UNITED BANCORPORATION
OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2017

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT
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TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

- **Consolidated balance sheets** 2
- **Consolidated statements of earnings** 3
- **Consolidated statements of comprehensive income** 4
- **Consolidated statements of stockholders' equity** 5
- **Consolidated statements of cash flows** 6
- **Notes to consolidated financial statements** 7-42

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
United Bancorporation of Alabama, Inc.
Atmore, Alabama

We have audited the accompanying consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancorporation of Alabama, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 15, 2018

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Cash and due from banks	$ 22,911,048	$ 25,089,961
Interest-bearing deposits in banks	26,049,570	18,221,550
Federal funds sold	4,000,000	1,900,000
Cash and short-term investments	52,960,618	45,211,511
Securities available for sale, at fair value (amortized cost of $145,634,229 and $164,114,889 at December 31, 2017 and 2016, respectively)	143,484,897	160,903,623
Securities held to maturity, at amortized cost (fair value of $20,069,553 and $20,252,460 at December 31, 2017 and 2016, respectively)	20,003,257	20,380,161
Loans held for sale	-	515,987
Loans held for investment	347,930,552	299,036,101
Less allowance for loan losses	4,290,544	3,911,667
Loans, net	343,640,008	295,124,434
Premises and equipment, net	13,343,230	13,417,258
Interest receivable	3,094,071	2,748,025
Bank owned life insurance	11,048,864	9,104,612
Other real estate owned	1,430,301	3,799,044
Other assets	8,743,006	7,361,244
Total assets	$ 597,748,252	$ 558,565,899
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 228,403,631	$ 219,252,037
Interest-bearing	309,427,156	286,636,365
Total deposits	537,830,787	505,888,402
Other borrowings	6,243,957	5,344,299
Interest payable	183,719	147,775
Accrued expenses and other liabilities	5,130,600	2,898,270
Note payable to Trust	10,310,000	10,310,000
Total liabilities	559,699,063	524,588,746
Commitments (Note 18)		
Stockholders' equity		
Preferred stock, par value $.01. Authorized 250,000 shares; no shares issued in 2017 and 2016, respectively	-	-
Class A common stock, par value $0.01. Authorized 5,000,000 shares; 2,431,680 and 2,412,468 shares issued in 2017 and 2016, respectively	24,317	24,125
Class B common stock, par value $0.01. Authorized 250,000 shares; no shares issued or outstanding	-	-
Additional paid-in capital	7,602,094	7,345,204
Retained earnings	32,036,728	28,546,743
Accumulated other comprehensive loss, net of tax	(1,611,999)	(1,936,968)
	38,051,140	33,979,104
Less 239 and 239 treasury shares, at cost, respectively	1,951	1,951
Total stockholders' equity	38,049,189	33,977,153
Total liabilities and stockholders' equity	$ 597,748,252	$ 558,565,899

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Interest income		
Interest and fees on loans	$ 17,168,608	$ 15,556,247
Interest on investment securities:		
Taxable securities	2,434,867	2,091,488
Nontaxable securities	879,588	712,716
Total investment income	3,314,455	2,804,204
Other interest income	307,139	235,416
Total interest income	20,790,202	18,595,867
Interest expense		
Interest on deposits	1,504,770	1,392,502
Interest on other borrowings	535,115	306,699
Total interest expense	2,039,885	1,699,201
Net interest income	18,750,317	16,896,666
Provision for loan losses	382,725	200,000
Net interest income after provision for loan losses	18,367,592	16,696,666
Noninterest income:		
Service charges and fees	4,003,709	3,884,802
Investment securities gains, net	55,503	246,459
Mortgage loan and related fees	953,840	711,993
Other	1,582,064	1,169,655
Total noninterest income	6,595,116	6,012,909
Noninterest expense:		
Salaries and benefits	10,272,960	9,955,797
Net occurpancy expense	1,793,874	1,959,887
Other	6,517,862	5,626,238
Total noninterest expense	18,584,696	17,541,922
Net earnings before income tax expense	6,378,012	5,167,653
Income tax expense	2,882,700	1,631,665
Net earnings	3,495,312	3,535,988
Preferred stock dividends	-	206,572
Net earnings available to common shareholders	$ 3,495,312	$ 3,329,416
Basic earnings per share	$ 1.44	$ 1.38
Basic weighted-average shares outstanding	2,421,994	2,410,307
Diluted earnings per share	$ 1.44	$ 1.38
Diluted weighted-average shares outstanding	2,421,994	2,410,307

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Net earnings	$ 3,495,312	$ 3,535,988
Other comprehensive income (loss):		
Unrealized holding (losses) gains on securities available for sale arising during the period, net of tax (benefit) expense of $451,036 and $(1,165,378), respectively	676,554	(1,748,092)
Reclassification adjustment for gains on securities available for sale realized in net earnings from sales, net of taxes of $22,201 and $98,584, respectively	(33,302)	(147,875)
Unrealized gains on cash flow hedges arising during period, net of tax (benefit) expense of $(2,740) and $10,908, respectively	4,109	16,362
Total other comprehensive income (loss)	647,361	(1,879,605)
Comprehensive income	$ 4,142,673	$ 1,656,383

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
		Shares	Par Value					
Balance, December 31, 2015	$ 10,300,000	2,405,681	$ 24,057	$ 7,289,416	$ 25,530,498	$ (57,363)	$ (3,583)	$ 43,083,025
Net earnings	-	-	-	-	3,535,988	-	-	3,535,988
Other comprehensive loss	-	-	-	-	-	(1,879,605)	-	(1,879,605)
Cash dividend declared ($.13 per share)	-	-	-	-	(313,171)	-	-	(313,171)
Shares issued in accordance with dividend reinvestment plan	-	6,787	68	55,788	-	-	-	55,856
Sale of treasury stock	-	-	-	-	-	-	1,632	1,632
Preferred stock dividends paid	-	-	-	-	(206,572)	-	-	(206,572)
Repurchase and retirement of preferred stock	(10,300,000)	-	-	-	-	-	-	(10,300,000)
Balance, December 31, 2016	-	2,412,468	24,125	7,345,204	28,546,743	(1,936,968)	(1,951)	33,977,153
Net earnings	-	-	-	-	3,495,312	-	-	3,495,312
Impact of 2017 Tax Cuts and Jobs Act					322,392	(322,392)		
Other comprehensive income	-	-	-	-	-	647,361	-	647,361
Cash dividend declared ($.135 per share)	-	-	-	-	(327,719)	-	-	(327,719)
Shares issued in accordance with dividend reinvestment plan	-	3,699	37	53,950	-	-	-	53,987
Shares issued to KSOP	-	15,513	155	202,940	-	-		203,095
Balance, December 31, 2017	$ -	2,431,680	$ 24,317	$ 7,602,094	$ 32,036,728	$ (1,611,999)	$ (1,951)	$ 38,049,189

