free Float = 43,6%)	257,000	257,000	
Sadia Preferred Shares / SDIA4 - thousands (Free Float = 91,9%)	426,000	426,000	
Total Outstanding Shares - thousands* (Float = 73,5%)	**683,000**	**683,000**	
Closing Price - R$/share SDIA3	9.37	11.31	20.7%
Closing Price - R$/share SDIA4	**8.98**	**11.36**	**26.5%**
Mkt, Capitalization - R$ millions	**6,133.3**	**7,758.9**	**26.5%**
Volume of Shares Traded - thousand	**120,531**	**190,164**	**57.8%**
Daily Average Volume of Shares Traded - thousand	1,944	3,067	
Financial Volume Traded - R$ million	**1,083.1**	**2,289.2**	**111.4%**
Daily Average Financial Volume Traded - R$ million	17.5	36.9	
MARKET DATA - NYSE	2Q07	2Q08	2Q07/2Q07
Total Outstanting ADR´s - thousands (1)	**7,256**	**38,068**	**424.6%**
Participations in Trading Sessions	100%	100%	
Closing Prices - US$/ADR (1)	**14,01**	**21.34**	**52.3%**
Mkt, Capitalization - US$ millions(1)	**338.9**	**812.4**	**139.7%**
Volume of Shares Traded (1)	**5,691,200**	**43,520,741**	**664.7%**
Daily Average Volume of Shares Traded (1)	90,337	669,550	
Financial Volume Traded - US$ thousand	**256,475**	**965,309**	**276.4%**
Daily Average Financial Volume Traded - US$ thousand	4,071.0	14,850.9	

(1) The ratio was altered from 10 preferred shares per ADS to 3 Preferred Shares per ADS
Souces: Sadia, Bovespa and NYSE

The 20-F Report is available at the following address: http://ri.sadia.com.br and is supplied upon request, free of charge.

Events of July 31 (Thursday)

International: Conference Call
Time: 09:00 a.m. (Eastern time) / 10:00 a.m. (Brasília)
Telephone numbers for connection:
Brazil: (11) 4688-6301
USA: (1 800) 860-2442
Other countries: (1 412) 858-4600

Brazil: Meeting with Investment Professionals and Analysts
Time: Cocktail 04:30 p.m. (Eastern time) / 05:30 p.m. (Brasília);
Time: Beginning of Presentation 05:00 p.m. (Eastern time) / 06:00 p.m. (Brasilia)
Place: Radisson Hotel, Av. Cidade Jardim, 625 – Itaim – São Paulo

The audio of the meeting and of the conference call will be broadcast live over the Internet, accompanied by a slide presentation at the website: **www.sadia.com.br**

The forward-looking statements on the business outlook, projections of operating and financial results, and the potential growth of the Company contained in this publication are mere predictions and were based on Management's expectations in relation to the future of the Company. These expectations are highly dependent on markets changes, on the overall economic performance of Brazil, on the industry and on the international markets, being therefore subject to change.

ATTACHMENT I

INCOME STATEMENT - CONSOLIDATED

	1S07		1S08		1S08/ 1S07	2Q07		2Q08		2Q08/ 2Q07
	R$ '000	%	R$ '000	%	%	R$ '000	%	R$ '000	%	%
Gross Operating Revenue	**4,470,858**	**114.3%**	**5,521,676**	**113.3%**	**23.5%**	**2,307,790**	**114.3%**	**2,918,615**	**112.9%**	**26.5%**
Domestic Market	2,382,402	60.9%	2,894,579	59.4%	21.5%	1,218,928	60.4%	1,507,072	58.3%	23.6%
Export Market	2,088,456	53.4%	2,627,097	53.9%	25.8%	1,088,862	53.9%	1,411,543	54.6%	29.6%
(-) Sales Tax and Services Rendered	(558,193)	-14.3%	(646,401)	-13.3%	15.8%	(289,194)	-14.3%	(333,647)	-12.9%	15.4%
Net Operating Revenue	**3,912,665**	**100.0%**	**4,875,275**	**100.0%**	**24.6%**	**2,018,596**	**100.0%**	**2,584,968**	**100.0%**	**28.1%**
Cost of Goods Sold and Services Rendered	(2,904,537)	-74.2%	(3,704,920)	-76.0%	27.6%	(1,498,903)	-74.3%	(1,968,687)	-76.2%	31.3%
Gross Profit	**1,008,128**	**25.8%**	**1,170,355**	**24.0%**	**16.1%**	**519,693**	**25.7%**	**616,281**	**23.8%**	**18.6%**
Selling Expenses	(669,617)	-17.1%	(757,794)	-15.5%	13.2%	(351,721)	-17.4%	(402,349)	-15.6%	14.4%
Management Compensation	(7,636)	-0.2%	(9,333)	-0.2%	22.2%	(3,811)	-0.2%	(4,802)	-0.2%	26.0%
Administrative Expenses	(35,101)	-0.9%	(57,353)	-1.2%	63.4%	(20,042)	-1.0%	(30,495)	-1.2%	52.2%
Employees Profit Sharing	(11,986)	-0.3%	(43,539)	-0.9%	263.2%	(5,964)	-0.3%	(20,426)	-0.8%	242.5%
Others Operating Results	(1,240)	0.0%	2,320	0.0%	-287.1%	(6,136)	-0.3%	(9,985)	-0.4%	62.7%
Earnings Before Interest and Taxes	**282,548**	**7.2%**	**304,656**	**6.2%**	**7.8%**	**132,019**	**6.5%**	**148,224**	**5.7%**	**12.3%**
Financial Result. Net	(3,777)	-0.1%	24,582	0.5%	-750.8%	2,667	0.1%	(12,174)	-0.5%	-556.5%
Operating Profit	**278,771**	**7.1%**	**329,238**	**6.8%**	**18.1%**	**134,686**	**6.7%**	**136,050**	**5.3%**	**1.0%**
Nonoperating Income (expense)	2,521	0.1%	(9,282)	-0.2%	-468.2%	4,032	0.2%	(6,625)	-0.3%	-264.3%
Income Before Taxes	**281,292**	**7.2%**	**319,956**	**6.6%**	**13.7%**	**138,718**	**6.9%**	**129,425**	**5.0%**	**-6.7%**
Income Tax and Social Contribution	(75,743)	-1.9%	14,507	0.3%	-119.2%	(29,314)	-1.5%	(11,100)	-0.4%	-62.1%
Net Income before Minority Interest	**205,549**	**5.3%**	**334,463**	**6.9%**	**62.7%**	**109,404**	**5.4%**	**118,325**	**4.6%**	**8.2%**
Minority Interest	5	0.0%	300	0.0%	5900.0%	(29)	0.0%	(1,587)	-0.1%	5372.4%
Net Income	**205,554**	**5.3%**	**334,763**	**6.9%**	**62.9%**	**109,375**	**5.4%**	**119,912**	**4.6%**	**9.6%**
EBITDA	**460,704**	**11.8%**	**548,385**	**11.3%**	**19.0%**	**229,273**	**11.4%**	**271,450**	**10.5%**	**18.4%**