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Net earnings	$ 3,495,312	$ 3,535,988
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	382,725	200,000
Depreciation of premises and equipment	771,364	875,482
Net amortization of premium on investment securities available for sale	859,754	875,882
Net amortization of premium on investment securities held to maturity	149,654	141,547
Gain on sales of investment securities available for sale, net	(55,503)	(246,459)
Loss (gain) on sales of other real estate owned	121,843	(74,167)
Gain on sales of loans held for sale	(665,883)	(557,344)
Originations of loans held for sale	(24,543,197)	(22,146,010)
Proceeds from sales of loans held for sale	25,725,067	22,389,242
Earnings on bank owned life insurance	(294,252)	(280,592)
Gain on sale of premises and equipment	(2,534)	(28,000)
Change in deferred income taxes	1,522,149	1,328,704
Provision for other real estate owned losses	398,449	74,167
Increase in interest receivable	(346,046)	(253,164)
(Increase) decrease in prepaids	(1,006,744)	7,129
(Increase) decrease in other assets	(678,674)	253,415
Increase in interest payable	35,944	3,543
Increase in accrued expenses and other liabilities	575,480	383,215
Net cash provided by operating activities	6,444,908	6,482,578
INVESTING ACTIVITIES		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	21,515,539	23,615,174
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	227,250	5,945,930
Proceeds from sales of investment securities available for sale	21,588,455	19,144,090
Purchases of investment securities available for sale	(25,417,432)	(90,367,581)
Purchase of bank owned life insurance	(1,650,000)	-
Net increase in loans	(47,247,905)	(10,110,256)
Purchases of premises and equipment, net	(698,690)	(823,858)
Proceeds from sale of premises and equipment	3,888	28,000
Proceeds from sale of other real estate owned	198,057	2,122,667
Net cash used in investing activities	(31,480,838)	(50,445,834)
FINANCING ACTIVITIES		
Net increase in deposits	31,942,385	32,362,475
Cash dividends paid - preferred stock	-	(206,572)
Cash dividends paid - common stock	(314,088)	(324,916)
Proceeds from sale of common stock	257,082	55,856
Proceeds from sale of treasury stock	-	1,632
Redemption of preferred stock	-	(10,300,000)
Advances from other borrowings	1,050,000	5,000,000
Repayment of other borrowings	(150,342)	(153,067)
Net cash provided by financing activities	32,785,037	26,435,408
Net increase (decrease) in cash and short-term investments	7,749,107	(17,527,848)
Cash and short-term investments at beginning of year	45,211,511	62,739,359
Cash and short-term investments at end of year	$ 52,960,618	$ 45,211,511
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	$ 2,003,941	$ 1,695,658
Income taxes	$ 2,118,855	$ 124,265
OTHER NONCASH TRANSACTIONS		
Transfer of loans to other real estate through foreclosure	$ 115,692	$ 254,500
Internally financed sales of other real estate owned	$ 1,766,086	$ 662,720

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorporation of Alabama, Inc. (the "Corporation") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, United Bank (the "Bank") and UB Community Development, LLC (UBCD). United Bank is a commercial bank with headquarters in Atmore, Alabama. The Bank provides a full range of banking services in its primary market areas of Baldwin, Escambia, and Monroe Counties, Alabama, and Santa Rosa County, Florida. UBCD is an entity established to manage allocations of New Market Tax Credits under U.S. Treasury Department programs.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc., United Bank and UBCD, collectively referred to as the Corporation. Significant inter-company balances and transactions have been eliminated in consolidation.

Market Concentrations

The Corporation operates primarily in one business segment, commercial banking, in Southwest Alabama and Northwest Florida.

Basis of Presentation and Accounting Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated 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, the valuation of other real estate owned and deferred taxes, the valuation of other than temporary impairment for investment securities, and the fair value of financial instruments.

The Corporation has evaluated all transactions, events, and circumstances for consideration or disclosure through March 15, 2018, the date these financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Fair Valuation of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Cash and Short-Term Investments

The Corporation considers cash and due from banks, interest-bearing deposits in banks, and federal funds sold to be cash and short-term investments. Federal funds are generally sold for one-day periods.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Investment securities are classified in one of three portfolios: (i) trading account securities, (ii) securities available for sale, or (iii) securities held to maturity. Trading account securities are stated at fair value. 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. Investment securities held to maturity are stated at amortized cost adjusted for amortization of premiums and accretion of discounts.

Net gains and losses on the sale of investment securities available for sale are recorded at trade date. The net gains and losses are computed using the specific identification method and are shown separately in noninterest income in the consolidated statements of earnings. 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 earnings resulting in the establishment of a new cost basis for the security.

Other Securities

The Corporation is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower may not be able to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Corporation will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an amount that management believes will be appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses, and may require the Corporation to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the collateral value, present value of expected future cash flows or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the trends associated with the composition of the loan portfolio; (6) the trends related to classified assets and (7) effectiveness of the Corporation's loan policies, procedures and internal controls.

Management considers a loan to be impaired when it is probable that the Corporation 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 off against the allowance when such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance.

When a loan is considered impaired, payments are recognized as scheduled interest and principal reductions as long as the loan is not in default under the terms of the loan agreement. Otherwise, if in default, cash receipts are applied first to principal and 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.

The ultimate ability to collect a substantial portion of the Corporation's loan portfolio is susceptible to changes in economic and market conditions in the geographic area served by the Corporation and various other factors.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings

The Corporation designates loan modifications as troubled debt restructurings ("TDRs") when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Corporation typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight–line method over the estimated useful lives of the assets.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure or deeded to the Corporation in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate owned is carried at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate owned at the date of foreclosure are charged to the allowance for loan losses. Subsequent valuation decreases in the carrying value of other real estate owned as well as costs to carry other real estate owned are recognized as charges to noninterest expense.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes)*. The Corporation applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Income tax accounting results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 34% to 21%. In accordance with the income tax accounting guidance described above, the Corporation has recorded additional income tax expense of $1,052,327 as a result of the re-measurement of deferred tax assets and liabilities.

Stock Based Compensation

At December 31, 2017, the Corporation had stock options and other equity awards outstanding as defined by a stock-based employee compensation plan, which is described more fully in Note 12. The Corporation accounts for its stock based compensation plan under stock compensation accounting guidance (FASB ASC 718, *Compensation – Stock compensation)*. This guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards and stock grants.

Earnings per Share

FASB ASC 260, *Earnings Per Share*, provides for the computation of basic and diluted earnings per share. There was no dilutive effect for the years ended December 31, 2017 and 2016, because the exercise price of the stock awards, described in Note 12, was greater than the fair value of the stock on the respective dates. Therefore, the adjustment related to share-based awards would be anti-dilutive and are not computed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

The Corporation maintains an overall interest-rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest-rate volatility. The Corporation's goal is to manage interest-rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest-rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. The Corporation views this strategy as a prudent management of interest-rate sensitivity, such that earnings are not exposed to undue risk presented by changes in interest rates.

All derivatives are recognized on the balance sheet at their fair value. Derivative instruments that are used as part of the Corporation's interest-rate risk management strategy include interest rate caps. An interest rate cap will convert the variable interest rate on the Corporation's variable rate note payable to trust to fixed interest rates should interest rates rise above a specified level. On the date the interest rate cap contract is entered into, the Corporation designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability "cash flow" hedge. Changes in the fair value of a derivative that is highly effective as - and that is designated and qualifies as - a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and cash flow hedges, are reported as a separate component of the equity section of the balance sheet, such items, along with net earnings, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Recent Accounting Pronouncements

ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." Issued in February 2018, ASU 2018-02 seeks to help entities reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017. ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (loss), rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income (loss) to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 34% and the newly enacted corporate income tax rate of 21%. ASU 2018-02 is effective for fiscal years beginning after December 31, 2018; however, entities are allowed to early adopt the amendments of ASU 2018-02. As a result of the re-measurement of the Corporation's deferred tax assets following the enactment of the Tax Reform Act, accumulated other comprehensive loss included $322,392 of stranded tax effects at December 31, 2017. The Corporation early adopted the amendments of 2018-02 as of December 31, 2017 and made the election to reclassify the stranded tax effects from accumulated other comprehensive loss to retained earnings at December 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CASH AND DUE FROM BANKS

The Bank may be required by the Federal Reserve Bank to maintain daily cash balances. The Bank was not required to hold a daily cash balance as of December 31, 2017 and 2016.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2017 and 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2017:				
U.S. Treasury securities	$ 1,975,271	$ -	$ (271)	$ 1,975,000
U.S. government sponsored agencies	79,715,048	69,318	(1,199,359)	78,585,007
State and political subdivisions	33,878,961	123,528	(491,713)	33,510,776
Mortgage-backed securities	30,064,949	20,485	(671,320)	29,414,114
	$ 145,634,229	$ 213,331	$ (2,362,663)	$ 143,484,897
December 31, 2016:				
U.S. government sponsored agencies	$ 99,163,162	$ 151,790	$ (1,448,997)	$ 97,865,955
State and political subdivisions	34,508,972	88,801	(1,266,049)	33,331,724
Mortgage-backed securities	30,442,755	-	(767,561)	29,675,194
Equity securities	10,153	20,597	-	30,750
	$ 164,125,042	$ 261,188	$ (3,482,607)	$ 160,903,623

The amortized cost and fair value of investment securities held to maturity at December 31, 2017 and 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity				
December 31, 2017:				
U.S. government sponsored agencies	$ 5,986,176	$ 7,793	$ (17,614)	$ 5,976,355
State and political subdivisions	12,998,304	92,703	(24,929)	13,066,078
Mortgage-backed securities	1,018,777	8,343	-	1,027,120
	$ 20,003,257	$ 108,839	$ (42,543)	$ 20,069,553
December 31, 2016:				
U.S. government sponsored agencies	$ 5,984,349	$ 14,299	$ (10,722)	$ 5,987,926
State and political subdivisions	13,374,135	17,073	(142,754)	13,248,454
Mortgage-backed securities	1,021,677	-	(5,597)	1,016,080
	$ 20,380,161	$ 31,372	$ (159,073)	$ 20,252,460

NOTE 3. INVESTMENT SECURITIES (Continued)

Those investment securities classified as available for sale and held to maturity which have an unrealized loss position at December 31, 2017 and 2016 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2017:						
U.S. Treasury securities	$ (271)	$ 1,975,000	$ -	$ -	$ (271)	$ 1,975,000
U.S. government sponsored agencies	(240,508)	30,029,498	(976,465)	37,095,582	(1,216,973)	67,125,080
State and political subdivisions	(92,980)	10,593,882	(423,662)	16,267,513	(516,642)	26,861,395
Mortgage-backed securities	(93,402)	9,398,894	(577,918)	17,157,955	(671,320)	26,556,849
Total securities	$ (427,161)	$ 51,997,274	$ (1,978,045)	$ 70,521,050	$ (2,405,206)	$ 122,518,324
December 31, 2016:						
U.S. government sponsored agencies	$ (1,425,084)	$ 65,615,704	$ (34,635)	$ 3,943,362	$ (1,459,719)	$ 69,559,066
State and political subdivisions	(1,368,522)	34,000,279	(40,281)	1,576,600	(1,408,803)	35,576,879
Mortgage-backed securities	(773,158)	30,691,274	-	-	(773,158)	30,691,274
Total securities	$ (3,566,764)	$ 130,307,257	$ (74,916)	$ 5,519,962	$ (3,641,680)	$ 135,827,219

The unrealized losses in investment securities available for sale at December 31, 2017 and 2016 were attributable to changes in market interest rates since the securities were purchased. The Corporation systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, (3) structure of the security and (4) the Corporation's intent to sell the security or whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in market value. Because the Corporation does not currently intend to sell the investment securities and it is not more likely than not that the Corporation will be required to sell the investment securities before recovery of their amortized cost bases, which may be maturity, the Corporation does not consider these investment securities to be other-than-temporarily impaired at December 31, 2017.