ATTACHMENT II

BALANCE SHEET - CONSOLIDATED

R$ Thousand

	March 2008	June 2008
ASSETS		
Current Assets	**4,765,061**	**4,668,605**
Cash and Bank	161,759	60,017
Trade Accounts Receivable	427,252	485,480
Recoverable Taxes	574,703	617,867
Inventories	1,488,829	1,621,286
Marketable Securities	2,074,573	1,824,185
Other Credits	37,945	59,770
Non-Current Assets	**4,020,730**	**4,529,491**
Long Term Assets	**549,077**	**696,604**
Marketable Securities	98,953	121,003
Other Credits	450,124	575,601
Permanent	**3,471,653**	**3,832,887**
Investments	104,148	89,330
Property. Plant and Equipment	3,273,104	3,637,974
Deferred Charges	94,401	105,583
Total Assets	**8,785,791**	**9,198,096**
LIABILITIES	**0**	**0**
Current Liabilities	**2,413,219**	**2,555,934**
Loans and Financing	1,135,068	1,044,818
Suppliers	735,472	844,578
Salaries and Social ChargesPayable	164,299	213,005
Taxes Payable	102,636	151,271
Dividends	48,908	88,798
Operating Liabilities	226,836	213,464
Non-Current Assets - Long Term Liabilities	**3,270,194**	**3,471,998**
Loans and Financing	2,951,997	3,149,565
Operating Liabilities	318,197	322,433
Deferred Discount of Investments	**0**	**0**
Minority Interest in Subsidiaries	**29,064**	**22,519**
Shareholder's Equity	**3,073,314**	**3,147,645**
Paid - Up Capital	2,000,000	2,000,000
Income Reserve	1,073,314	1,147,645
Total Liabilities and Equity	**8,785,791**	**9,198,096**

ATTACHMENT III

CASH FLOW STATEMENT

R$ Thousand

	June 2007	June 2008
Net result from the period	**205,549**	**334,463**
Adjusments to reconcile net income to cash generated by operating activities:		
Variation in minority interest	(268)	(11,780)
Accrued interest. net of paid interest	(124,925)	(84,000)
Depreciation. amortization and depletion allowances	145,209	189,709
Goodwill amortization	10,386	10,481
Subvention	10,575	-
Equity in earnings of subsidiareies	(3,026)	980
Exchange variations on foreign investments	92,657	76,214
Deferred taxes	57,802	(22,850)
Contingencies	197	(8,915)
Result from the disposal of permanent assets	1,550	2,095
Variations in operating assets and liabilities:		
Trade accounts receivable	320,133	1,106
Inventories	(90,907)	(452,350)
Recoverable taxes and other	(35,229)	(355,883)
Judicial deposits	(7,623)	(3,000)
Suppliers	(32,307)	250,627
Taxes payable. salaries payable and others	(55,351)	130,609
Net cash generated from operating activities	**494,422**	**57,506**
Investiments activities:		
Funds from the sale of permanent assets	2,790	1,048
Purchase of property. plant and equipment	(352,572)	(952,736)
Acquisition of subsidiary. net cash	-	(40,290)
Short-term investments	(1,489,358)	(1,039,224)
Redemption of investments	1,398,041	1,101,389
Cash applied in investments activities	**(441,099)**	**(929,813)**
Financeing activities:		
Loans and financing	1,399,107	1,182,823
Payment of financing	(1,428,631)	(439,695)
Dividends paid	(57,831)	(130,832)
Sale of treasury shares	463	-
Purchase of treasury shares	(879)	-
Net cash generated from financing activities	**(87,771)**	**612,296**
Cash at beginning of year	234,069	320,028
Cash at end of year	199,621	60,017
Net addition in cash	**(34,448)**	**(260,011)**