The amortized cost and fair value of investment securities as of December 31, 2017 categorized by contractual maturity are shown below.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 10,965,446	$ 10,938,565	$ -	$ -
Due after one year through five years	23,135,756	22,839,713	4,919,912	4,902,589
Due after five years through ten years	58,531,241	57,374,429	10,006,133	10,046,488
Due after ten years	53,001,786	52,332,190	5,077,212	5,120,476
	$ 145,634,229	$ 143,484,897	$ 20,003,257	$ 20,069,553

NOTE 3. INVESTMENT SECURITIES (Continued)

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the years ended December 31, 2017 and 2016 were as follows:

	Years Ended December 31,	
	2017	2016
Gross gains	$ 110,956	$ 297,071
Gross losses	(55,453)	(50,612)
Net realized gains	$ 55,503	$ 246,459

Investment securities with carrying values of $41,040,799 and $31,482,652 at December 31, 2017 and 2016, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Other securities (included in other assets in the consolidated balance sheets) consist of the following as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
Federal Home Loan Bank of Atlanta	$ 546,000	$ 520,400
First National Banker's Bankshares, Inc.	777,000	777,000
Central Alabama Title Center, LLC	30,000	30,000
United Bancorp Capital Trust II	310,000	310,000
Sub-CDE Investments	3,000	-
First Community, LP	2,500	2,500
Federal Agricultural Mortgage Corporation	10,153	-
	$ 1,678,653	$ 1,639,900

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segments and Classes

At December 31, 2017 and 2016, the composition of the loan portfolio was as follows:

	December 31,	
	2017	2016
Real estate:		
Construction and land loans	$ 22,224,504	$ 20,130,954
Farmland	35,947,753	34,668,474
1-4 family residential mortgages	78,545,012	78,061,112
Multifamily	3,148,951	3,279,380
Commercial	83,953,376	74,892,715
Agricultural	28,391,442	23,342,225
Commercial	59,989,652	42,802,043
Consumer	17,138,091	16,823,022
States and political subdivisions	15,324,052	3,020,165
Other loans	3,267,719	2,016,011
Total	$ 347,930,552	$ 299,036,101

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Portfolio Segments and Classes (Continued)

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are five primary loan portfolio segments that include real estate, agriculture, commercial, consumer and state and political subdivisions. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land loans, farmland, 1-4 family residential mortgages, multifamily, and commercial. The portfolio segments of all other non-real estate loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate - As discussed below, the Corporation offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- 1-4 family residential mortgages and farmland loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing multifamily properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Agricultural and Commercial - These loans include those loans to agricultural and commercial customers for use in normal business operations to finance working capital needs, crop production, equipment purchases, or expansion projects. Loans are repaid by business and farming cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

Consumer - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

State and Political Subdivisions - The state and political subdivision loan portfolio segment includes loans to local municipalities to support municipal operations and projects. Loans are repaid generally from tax revenues collected in those municipalities.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officer and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by United Bank certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well-defined source of repayment.

Grade 3: Attractive Credit Risk – The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

Grade 6: Monitor – This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion and they are fully leveraged. If liquidation were to take place there could be a minimal loss and thus an analysis should be made to determine if a specific reserve is needed.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure. If the loan is determined to be impaired, an analysis will be performed to determine the amount of reserve, if any, to be recognized.

Grade 8: Doubtful – A loss is highly likely and there probably will be a default. There is no ability to refinance. At this point collection effort should be in full process. Loans in this category will be reserved at a specific amount in line with the impairment analysis performed if the loan is determined to be impaired.

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with a Grade of 6, and Substandard/Doubtful include loans with Grades 7 and 8.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2017 and 2016.

	Pass	Special Mention	Substandard	Total
		(Dollars in Thousands)		
December 31, 2017:				
Real estate:				
Construction and land loans	$ 20,179	$ 362	$ 1,684	$ 22,225
Farmland	30,016	1,783	4,149	35,948
1-4 family residential mortgages	75,588	1,993	964	78,545
Multifamily	3,149	-	-	3,149
Commercial	76,994	2,103	4,856	83,953
Agricultural	24,279	3,288	824	28,391
Commercial	59,031	619	340	59,990
Consumer	17,061	27	50	17,138
States and political subdivisions	15,324	-	-	15,324
Other loans	3,268	-	-	3,268
Total	$ 324,889	$ 10,175	$ 12,867	$ 347,931

There were no loans considered doubtful as of December 31, 2017.

	Pass	Special Mention	Substandard	Total
		(Dollars in Thousands)		
December 31, 2016:				
Real estate:				
Construction and land loans	$ 18,124	$ 527	$ 1,480	$ 20,131
Farmland	30,797	3,451	421	34,669
1-4 family residential mortgages	75,291	1,833	937	78,061
Multifamily	3,279	-	-	3,279
Commercial	65,354	6,122	3,417	74,893
Agricultural	17,956	4,808	578	23,342
Commercial	42,099	655	48	42,802
Consumer	16,747	63	13	16,823
States and political subdivisions	3,020	-	-	3,020
Other loans	2,016	-	-	2,016
Total	$ 274,683	$ 17,459	$ 6,894	$ 299,036

There were no loans considered doubtful as of December 31, 2016.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses

The following tables detail the change in the allowance for loan losses for the years ended December 31, 2017 and 2016. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Beginning Balance	Charge-offs	Recoveries	Provision Allocation	Ending Balance
			(Dollars in Thousands)		
December 31, 2017:					
Real estate:					
Construction and land loans	$ 327	$ -	$ 6	$ 12	$ 345
Farmland	153	-	-	60	213
1-4 family residential mortgages	825	(25)	35	98	933
Multifamily	7	-	-	(1)	6
Commercial	1,925	-	25	(250)	1,700
Agriculture	46	-	-	5	51
Commercial	399	-	20	323	742
Consumer	214	(99)	35	112	262
States and political subdivisions	7	-	-	22	29
Other loans	9	(1)	-	2	10
Total:	$ 3,912	$ (125)	$ 121	$ 383	$ 4,291
December 31, 2016:					
Real estate:					
Construction and land loans	$ 720	$ -	$ 301	$ (694)	$ 327
Farmland	152	-	-	1	153
1-4 family residential mortgages	469	(148)	54	450	825
Multifamily	9	-	-	(2)	7
Commercial	1,657	(186)	10	444	1,925
Agriculture	95	(15)	2	(36)	46
Commercial	477	(9)	12	(81)	399
Consumer	229	(151)	21	115	214
States and political subdivisions	7	-	-	-	7
Other loans	7	(3)	2	3	9
Total:	$ 3,822	$ (512)	$ 402	$ 200	$ 3,912

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses (Continued)