ease) in interest receivable (437,531) 599,243 (379,596) Increase in other assets (263,008) (182,263) (1,853,095) Increase (decrease) in accrued expenses and other liabilities (632,637) (937,426) 233,974 ------------- ------------- ------------- Net cash provided by operating activities 2,193,395 2,513,578 1,089,437 ------------- ------------- ------------- Cash flows from investing activities: Proceeds from maturities, calls, and principal repayments of investment securities held to maturity -- -- 1,533,328 Proceeds from maturities, calls, and principal repayments of investment securities available for sale 11,749,795 17,477,907 6,813,946 Proceeds from sales of investment securities available for sale 1,178,070 9,443,336 4,627,751 Purchases of investment securities available for sale (21,124,901) (7,808,314) (13,970,942) Net increase in loans (14,104,003) (8,009,062) (18,070,061) Purchases of premises and equipment, net (1,138,718) (1,513,129) (529,902) Proceeds from sales of other real estate 376,490 -- 72,304 ------------- ------------- ------------- Net cash provided by (used in) investing activities (23,063,267) 9,590,738 (19,523,576) ------------- ------------- ------------- (Continued) F-6 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Consolidated Statements of Cash Flows Years ended December 31, 2002, 2001, and 2000 2002 2001 2000 -------------- -------------- -------------- Cash flows from financing activities: Net (decrease) increase in deposits $ 2,056,146 (11,080,510) 8,381,228 Net (decrease) increase in securities sold under agreements to repurchase (928,786) (1,597,262) 1,731,551 Cash dividends (597,700) (658,080) (601,300) Exercise of stock options 32,000 41,600 89,600 Proceeds from sale of common stock -- -- 44,000 Proceeds from sale of treasury stock 6,963 12,453 19,713 Purchase of treasury stock (397,736) -- -- Proceeds from issuance of guaranteed preferred beneficial interest in junior subordinate debt securities, net debt issuance cost of $151,563 3,972,437 -- -- Advances from FHLB 8,592,011 2,000,000 -- Repayments of advances from FHLB (2,000,000) (1,653,821) (3,898,614) (Decrease) increase in other borrowed funds (126,960) (180,057) 71,044 -------------- -------------- -------------- Net cash (used in) provided by financing activities 10,608,375 (13,115,677) 5,837,222 -------------- -------------- -------------- Net decrease in cash and cash equivalents (10,261,497) (1,011,361) (12,596,917) Cash and cash equivalents, beginning of year 19,348,812 20,360,173 32,957,090 -------------- -------------- -------------- Cash and cash equivalents, end of year $ 9,087,315 19,348,812 20,360,173 ============== ============== ============== Supplemental disclosures: Cash paid during the year for: Interest $ 5,082,436 7,843,008 8,003,132 Income taxes 362,000 864,980 682,305 Noncash transactions: Transfer of loans to other real estate through foreclosure 638,238 72,000 82,539 Transfer of securities from held to maturity to available for sale -- 13,975,608 -- See accompanying notes to consolidated financial statements. F-7 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (a) PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc. (the Corporation) and its wholly owned subsidiary, United Bank (the Bank) collectively referred to as the Company. Significant intercompany balances and transactions have been eliminated in consolidation. (b) CONCENTRATIONS The Company operates primarily in one business segment, commercial banking, in the Southwest Alabama market. As of December 31, 2002 and December 31, 2001, approximately 50% and 53%, respectively, of the company's loans were commercial loans. The bank's commercial customers are primarily small to middle market enterprises. The bank specializes in agricultural loans, of which approximately 19% and 13% of the company's total loans consisted of as of December 31, 2002 and December 31, 2001, respectively. (c) BASIS OF PRESENTATION The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties. Management believes the allowance for losses on loans is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly in Alabama, as substantially all loans are to borrowers within the state. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. (d) CASH EQUIVALENTS The Company considers due from banks and federal funds sold to be cash equivalents. Federal funds are generally sold for one-day periods. (Continued) F-8 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (e) INVESTMENT SECURITIES Investment securities are classified in one of three portfolios: (i) trading account securities, (ii) held to maturity securities, and (iii) securities available for sale. Trading account securities are stated at fair value. Investment securities held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. With regard to investment securities held to maturity, management has the intent and ability to hold such securities until maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings. Interest earned on investment securities is included in interest income. Net gains and losses on the sale of investment securities available for sale, computed on the specific identification method, are shown separately in noninterest income in the consolidated statements of operations. Accretion of discounts and amortization of premiums are calculated on the effective interest method over the anticipated life of the security. A decline in the fair value of any security below amortized cost that is deemed other than temporary is charged to income resulting in the establishment of a new cost basis for the security. (f) LOANS Interest income on loans is credited to earnings based on the principal amount outstanding at the respective rate of interest. Accrual of interest on loans is discontinued when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on nonaccrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are recorded on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest. Management considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Impaired loans are charged to the allowance when such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance. When a loan is considered impaired, cash receipts are applied under the contractual terms of the loan agreement, first to principal and then to interest income. Once the recorded principal balance has been reduced to zero, future cash receipts are recognized as interest income, to the extent that any interest has not been recognized. Any further cash receipts are recorded as recoveries of any amount previously charged off. (Continued) F-9 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For those accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting. (g) ALLOWANCE FOR LOAN LOSSES The ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in economic and market conditions in the geographic area served by the Company and various other factors. Additions to the allowance for loan losses are based on management's evaluation of the loan portfolio under current economic conditions, past loan loss experience and such other factors, which, in management's judgment, deserve recognition in estimating loan losses. Loans are charged-off when, in the opinion of management, such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance. (h) PREMISES AND EQUIPMENT Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using both the double declining-balance method and the straight-line method over the estimated useful lives of the assets. (i) OTHER REAL ESTATE Other real estate represents property acquired through foreclosure or deeded to the Company in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate is carried in other assets at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate at the date of foreclosure are charged to the allowance for loan losses. Subsequent changes in fair value, up to the value established at foreclosure, are recognized as charges or credits to noninterest expense with an offset to the allowance for losses on other real estate. (j) INCOME TAX EXPENSE The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. (Continued) F-10 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (k) STOCK OPTION PLAN The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense is recorded if the current market price on the date of grant of the underlying stock exceeds the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows companies to apply APB No. 25 as long as certain pro forma disclosures are made assuming hypothetical fair value method application. Had compensation expense for the Company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended December 31, 2002, 2001, and 2000 would have been impacted as shown in the following table: 2002 2001 2000 --------------- --------------- --------------- Reported net earnings $ 2,034,892 2,069,570 2,046,571 Compensation expense, net of taxes 24,243 11,270 11,271 Pro forma net earnings 2,010,649 2,058,300 2,035,300 Reported basic earnings per share 1.86 1.89 1.87 Proforma basic earnings per share 1.84 1.88 1.86 Reported diluted earnings per share 1.81 1.87 1.86 Pro forma diluted earnings per share 1.79 1.86 1.85 The fair value of options granted, which is amortized to expense over the option vesting period in determining the pro forma impact, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: 2002 2001 2000 ------------- ------------- ------------- Expected life of option 5 yrs 10 yrs 10 yrs Risk-free interest rate 2.89% 3.50% 4.15% Expected volatility of Company stock 12.09% 12.00% 12.70% Expected dividend yield of Company stock 2.24% 2.84% 1.67% The weighted average fair value of options granted during 2002, 2001, and 2000 is as follows: 2002 2001 2000 ------------- ------------- ------------- Fair value of each option granted $ 5.99 5.29 7.54 (Continued) F-11 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (l) EARNINGS PER SHARE Basic and diluted earnings per share are computed on the weighted average number of shares outstanding in accordance with SFAS No. 128, Earnings Per Share. (m) BUSINESS SEGMENTS SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the disclosures made by public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company operates in only one segment - commercial banking. (n) RECENT ACCOUNTING PRONOUNCEMENTS In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company is required to adopt the provision of SFAS No. 141 effective immediately and SFAS No. 142 effective January 1, 2002. The Company does not currently have any goodwill capitalized on its balance sheet. Accordingly, the adoption of these statements did not have an impact on the consolidated financial statements of the Company. In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes both SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30, Reporting and Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions (Opinion No. 30), for the disposal of a segment of a business (as previously defined in that Opinion).

SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used, as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will not result in a write-down of goodwill. Rather, goodwill is (Continued) F-12 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 evaluated for impairment under SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of this statement by the Company did not have a material effect on the consolidated financial statements. In October 2002, the FASB issued SFAS 147, which removes certain acquisitions of financial institutions (other than transactions between two or more mutual enterprises) from the scope of SFAS 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions and FASB Interpretation 9, Applying APB Opinions 16 and 17 When a Savings and Loan or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method. These types of transactions are now accounted for under SFAS 141 and 142. In addition, this Statement amends SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer relationship intangible assets of financial institutions. The provisions of this Statement were effective October 1, 2002, with earlier adoption permitted. The adoption of this statement did not have a material impact on its consolidated financial statements. In December 2002, the FASB issued SFAS 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Finally, this Statement amends APB Opinion 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. This Statement is effective for fiscal and interim periods ending after December 15, 2002. The adoption of this statement did not have a material impact to the Consolidated Financial Statements. In November 2002, the FASB issued FIN 45, which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applied prospectively to guarantees issued or modified after December 31, 2002. The adoption of these recognition provisions will result in recording liabilities associated with certain guarantees provided by the Company. These currently include standby letters of credit and first-loss guarantees on securitizations. The disclosure requirements of this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements. Management does not expect this Interpretation to have a material impact to the Consolidated Financial Statements. In January 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin (ARB) 51, Consolidated Financial Statements, to certain entities (called variable interest entities) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of this Interpretation are effective for all financial statements issued after January 31, 2003. The consolidation (Continued) F-13 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 requirements apply to all variable interest entities created after January 31, 2003. In addition, public companies must apply the consolidation requirements to variable interest entities that existed prior to February 1, 2003 and remain in existence as of the beginning of annual or interim periods beginning after June 15, 2003. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements. Management does not expect this Interpretation to have a material impact to the Consolidated Financial Statements. (2) CASH AND DUE FROM BANKS The Corporation's subsidiary bank is required by the Federal Reserve Bank to maintain daily cash balances. These balances were $2,110,000 and $1,052,000 at December 31, 2002 and 2001, respectively. (3) INVESTMENT SECURITIES The amortized cost and fair value of investment securities available for sale at December 31, 2002 and 2001 were as follows: GROSS GROSS AMORTIZED UNREALIZED UNREALIZED FAIR COST GAINS LOSSES VALUE ------------- ------------- ------------- ------------- 2002: U.S. Treasury $ 1,517,846 10,301 -- 1,528,147 U.S. government agencies, excluding mortgage-backed securities 1,500,000 5,188 (7,290) 1,497,898 State and political subdivisions 21,026,192 754,921 (60,175) 21,720,938 Mortgage-backed securities 24,878,984 652,746 (64,361) 25,467,369 Corporate notes and other 491,139 37,424 -- 528,563 ------------- ------------- ------------- ------------- $ 49,414,161 1,460,580 (131,826) 50,742,915 ============= ============= ============= ============= 2001: U.S. Treasury $ 1,506,392 37,828 -- 1,544,220 U.S. government agencies, excluding mortgage-backed securities 2,087,767 85,068 (23,220) 2,149,615 State and political subdivisions 18,532,023 248,324 (135,173) 18,645,174 Mortgage-backed securities 18,049,489 272,639 (38,285) 18,283,843 Corporate notes and other 991,821 16,166 (15,247) 992,740 ------------- ------------- ------------- ------------- $ 41,167,492 660,025 (211,925) 41,615,592 ============= ============= ============= ============= (Continued) F-14 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 The amortized cost and fair value of investment securities available for sale at December 31, 2002, categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. AMORTIZED FAIR COST VALUE ------------- ------------- Investment securities available for sale: Due in one year or less $ 1,810,112 1,817,482 Due after one year through five years 3,584,240 3,711,158 Due after five years through ten years 7,407,834 7,744,108 Due after ten years 11,732,991 12,002,798 ------------- ------------- Subtotal 24,535,177 25,275,546 Mortgage-backed securities 24,878,984 25,467,369 ------------- ------------- Total $ 49,414,161 50,742,915 ============= ============= Gross gains of $78,967 and gross losses of $1,972 were realized on those sales of investment securities available for sale in 2002. Gross gains of $225,376 and gross losses of $52,162 were realized on those sales of investment securities available for sale in 2001. Gross gains of $40,041 and gross losses of $5,316 were realized on those sales of investment securities available for sale in 2000. Securities with carrying values of $31,162,178 and $30,112,910 at December 31, 2002 and 2001, respectively, were pledged to secure public and trust deposits as required by law and for other purposes. (4) LOANS AND ALLOWANCE FOR LOAN LOSSES At December 31, 2002 and 2001, the composition of the loan portfolio was as follows: 2002 2001 ------------- ------------- Commercial and financial $ 80,446,596 78,792,276 Agricultural 30,983,309 19,089,172 Real estate - construction 8,295,383 7,377,897 Real estate - 1-4 family residential mortgage 27,784,873 27,233,771 Installment loans to individuals 14,926,017 16,552,493 ------------- ------------- Total $ 162,436,178 149,045,609 ============= ============= At December 31, 2002, the Corporation had $30,983,000 of agriculture related loans as compared to $19,089,172 and 414,871,440 in 2001 and 2000, respectively. Agriculture loans accounted for $0, $0, and $75106 of nonaccural loans in 2002, 2001, and 2000, respectively. (Continued) F-15 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 A summary of the transactions in the allowance for loan losses for the years ended December 31, 2002, 2001, and 2000 follows: 2002 2001 2000 ------------- ------------- ------------- Balance at beginning of year $ 1,993,245 1,939,307 1,676,274 Provision charged to earnings 837,000 480,000 475,000 Less loans charged-off (765,505) (479,901) (252,430) Plus loan recoveries 52,071 53,839 40,463 ------------- ------------- ------------- Net charge-offs (713,434) (426,062) (211,967) ------------- ------------- ------------- Balance at end of year $ 2,116,811 1,993,245 1,939,307 ============= ============= ============= Loans on which the accrual of interest had been discontinued or reduced amounted to $1,166,919 and $2,184,316 as of December 31, 2002 and 2001, respectively. If these loans had been current throughout their terms, interest income would have been increased by $29,967, $123,443, and $48,630, for 2002, 2001, and 2000, respectively. At December 31, 2000, the Company had impaired loans of $72,811. At December 31, 2002 and 2001, the Company had no significant impaired loans. During 2002 and 2001, certain executive officers and directors of the Corporation and its subsidiary, including their immediate families and companies with which they are associated, were loan customers of the Bank. Total loans outstanding to these related parties at December 31, 2002 and 2001, amounted to $7,185,629 and $5,874,226, respectively. The change from December 31, 2001 to December 31, 2002 reflects advances amounting to $2,660,708 and payments of $1,349,305 made during the year. Such loans are made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal credit risk. (5) Premises and Equipment At December 31, 2002 and 2001, premises and equipment were as follows: 2002 2001 ------------- ------------- Land $

1,698,651 1,072,612 Buildings and leasehold improvements (depreciated over 5 to 50 years) 4,756,867 4,433,492 Furniture, fixtures, and equipment (depreciated over 3 to 10 years) 4,071,617 3,885,957 Automobiles (depreciated over 3 years) 133,475 133,475 ------------- ------------- 10,660,610 9,525,536 Less accumulated depreciation 4,349,559 3,624,504 ------------- ------------- $ 6,311,051 5,901,032 ============= ============= (Continued) F-16 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 Depreciation expense for the year ended December 31, 2002, 2001, and 2000 was $728,699, $610,438, and $511,545, respectively. (6) DEPOSITS At December 31, 2002 and 2001, deposits were as follows: 2002 2001 ------------- ------------- Noninterest bearing accounts $ 35,939,396 33,406,633 NOW accounts 18,336,858 19,274,192 Money market investment accounts 8,508,315 7,218,784 Savings account 16,961,888 15,016,012 Time deposits: Certificates of deposit less than $100,000 73,507,943 70,864,115 Certificates of deposit greater than $100,000 29,310,915 34,729,433 ------------- ------------- Total deposits $ 182,565,315 180,509,169 ============= ============= At December 31, 2002, 2001, and 2000 interest expense on deposits was as follows: 2002 2001 2000 ------------- ------------- ------------- NOW accounts $ 308,699 667,566 1,670,355 Money market investment accounts 109,583 108,637 131,752 Savings account 143,988 288,203 370,895 Time deposits: Certificates of deposit less than $100,000 2,403,927 3,771,353 3,628,686 Certificates of deposit greater than $100,000 1,041,401 1,803,181 1,624,292 ------------- ------------- ------------- Total interest expense on deposits $ 4,007,598 6,638,940 7,425,980 ============= ============= ============= At December 31, 2002, the contractual maturities of time deposits are as follows: Due in one year $ 83,013,829 Due in two years 9,414,139 Due in three years 5,086,194 Due in four years 1,061,163 Due in five years 4,089,095 Thereafter 154,438 -------------- $ 102,818,858 ============== (Continued) F-17 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (7) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE The maximum amount of outstanding securities sold under agreements to repurchase during 2002 and 2001 was $15,503,292 and $15,815,554, respectively. The weighted average borrowing rate at December 31, 2002 and 2001 was 0.77% and 1.00%, respectively. The average amount of outstanding securities sold under agreements to repurchase during 2002 and 2001 was $10,753,068 and $11,612,232, respectively. The weighted average borrowing rate during the years ended December 31, 2002 and 2001 was 4.70% and 3.15%, respectively. Securities underlying these agreements are under the Company's control. (8) BORROWED FUNDS The Company was liable to the Federal Home Loan Bank of Atlanta on the following advances at December 31, 2002: MATURITY DATE INTEREST RATE --------------- -------------- March 2003 1.97% $ 500,000 September 2003 1.30% 1,300,000 March 2004 2.35% 1,500,000 September 2004 2.53% 1,000,000 June 2006 7.19% 60,305 September 2007 2.82% 5,000,000 March 2011 4.22% 2,000,000 May 2012 7.41% 111,467 July 2017 6.93% 975,000 August 2017 6.84% 160,775 July 2020 7.54% 219,791 --------------- Total (weighted average rate of 3.305%) $ 12,827,338 =============== At December 31, 2002 and 2001, the advances were collateralized by a blanket pledge of first-mortgage residential loans in the amount of $27,784,873 and $27,233,771, respectively. (9) INCOME TAXES Total income tax expense (benefit) for the years ended December 31, 2002, 2001, and 2000 was allocated as follows: 2002 2001 2000 ----------- ----------- ----------- Income from continuing operations $ 602,846 643,470 669,696 Stockholders' equity, for other comprehensive income $ 352,262 175,994 542,360 (Continued) F-18 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 The components of income tax expense attributable to income from continuing operations for the years ended December 31, 2002, 2001, and 2000 were as follows: 2002 2001 2000 ------------- ------------- ------------- Current: Federal $ 529,675 580,936 599,579 State 97,557 56,526 115,388 ------------- ------------- ------------- Total 627,232 637,462 714,967 ------------- ------------- ------------- Deferred: Federal (21,395) 7,866 (40,280) State (2,991) (1,858) (4,991) ------------- ------------- ------------- Total (24,386) 6,008 (45,271) ------------- ------------- ------------- Total income tax expense $ 602,846 643,470 669,696 ============= ============= ============= Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 34% to pretax earnings as follows: 2002 2001 2000 ------------- ------------- ------------- Income tax at statutory rate $ 896,832 922,434 923,531 Increase (decrease) resulting from: Tax exempt interest (318,970) (342,371) (406,384) Interest disallowance 27,090 46,908 60,867 Deferred compensation 2,380 10,077 12,186 State income tax net of federal benefit 62,414 36,081 72,862 Premium amortization on tax exempt investment securities 4,352 8,722 21,382 Cash surrendered value of life insurance (39,677) (34,962) -- Other, net (31,575) (3,419) (14,748) ------------- ------------- ------------- $ 602,846 643,470 669,696 ============= ============= =============