	Loan Balances			Allowance for Loan Loss		
	Total Loans	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Specific Reserves	General Reserves	Total Reserves
December 31, 2017:			*(Dollars in Thousands)*			
Real estate:						
Construction and land loans	$ 22,225	$ 1,575	$ 20,650	$ 100	$ 245	$ 345
Farmland	35,948	4,486	31,462	49	164	213
1-4 family residential mortgages	78,545	667	77,878	384	549	933
Multifamily	3,149	-	3,149	-	6	6
Commercial	83,953	5,379	78,574	673	1,027	1,700
Agriculture	28,391	1,065	27,326	-	51	51
Commercial	59,990	678	59,312	251	491	742
Consumer	17,138	160	16,978	18	244	262
States and political subdivisions	15,324	-	15,324	-	29	29
Other loans	3,268	-	3,268	-	10	10
Total:	$ 347,931	$ 14,010	$ 333,921	$ 1,475	$ 2,816	$ 4,291
December 31, 2016:						
Real estate:						
Construction and land loans	$ 20,131	$ 1,369	$ 18,762	$ 100	$ 227	$ 327
Farmland	34,669	929	33,740	20	133	153
1-4 family residential mortgages	78,061	687	77,374	380	445	825
Multifamily	3,279	-	3,279	-	7	7
Commercial	74,893	3,995	70,898	945	980	1,925
Agriculture	23,342	1,122	22,220	-	46	46
Commercial	42,802	498	42,304	70	329	399
Consumer	16,823	172	16,651	26	188	214
States and political subdivisions	3,020	-	3,020	-	7	7
Other loans	2,016	-	2,016	-	9	9
Total:	$ 299,036	$ 8,772	$ 290,264	$ 1,541	$ 2,371	$ 3,912

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables detail the Corporation's impaired loans, by portfolio class, as of December 31, 2017 and 2016.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017:			*(Dollars in Thousands)*		
With no related allowance recorded:					
Real estate:					
Construction and land loans	$ 662	$ 853	$ -	$ 534	$ 32
Farmland	4,042	4,042	-	1,975	137
1-4 family residential mortgages	232	232	-	211	14
Multifamily	-	-	-	-	-
Commercial	3,784	3,784	-	2,116	180
Agriculture	1,065	1,065	-	1,098	55
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	9,785	9,976	-	5,934	418
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	913	913	100	916	50
Farmland	444	546	49	423	20
1-4 family residential mortgages	435	510	384	454	5
Multifamily	-	-	-	-	-
Commercial	1,595	1,595	673	2,257	49
Agriculture	-	-	-	-	-
Commercial	678	1,049	251	623	21
Consumer	160	160	18	189	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	4,225	4,773	1,475	4,862	145
Total impaired loans:	$ 14,010	$ 14,749	$ 1,475	$ 10,796	$ 563

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:	*(Dollars in Thousands)*				
With no related allowance recorded:					
Real estate:					
Construction and land loans	$ 449	$ 641	$ -	$ 460	$ 24
Farmland	520	520	-	522	-
1-4 family residential mortgages	196	196	-	200	11
Multifamily	-	-	-	-	-
Commercial	1,138	1,138	-	506	50
Agriculture	1,122	1,135	-	1,135	60
Commercial	21	21	-	58	-
Consumer	-	-	-	-	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	3,446	3,651	-	2,881	145
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	920	920	100	1,009	54
Farmland	409	510	20	412	21
1-4 family residential mortgages	491	565	380	322	17
Multifamily	-	-	-	-	-
Commercial	2,857	2,858	945	3,013	112
Agriculture	-	-	-	16	-
Commercial	477	849	70	484	17
Consumer	172	172	26	216	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	5,326	5,874	1,541	5,472	221
Total impaired loans:	$ 8,772	$ 9,525	$ 1,541	$ 8,353	$ 366

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due Loans

The table below provides an age analysis of past due loans as of December 31, 2017 and 2016:

		Past Due Status (Accruing Loans)					
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Non-accrual	Total
December 31, 2017:			*(Dollars in Thousands)*				
Real estate:							
Construction and land loans	$ 22,041	$ 51	$ -	$ 24	$ 75	$ 109	$ 22,225
Farmland	35,450	82	-	-	82	416	35,948
1-4 family residential mortgages	76,198	1,069	290	493	1,852	495	78,545
Multifamily	3,149	-	-	-	-	-	3,149
Commercial	80,282	-	253	2,108	2,361	1,310	83,953
Agriculture	28,391	-	-	-	-	-	28,391
Commercial	59,619	-	27	28	55	316	59,990
Consumer	17,070	11	4	14	29	39	17,138
States and political subdivisions	15,324	-	-	-	-	-	15,324
Other loans	3,268	-	-	-	-	-	3,268
Total:	$ 340,792	$ 1,213	$ 574	$ 2,667	$ 4,454	$ 2,685	$ 347,931
December 31, 2016:							
Real estate:							
Construction and land loans	$ 19,842	$ 10	$ 61	$ 107	$ 178	$ 111	$ 20,131
Farmland	34,175	-	72	-	72	422	34,669
1-4 family residential mortgages	76,741	668	36	130	834	486	78,061
Multifamily	3,279	-	-	-	-	-	3,279
Commercial	72,559	-	152	1,622	1,774	560	74,893
Agriculture	23,268	21	-	40	61	13	23,342
Commercial	42,599	183	-	-	183	20	42,802
Consumer	16,634	112	25	18	155	34	16,823
States and political subdivisions	3,020	-	-	-	-	-	3,020
Other loans	2,016	-	-	-	-	-	2,016
Total:	$ 294,133	$ 994	$ 346	$ 1,917	$ 3,257	$ 1,646	$ 299,036

Related Party Transactions

Certain executive officers and directors of the Corporation, including their immediate families and companies with which they are associated, are loan customers of the Bank. Total loans outstanding and available lines of credit to these related parties at December 31, 2017 and 2016, totaled $8,520,209 and $5,484,715, respectively. 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.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructurings

Restructured loans are loans on which, because of a borrower's financial difficulties, the Corporation has granted a concession that would not otherwise be considered. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, or either forgiveness of either principal or accrued interest. The following table summarizes, as of December 31, 2017 and 2016, loans that have been restructured:

	Troubled-Debt Restructurings			
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Effect on the Allowance for Loan Losses
		(Dollars in Thousands)		
December 31, 2017:				
Real estate:				
Construction and land loans	-	$ -	$ -	$ -
Farmland	2	635	407	(10)
1-4 family residential mortgages	2	157	131	-
Multifamily	-	-	-	-
Commercial	3	657	542	(72)
Agricultural	2	1,340	1,065	-
Commercial	1	547	467	(12)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	10	$ 3,336	$ 2,612	$ (94)
December 31, 2016:				
Real estate:				
Construction and land loans	1	$ 1,000	$ 920	$ -
Farmland	2	635	416	(9)
1-4 family residential mortgages	2	157	136	-
Multifamily	-	-	-	-
Commercial	4	1,572	1,406	150
Agricultural	2	1,340	1,112	-
Commercial	2	1,771	498	(14)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	13	$ 6,475	$ 4,488	$ 127

The Corporation has not forgiven any principal on the above loans. At December 31, 2017 and 2016, $1,604 and $27,174, respectively, of the above restructured loans were held as non-accrual.