(Continued) F-19 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are as follows: 2002 2001 ------------- ------------- Deferred tax assets: Loans, principally due to the allowance for loan losses $ 492,274 448,241 Other real estate, principally due to differences in carrying value 81,961 20,925 Accrued expenses 19,579 31,384 Security writedown 4,427 4,427 Other 179 42 ------------- ------------- Total deferred tax assets 598,420 505,019 ============= ============= Deferred tax liabilities: Premises and equipment, principally due to difference in depreciation 231,062 172,860 Investment securities available for sale 531,498 179,237 Discount accretion 51,277 40,468 Other 550 546 ------------- ------------- Total deferred tax liabilities 814,387 393,111 ------------- ------------- Net deferred tax asset (liability) $ (215,967) 111,908 ============= ============= In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. (Continued) F-20 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (10) STOCK OPTION PLAN The United Bancorporation of Alabama, Inc. 1998 Stock Option Plan (the Plan) provides for the grant of options to officers, directors, and employees of the Corporation to purchase up to an aggregate of 77,000 shares of Class A Stock. The changes in outstanding options are as follows: WEIGHTED AVERAGE SHARES UNDER EXERCISE PRICE OPTION PER SHARE ------------- ------------- Balance at December 31, 1999 41,560 $ 18.01 Granted 4,080 31.30 Surrendered -- -- Exercised (5,600) 16.00 ------------- Balance at December 31, 2000 40,040 19.65 Granted 4,080 32.50 Surrendered -- -- Exercised (2,600) 16.00 ------------- Balance at December 31, 2001 41,520 21.14 Granted 22,080 31.50 Surrendered (5,000) 31.50 Exercised (2,000) 16.00 ------------- Balance at December 31, 2002 56,600 24.57 ============= (Continued) F-21 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 Stock options outstanding and exercisable on December 31, 2002 and 2001 were as follows: 2002 -- WEIGHTED AVERAGE REMAINING SHARES UNDER CONTRACTUAL EXERCISE PRICE PER SHARE OPTION LIFE IN YEARS ------------------------------------ -------------- -------------- Outstanding: $ 16.00 23,200 6.0 22.50 4,080 6.0 25.74 4,080 7.0 31.30 4,080 8.0 31.50 17,080 10.0 32.50 4,080 9.0 -------------- 56,600 =============== Exercisable: $ 16.00 23,200 6.0 22.50 4,080 6.0 25.74 3,264 7.0 31.30 2,448 8.0 31.50 1,016 10.0 32.50 1,632 9.0 -------------- 35,640 =============== (Continued) F-22 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 2001 -- WEIGHTED AVERAGE REMAINING SHARES UNDER CONTRACTUAL EXERCISE PRICE PER SHARE OPTION LIFE IN YEARS -- ------------- ------------ Outstanding: $ 16.00 25,200 7.0 22.50 4,080 7.0 25.74 4,080 8.0 31.30 4,080 9.0 32.50 4,080 10.0 ------------- 16.00 - 32.50 41,520 7.6 ============= Exercisable: $ 16.00 25,200 7.0 22.50 3,264 7.0 25.74 2,448 8.0 31.30 1,632 9.0 32.50 816 10.0 ------------- 16.00 - 32.50 33,360 7.6 ============= (11) NET INCOME PER SHARE Presented below is a summary of the components used to calculate diluted earnings per share for the years ended December 31, 2002, 2001, and 2000: 2002 2001 2000 ------------- ------------- ------------- Diluted earnings per share: Weighted average common shares outstanding 1,092,586 1,095,706 1,091,538 Effect of the assumed exercise of stock options-based on the treasury stock method using average market price 30,644 12,924 9,164 ------------- ------------- ------------- Total weighted average common shares and potential common stock outstanding 1,123,230 1,108,630 1,100,702 ============= ============= ============= (Continued) F-23 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (12) EMPLOYEE BENEFIT PLANS The Company adopted a 401(k) employee incentive savings plan effective January 1, 1988. Employees become eligible after completing six months of service and attaining age 20.5. They can contribute a minimum of 1% up to 10% of salary to the plan. The Company contributes twenty-five cents for each dollar the employee contributes, up to 4% of the employee's salary. Total Company contributions to the plan during 2002, 2001, and 2000 were

$31,189, $28,829, and $24,249, respectively. The Company also maintains a profit-sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Annual profit sharing contributions of $114,000, $110,600, and $82,000 were made in 2002, 2001, and 2000, respectively. (13) FAIR VALUE OF FINANCIAL INSTRUMENTS The assumptions used in estimating the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments: (A) CASH, CASH EQUIVALENTS, AND INTEREST EARNING DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS Fair value approximates the carrying value of such assets. (B) INVESTMENT SECURITIES The fair value of investment securities is based on quoted market prices. (C) LOANS The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Company's historical experience with repayments adjusted to estimate the effect of current market conditions. The carrying amount of accrued interest approximates its fair value. (D) DEPOSITS The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities. (Continued) F-24 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. (e) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE Due to their short-term nature, the fair value of securities sold under agreements to repurchase approximates their carrying value. (f) FHLB AND OTHER BORROWED FUNDS The fair value of the Company's other borrowed funds approximates the carrying value of such liabilities. The fair value of FHLB advances is based on current borrowing rates. (g) COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value. The carrying value and estimated fair value of the Company's financial instruments at December 31, 2002 and 2001 are as follows (in thousands): 2002 2001 ---------------------------- ---------------------------- CARRYING ESTIMATED CARRYING ESTIMATED AMOUNT FAIR VALUE AMOUNT FAIR VALUE ------------- ------------- ------------- ------------- Financial assets: Cash and short-term investments $ 9,087 9,087 19,348 19,348 Investment securities 50,743 50,743 41,615 41,615 Loans, net of unearned income and allowance for loan losses 160,319 163,681 147,052 151,823 Financial liabilities: Deposits 182,565 183,805 180,509 181,433 Securities sold under agreements to repurchase 8,141 8,141 9,069 9,069 Other borrowed funds 289 289 416 416 FHLB advances 12,827 13,486 6,235 6,885 (Continued) F-25 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (14) DIVIDENDS FROM SUBSIDIARY Dividends paid by the subsidiary bank are the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary bank. In addition, the subsidiary bank is also required to maintain minimum amounts of capital to total "risk-weighted" assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary bank. At December 31, 2002, the Bank could have declared dividends of approximately $4,293,593 without prior approval of regulatory authorities. (15) COMPREHENSIVE INCOME The following is a summary of the components of other comprehensive income: YEAR ENDED DECEMBER 31 --- 2002 2001 2000 ------------- ------------- ------------- Other comprehensive income before tax: Unrealized holding gains arising during the period, net $ 957,649 613,205 1,390,551 Less reclassification adjustment for gains included in net earnings 76,995 173,214 34,725 -------------