As of December 31, 2017 and 2016, there were no loans restructured within the last 12 months that had subsequently defaulted.

NOTE 5. OTHER REAL ESTATE OWNED

The table below presents a summary of the activity related to other real estate owned for the years ending December 31, 2017 and 2016, respectively.

	Years Ended December 31,	
	2017	2016
Balance, beginning of year	$ 3,799,044	$ 6,329,931
Additions	115,692	254,500
Sales proceeds	(198,057)	(2,122,667)
Internally financed sales	(1,766,086)	(662,720)
Gain (loss) on sales of other real estate owned	(121,843)	74,167
Provision for other real estate owned losses	(398,449)	(74,167)
Balance, end of year	$ 1,430,301	$ 3,799,044

Other real estate owned by type is as follows:

	December 31,	
	2017	2016
Construction and land development real estate	$ 1,041,601	$ 3,294,935
Residential real estate	18,800	60,000
Commercial real estate	369,900	531,891
ORE Valuation Allowance	-	(87,782)
	$ 1,430,301	$ 3,799,044

Expenses related to other real estate owned for the year ended December 31, 2017 and 2016 are as follows:

	Years Ended December 31,	
	2017	2016
Net (gain) loss on sales of other real estate owned	$ 121,843	$ (74,167)
Provision for other real estate owned losses	398,449	74,167
Operating expenses, net of lease income	118,449	69,860
	$ 638,741	$ 69,860

NOTE 6. PREMISES AND EQUIPMENT

At December 31, 2017 and 2016, premises and equipment were as follows:

	December 31,	
	2017	2016
Land	$ 5,253,129	$ 5,253,129
Buildings and leasehold improvements (depreciated over 5 to 50 years)	16,360,180	16,169,908
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	10,313,910	9,861,708
Automobiles (depreciated over 3 years)	129,336	79,619
	32,056,555	31,364,364
Accumulated depreciation	(18,713,325)	(17,947,106)
	$ 13,343,230	$ 13,417,258

Depreciation expense for the years ended December 31, 2017 and 2016 was $771,364 and $875,482, respectively.

NOTE 7. DEPOSITS

At December 31, 2017 and 2016, deposits were as follows:

	December 31, 2017	December 31, 2016
Noninterest-bearing accounts	$ 228,403,631	$ 219,252,037
NOW accounts	91,148,730	79,710,292
Money market investment accounts	39,411,068	31,500,567
Savings accounts	57,656,589	54,186,889
Time deposits:		
Time deposits less than $250,000	108,259,747	111,346,887
Time deposits equal to or greater than $250,000	12,951,022	9,891,730
Total deposits	$ 537,830,787	$ 505,888,402

At December 31, 2017 and 2016 interest expense on deposits was as follows:

	Years Ended December 31, 2017	Years Ended December 31, 2016
NOW accounts	$ 179,409	$ 172,040
Money market investment accounts	131,981	57,767
Savings accounts	82,330	69,679
Time deposits:		
Time deposits less than $250,000	955,503	1,006,170
Time deposits equal to or greater than $250,000	155,547	86,846
Total deposits	$ 1,504,770	$ 1,392,502

At December 31, 2017, the contractual maturities of time deposits are as follows:

2018	$ 66,732,907
2019	17,262,423
2020	15,124,142
2021	13,395,496
2022	8,695,801
	$ 121,210,769

At December 31, 2017 and 2016, overdraft demand and savings deposits reclassified to loans totaled $89,541 and $78,803, respectively.

NOTE 8. PARTICIPATION IN U.S. TREASURY PROGRAMS

On November 17, 2016, the Corporation was awarded a $65,000,000 allocation of New Market Tax Credits from the Community Development Financial Institution (CDFI) Fund administered by the U.S. Department of Treasury for the 2015/2016 award year. The Corporation will allocate these tax credits into qualified projects in Alabama and Florida. As of December 31, 2017, the Corporation has $49,000,000 in remaining tax credit allocations available to deploy from the 2016 allocation.

NOTE 9. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31, 2017	December 31, 2016
Federal Home Loan Bank advances	$ 193,957	$ 344,299
Term Note	5,000,000	5,000,000
Loan-related borrowing	1,050,000	-
Total other borrowings	$ 6,243,957	$ 5,344,299

Federal Home Loan Bank Advances

The Corporation's advances from the Federal Home Loan Bank of Atlanta bear interest at fixed rates, ranging from 4.62% to 7.54% at December 31, 2017. These advances are due at various dates through 2020. The weighted average interest rate as of December 31, 2017 and 2016 was 5.11% and 5.49%, respectively.

At December 31, 2017 and 2016, Federal Home Loan Bank advances were collateralized by investment securities with carrying values of $520,458 and $625,608, respectively.

Term Note

On November 7, 2016, the Corporation entered into a revolving line of credit with a commercial bank in the amount of $5,000,000. The outstanding balance of the line of credit was $5,000,000 at December 31, 2017 and 2016. The interest rate is the prime rate less .25% (4.25% at December 31, 2017) and interest is payable quarterly for one year then converting to a term note with quarterly principal and interest payments due through maturity on November 7, 2026. The note is secured by 100% of the outstanding stock of the Bank.

Loan-Related Borrowing

The Corporation has a loan participation agreement with a financial institution whereby it sold to them a participating interest in a commercial loan. However, the participation agreement contains a "put option" clause that gives the participant financial institution the right and option to require the Corporation to repurchase its participating interest. This type of clause precludes sales treatment and the participating interest amount must be recorded as a borrowing rather than as a reduction of the loan balance.

USDA Re-Lending Program

During 2016, the Corporation entered in to a $40,000,000 promissory note with the United States Department of Agriculture's Community Facilities Direct Loan program which will allow it to re-lend funds to eligible borrowers in rural areas in Alabama and Florida on a fixed rate structure. There were no amounts outstanding under this note agreement as of December 31, 2017 and 2016.