------------- ------------- Other comprehensive income, before income taxes 880,654 439,991 1,355,826 ------------- ------------- ------------- Income tax expense related to other comprehensive income: Unrealized holding gains arising during the period, net 383,060 245,280 556,250 Less reclassification adjustment for gains included in net income 30,798 69,286 13,890 ------------- ------------- ------------- Total income tax expense related to other comprehensive income comprehensive income 352,262 175,994 542,360 ------------- ------------- ------------- Other comprehensive income, after taxes $ 528,392 263,997 813,466 ============= ============= ============= (Continued) F-26 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (16) LITIGATION The Company is involved in various legal proceedings arising in connection with their business. In the opinion of management, based upon consultation with legal counsel, the ultimate resolution of these proceedings is not expected to have a material adverse effect upon the financial statements of the Company. (17) COMMITMENTS The Company leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. Future minimum rental payments required under operating leases, which have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2002, are as follows: Years ending December 31: 2003 $ 95,125 2004 89,746 2005 78,540 2006 44,790 2007 30,790 Thereafter 68,132 ------------- $ 407,123 ============= Rental expense for all operating leases charged to earnings aggregated $108,463, $105,625, and $92,175 for the years ended December 31, 2002, 2001, and 2000, respectively. The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Such instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual amount of these instruments. The Company uses the same credit policies in making conditional obligations as it does for on-balance-sheet instruments. The financial instruments whose contract amounts represent credit risk as of December 31, 2002, are as follows: Commitments to extend credit $ 14,205,000 Standby letters of credit 2,431,500 (Continued) F-27 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 Standby letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. (18) OTHER NONINTEREST INCOME AND EXPENSE Components of other noninterest expense exceeding 1% of the total of interest income and other income for any of the years ended December 31, 2002, 2001, and 2000, respectively, include the following: 2002 2001 2000 ------------- ------------- ------------- Data processing fees $ 34,956 247,584 297,320 Supplies expenses 272,756 214,006 279,544 (19) REGULATORY MATTERS The Corporation and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework of prompt corrective action, the Corporation and its subsidiary bank must meet specific capital guidelines that involve quantitative measures of each bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Corporation and its subsidiary bank are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Corporation and its subsidiary bank to maintain minimum core capital (Tier I Capital) of at least 4% of risk-weighted assets, minimum total capital (Total Qualifying Capital) of at least 8% of risk-weighted assets and a minimum leverage ratio of at least 4% of average assets. Management believes, as of December 31, 2002, that the Corporation and its subsidiary bank meet all capital adequacy requirements to which they are subject. (Continued) F-28 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to

Financial Statements December 31, 2002, 2001, and 2000 As of December 31, 2002, the most recent notification from the appropriate regulatory agencies categorized the subsidiary bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the subsidiary banks must maintain minimum Total Qualifying Capital, Tier I Capital, and leverage ratios of at least 10%, 6%, and 5%, respectively. There are no conditions or events since that notification that management believes have changed the subsidiary bank's category. The following table presents the actual capital amounts and ratios of the Corporation and its significant subsidiary banks at December 31, 2002 and 2001: TOTAL QUALIFYING CAPITAL TIER I CAPITAL LEVERAGE ------------------------ ------------------------ ------------------------ AMOUNT RATIO AMOUNT RATIO AMOUNT RATIO ----------- ----------- ----------- ----------- ----------- ----------- As of December 31, 2002: Consolidated $ 28,897 16.16% $ 26,781 14.98% $ 26,781 11.75% United Bank 24,640 13.92% 22,523 12.73% 22,523 9.69% As of December 31, 2001: Consolidated $ 23,570 14.52% $ 21,577 13.31% $ 21,577 9.88% United Bank 22,564 13.84% 20,571 12.62% 20,571 9.46% (Continued) F-29 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (20) PARENT COMPANY FINANCIAL INFORMATION The condensed financial information for United Bancorporation of Alabama, Inc. (Parent Company Only) follows: (Parent Company Only) Condensed Balance Sheet Information December 31, 2002 and 2001 ASSETS 2002 2001 ------------- ------------- Cash $ 2,630,235 175,156 Dividend receivable from subsidiary bank -- 384,055 Premises and equipment 1,689,351 840,588 Investment in subsidiaries 23,447,861 20,840,844 ------------- ------------- Total assets $ 27,767,447 22,240,643 ============= ============= LIABILITIES AND STOCKHOLDERS' EQUITY Other liabilities $ 341,706 394,150 Guarantee preferred beneficial interest in junior subordinate debt securities, net of debt issuance costs of $151,563 3,972,437 -- ------------- ------------- Total liabilities 4,314,143 394,150 Stockholders' equity: Class A common stock of $0.01 par value. Authorized 5,000,000 shares; issued 1,161,481 and 1,159,481 shares in 2002 and 2001, respectively 11,615 11,595 Class B common stock of $0.01 par value. Authorized 250,000 shares; no shares issued -- -- Preferred stock of $.01 par value. Authorized 250,000 shares; no shares issued -- -- Additional paid in capital 5,092,727 5,056,304 Retained earnings 18,398,823 16,961,631 Accumulated other comprehensive income, net of tax 797,255 268,863 ------------- ------------- 24,300,420 22,298,393 Less: 74,759 and 62,181 treasury shares at cost in 2002 and 2001, respectively 847,116 451,900 ------------- ------------- Total stockholders' equity 23,453,304 21,846,493 ------------- ------------- Total liabilities and stockholders' equity $ 27,767,447 22,240,643 ============= ============= (Continued) F-30 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (Parent Company Only) Condensed Statements of Operations Information Years ended December 31, 2002, 2001, and 2000 2002 2001 2000 ------------- ------------- ------------- Income: Cash dividends from subsidiary $ 271,684 659,055 766,000 Other 40,200 43,550 36,850 Expense: Salaries and benefits -- 12,480 80,760 Interest on other borrowed funds 116,518 -- -- Other 115,099 90,794 130,413 ------------- ------------- ------------- Earnings before equity in undistributed earnings of subsidiary 80,267 599,331 591,677 Equity in undistributed earnings of subsidiary 1,954,625 1,470,239 1,454,894 ------------- ------------- ------------- Net earnings $ 2,034,892 2,069,570 2,046,571 ============= ============= ============= (Continued) F-31 UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARY Notes to Financial Statements December 31, 2002, 2001, and 2000 (Parent Company Only) Condensed Statements of Cash Flows Information Years ended December 31, 2002, 2001, and 2000 2002 2001 2000 ------------- ------------- ------------- Cash flows from operating activities: Net earnings $ 2,034,892 2,069,570 2,046,571 Adjustments to reconcile net earnings to net cash provided by operating activities: Equity in undistributed earnings of subsidiary (1,954,625) (1,470,239) (1,454,894) Compensation expense arising from stock option awards -- 12,480 45,760 Increase (decrease) in other liabilities (52,444) 48,636 8,734 Decrease (increase) in receivables 384,055 32,195 (328,000) ------------- ------------- ------------- Net cash provided by operating activities 411,878 692,642 318,171 ------------- ------------- ------------- Cash flows from investing activities: Purchases of premises and equipment, net (848,763) (5,416) (204,316) Capital investment in subsidiary (124,000) -- -- ------------- ------------- ------------- Net cash used in investing activities (972,763) (5,416) (204,316) ------------- ------------- ------------- Cash flows from financing activities: Cash dividends (597,700) (658,080) (601,300) Proceeds from private placement 3,972,437 -- 44,000 Purchase of treasury stock (397,736) -- -- Proceeds from sale of treasury stock 6,963 12,453 19,713 Exercise of stock options 32,000 41,600 89,600 ------------- ------------- ------------- Net cash provided by (used in) financial activities 3,015,964 (604,027) (447,987) ------------- ------------- ------------- Net increase (decrease) in cash 2,455,079 83,199 (334,132) Cash, beginning of year 175,156