At December 31, 2017, other borrowings are due as follows:

2018	$ -
2019	-
2020	193,957
2021	-
2022	-
Thereafter	6,050,000
	$ 6,243,957

NOTE 10. NOTE PAYABLE TO TRUST

United Bancorp Capital Trust II

In 2007, the Corporation formed a wholly-owned grantor trust to issue cumulative trust preferred securities. The grantor trust has invested the proceeds of the trust preferred securities in junior subordinated debentures of the Corporation. The junior subordinated debentures can be redeemed prior to maturity at the option of the Corporation on or after September 30, 2011. The sole assets of the guarantor trust are the Junior Subordinated Deferrable Interest Debentures of the Corporation (the Debentures) held by the grantor trust. The debentures have the same interest rate (three month LIBOR plus 1.68%, floating) as the trust preferred securities. The interest rate in effect as of December 31, 2017 was 3.37%. The Corporation has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Corporation to the extent of funds held by the grantor trust (the Preferred Securities Guarantee). The Preferred Securities Guarantee, when taken together with the Corporation's other obligations under the Debentures, constitute a full and unconditional guarantee, on a subordinated basis, by the Corporation of payments due on the trust preferred securities.

The trust preferred securities and the related debentures were issued on September 27, 2007. Distributions on the trust preferred securities are paid quarterly on March 30, June 30, September 30 and December 30 of each year. Interest on the Debentures is paid on the corresponding dates. The aggregate principal amount of Debentures outstanding at December 31, 2017 and 2016 was $10,310,000.

NOTE 11. INCOME TAXES

The Tax Cuts and Jobs Act (the "Act",) which was enacted on December 22, 2017, made key changes to the U.S. tax law, including the reduction of the U.S. federal corporate tax rate from 34% to 21%. As ASC 740, *Income Taxes*, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted, the Corporation remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is 21%. The deferred tax expense recorded related to the remeasurement of net deferred tax assets was $729,935. Additionally, the deferred tax effects on the unrealized holding losses for available for sale securities was also remeasured as a component of deferred income tax expense in the amount of $322,392.

The components of income tax expense are as follows:

	Years Ended December 31,	
	2017	2016
Current:		
Federal	$ 1,113,182	$ 272,952
State	247,369	30,009
Total	1,360,551	302,961
Deferred:		
Federal	1,593,405	1,123,530
State	(71,256)	205,174
Total	1,522,149	1,328,704
Income tax expense	$ 2,882,700	$ 1,631,665

NOTE 11. INCOME TAXES (Continued)

Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 34% to pretax income is as follows:

	Years Ended December 31,	
	2017	2016
Income tax expense at federal statutory rate	$ 2,168,524	$ 1,757,002
Increase (decrease) resulting from:		
Tax exempt interest	(503,321)	(364,355)
Interest disallowance	9,026	6,722
State income tax, net of federal benefit	116,235	155,221
Premium amortization on tax exempt investment securities	130,098	101,248
Cash surrender value of life insurance	(100,046)	(95,401)
Impact of federal income tax rate change	1,052,327	-
Other, net	9,857	71,228
Total income tax expense	$ 2,882,700	$ 1,631,665

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Deferred tax assets:		
Loans, principally due to the allowance for loan losses	$ 779,460	$ 677,002
Other real estate, principally due to difference in carrying value	56,936	56,659
Intangible assets	25,509	60,041
Premises and equipment, principally due to difference in depreciation	289,278	400,629
Deferred compensation	317,922	465,853
Accrued expenses	70,517	66,411
Interest rate hedge	-	2,742
Investment securities available for sale	537,333	1,288,560
Alternative minimum tax credit	-	944,272
Other	14,889	86,836
	2,091,844	4,049,005
Deferred income tax liabilities:		
Discount accretion	2,111	5,546
Net deferred income tax assets	$ 2,089,733	$ 4,043,459

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 Corporation will realize the benefits of these deductible differences.

The federal and state income tax returns of the Corporation for 2014, 2015, and 2016 are subject to examination, generally for three years after they were filed.

NOTE 12. STOCK BASED COMPENSATION

Stock Options

2007 Equity Incentive Plan

The United Bancorporation of Alabama, Inc. 2007 Equity Incentive Plan (the 2007 Plan) provides for the grant of stock options, stock appreciation rights, restricted stock awards, performance units, or any combination thereof to officers, directors, and employees of the Corporation to purchase up to an aggregate of 308,000 shares of Class A Stock. As of December 31, 2015, 296,467 shares of stock could be granted in the future. The changes in outstanding options are as follows:

	Shares Under Option	Weighted-Average Exercise Price Per Share
Balance at December 31, 2015	2,000	$ 14.85
Granted	-	-
Surrendered	-	-
Exercised	-	-
Balance at December 31, 2016	2,000	$ 14.85
Granted	-	-
Surrendered	-	-
Exercised	-	-
Balance at December 31, 2017	2,000	$ 14.85
Exercisable at December 31, 2017	2,000	$ 14.85

Grant-date fair value is measured on the date of grant using an option-pricing model with market assumptions. The grant-date fair values are amortized into expense on a straight-line basis over the vesting period. The company applies the Black-Scholes-Merton option-pricing model which requires the use of highly subjective assumptions, including but not limited to, expected stock price volatility, term, dividend rates, forfeiture rates, and risk-free interest rates, which if changed can materially affect fair value estimates. As of December 31, 2017 and 2016, all awards were fully vested and expensed.

NOTE 13. DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Corporation sponsors a dividend reinvestment and share purchase plan. Under the plan, all holders of record of common stock are eligible to participate in the plan. Participants in the plan may direct the plan administrator to invest cash dividends declared with respect to all or any portion of their common stock. Participants may also make optional cash payments that will be invested through the plan. All cash dividends paid to the plan administrator are invested within 30 days of cash dividend payment date. Cash dividends and optional cash payments will be used to purchase common stock of the Corporation in the open market, from newly-issued shares, from shares held in treasury, in negotiated transactions, or in any combination of the foregoing. The purchase price of the shares of common stock is based on the average market price. All administrative costs are borne by the Corporation.

For the year ended December 31, 2017, 3,699 shares were purchased under the Plan. Regular cash dividends of $0.07 per share were declared on December 13, 2017 and paid on January 16, 2018. Regular cash dividends of $0.065 per share were declared on June 13, 2017 and paid on July 17, 2017. For the year ended December 31, 2016, 6,787 shares were purchased under the Plan. Regular cash dividends of $0.065 per share were declared on December 13, 2016 and paid on January 17, 2016. Regular cash dividends of $0.065 per share were declared on June 14, 2016 and paid on July 11, 2016.

NOTE 14. EMPLOYEE BENEFIT PLANS

401(k) Savings Plan

During 2017, the Corporation amended its 401(k) Savings Plan and adopted a 401(k) Employee Stock Ownership Plan (the KSOP), which covers substantially all employees over 21 years of age with at least one year of service. Employees may defer up to 5.5 percent of their compensation monthly. The Bank makes annual discretionary matching contributions of 5.5 percent of the employee's contributions, not to exceed 5.5% of the participating employees' compensation. The Bank may also make additional discretionary contributions to the KSOP which is unrelated to any employer matching contributions. For the year ended December 31, 2017, the Bank expensed $321,183 for matching discretionary contributions to this Plan. Shares of Corporation common stock owned by the KSOP plan total 15,513 as of December 31, 2017 with a fair value of $255,965. All KSOP shares have been fully allocated to the participants.