91,957 426,089 ------------- ------------- ------------- Cash, end of year $ 2,630,235 175,156 91,957 ============= ============ ============ F-32 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE Not applicable PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2003 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. ITEM 11. EXECUTIVE COMPENSATION The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2003 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2002 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2002 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2001 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. ITEM 14. Controls and Procedures (a). Based on evaluation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-4(C) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of a date within 90 days of the filing of this annual report, the principal executive officer and the principal financial officer of the Corporation have concluded that as of such date the Corporation's disclosure controls and procedures were effective to ensure that information the Corporation is required to disclose in its filings under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by the Corporation in the reports that it files under the Exchange Act is accumulated and communicated to the Corporation's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. (b). There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to in (a)above. PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (a) (1) The financial statements listed in the Index to Financial Statements contained in Item 8 hereof are filed as part of this Annual Report on Form 10-K. (2) Financial statement schedules have been omitted as inapplicable. (3) The Exhibits listed below are filed as part of this Report. Management contracts and compensatory plans and arrangements required to be filed pursuant to Item 14(c) are identified by an asterisk (*). 3.1 Restated Certificate of Incorporation of the Registrant (Incorporated by reference herein from Exhibit 3a to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988). 3.1.1 Certificate of Amendment to Restated Certificate of Incorporation Of the Registrant(Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999). 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference herein from Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992). 10.1 Form of Employment Agreement between United Bank and Robert R. Jones, III(Incorporated by reference herein from Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.* 10.2 Supplemental Agreement between United Bank, the Registrant and Robert R. Jones III (Incorporated by reference herein from Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998)*. 10.3 1998 Stock Option Plan of United Bancorporation of Alabama, Inc. (Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999). 10.4 1999 Employee Stock Purchase Plan of United Bancorporation of Alabama, Inc. (incorporated herein by reference from appendix A to the Registrants definitive proxy statement dated April 10, 2000)*. 21 Subsidiaries of the Registrant. 99(1) Certification pursuant to 18 U.S.C. Section 1350. 99(2) Certification pursuant to 18 U.S.C. Section 1350. (b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended December 31, 2002. SIGNATURES Pursuant to the requirements of section 13 or 15(d) 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.

(Registrant) BY: /s/ Robert R. Jones, III -------------------------------------- Robert R. Jones, III President and Chief Executive Officer March 28, 2003 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. SIGNATURES CAPACITY IN WHICH SIGNED DATE /s/ Robert R. Jones, III President, Chief March 28, 2003 ------------------------ Executive Officer, and Robert R. Jones, III Director /s/ Mitchell D. Staples Treasurer March 28, 2003 ------------------------ (principal financial and Mitchell D. Staples principal accounting officer) /s/ H. Leon Esneul Director March 28, 2003 ------------------------ H. Leon Esneul /s/ David D. Swift Director March 28, 2003 ------------------------ David D. Swift /s/ William J. Justice Director March 28, 2003 ------------------------ William J. Justice /s/ Dale M. Ash Director March 28, 2003 ----------------------- Dale M. Ash /s/ William C. Grissett Director March 28, 2003 ------------------------ William C. Grissett /s/ L. Walter Crim Director March 28, 2003 ------------------------ L. Walter Crim I, Robert R Jones, III, President and CEO, certify that: 1. I have reviewed this annual report on Form 10-K of United Bancorporation of Alabama Inc. 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 28, 2003 /s/ Robert R. Jones, III ----------------------- Robert R. Jones, III President and CEO I, Mitchell D. Staples, principal financial officer, certify that: 1. I have reviewed this annual report on Form 10-K of United Bancoporation of Alabama, Inc.; 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 28, 2003 /s/Mitchell D. Staples -------------------------- Mitchell D. Staples Principal financial officer INDEX TO EXHIBITS Exhibit Page ------- ---- 21 Subsidiaries of the registrant E2 99.1 Certification Pursuant to 18 U.S.C. Section 1350 E3 99.2 Certification Pursuant to 18 U.S.C. Section 1350 E4