For 2016, under the 401(k) savings plan that became effective October 1, 2006, employees are eligible after completing ninety days of service and attaining age 20.5. Eligible employees can contribute a minimum of 1% up to 15% of salary to the plan, up to the maximum amount allowed by law. The Corporation contributes one dollar for each dollar the employee contributes, up to 5.5% of the employee's salary. Contributions to the Plan charged to expense during 2016 was $324,581.

Profit-Sharing Plan

The Corporation 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. Benefits paid under the Plan are subject to approval by the Board of Directors each year. Contributions to the Plan charged to expense during 2017 and 2016 were $75,000 and $69,544, respectively.

Salary Continuation Plan

The Corporation provides a salary continuation plan providing for death and retirement benefits for certain executive officers. The present value of the estimated amounts to be paid under the plan is being accrued over the remaining service period of the executives. The expense recognized for the salary continuation plan amounted to $96,842 and $79,801 for the years ended December 31, 2017 and 2016, respectively. The balance of the liability for the salary continuation plan included in other liabilities at December 31, 2017 and 2016 totaled $1,265,975 and $1,262,634, respectively.

The cost of the salary continuation plan described above is being offset by earnings from bank owned life insurance policies on the executives. The balance of the policy surrender values totaled $11,048,864 and $9,104,612 at December 31, 2017 and 2016, respectively. Income recognized from the increase in cash surrender value on these policies totaled $294,252 and $280,592 for the years ended December 31, 2017 and 2016, respectively.

Employee Stock Purchase Plan

The Corporation sponsors an employee stock purchase plan which is available to all employees subject to certain minimum service requirements. The Plan is administered by a Board appointed committee which designates the offering period in which employees may purchase shares and the offering price. All administrative costs are borne by the Corporation. No shares were purchased under the Plan for the years ended December 31, 2017 and 2016, respectively.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Corporation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

The following tables present financial assets measured at fair value on a recurring basis as of December 31, 2017 and 2016, respectively:

		Fair Value Measurements at December 31, 2017 Using		
	Assets Measured at Fair Value December 31, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 143,484,897	$ 1,975,000	$ 141,509,897	$ -

		Fair Value Measurements at December 31, 2016 Using		
	Assets Measured at Fair Value December 31, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 160,903,623	$ 30,750	$ 160,872,873	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

The following tables present the assets carried on the consolidated balance sheets by caption and by level within the (FASB ASC 820) valuation hierarchy (as described above) as of December 31, 2017 and 2016, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2017 and 2016, respectively.

		Carrying Value at December 31, 2017		
	Assets Measured at Fair Value December 31, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,340,115	$ -	$ -	$ 1,340,115
Other real estate	1,430,301	-	-	1,430,301

		Carrying Value at December 31, 2016		
	Assets Measured at Fair Value December 31, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,697,373	$ -	$ -	$ 1,697,373
Other real estate	637,600	-	-	637,600

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $14,010,738 and $8,772,867, with a specific valuation allowance of $1,474,721 and $1,069,975 at December 31, 2017 and 2016, respectively. Of the $14,010,738 and $8,772,867 impaired loan portfolio, $2,049,508 and $1,697,373 were carried at fair value as a result of charge-offs and specific valuation allowances at December 31, 2017 and 2016, respectively. The remaining $11,961,230 and $6,005,519 was carried at cost, as the fair value of the collateral on these loans exceeded the book value for each individual loan at December 31, 2017 and 2016, respectively.

The Corporation considers the fair value of other real estate owned to be the liquidation value from the current appraisal. Due to the subjective nature, incorporating both observable and unobservable inputs factored into the appraisal process, including various assumptions and expectations on cash flows, all of the Corporation's other real estate owned carried at fair value are classified within Level 3 of the valuation hierarchy.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements

The Corporation had no Level 3 assets measured at fair value on a recurring basis at December 31, 2017 or 2016.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2017, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 1,340,115	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	1,430,301	Appraisal	Appraisal discounts (%)	10-20 %

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2016, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 1,697,373	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	637,600	Appraisal	Appraisal discounts (%)	10-20 %

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation’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 Corporation’s financial instruments, but rather a good–faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and Short-Term Investments*:* Fair value approximates the carrying value of such assets.

Investment Securities and Other Securities*:* The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

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 Corporation’s historical experience with repayments adjusted to estimate the effect of current market conditions.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

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.

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.

Other borrowings and Note payable to Trust*:* The fair value of the Corporation's note payable to trust and its revolving line of credit approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

Accrued Interest*:* The fair value of accrued interest receivable and payable approximates their carrying value.

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 Corporation's financial instruments at December 31, 2017 and 2016 are as follows:

	December 31,			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and short-term investments	$ 52,961	$ 52,961	$ 45,211	$ 45,211
Investment securities-available for sale	143,485	143,485	160,904	160,904
Investment securities-held to maturity	20,003	20,069	20,380	20,252
Loans held for sale	-	-	516	516
Loans held for investment, net of the allowance for loan losses	343,640	342,148	295,124	302,783
Bank owned life insurance	11,049	11,049	9,105	9,105
Other securities	1,679	1,679	1,640	1,640
Accrued interest receivable	3,094	3,904	2,748	2,748
Financial liabilities:				
Deposits	537,831	539,546	505,888	508,244
Other borrowings	6,244	5,826	5,344	5,361
Note payable to trust	10,310	10,310	10,310	10,310
Accrued interest payable	184	184	148	148

NOTE16. DIVIDENDS FROM BANK

Dividends paid by the 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 both total "risk-weighted" assets and total average assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary bank. The payment of dividends from the Bank is regulated by the Alabama State Banking Department and may be limited based on earnings and credit losses. Future payments of dividends by the Bank to the Corporation will be dependent on earnings, loan losses and compliance with applicable regulations of the Alabama State Banking Department and applicable federal regulators.

NOTE 17. LITIGATION

The Corporation is involved in various legal proceedings arising in connection with their business. In the opinion of management, the ultimate resolution of these proceedings is not expected to have a material adverse effect upon the financial statements of the Corporation.

NOTE 18. COMMITMENTS

The Corporation leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. The Corporation is not committed to any operating leases, which have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2017.

Rental expense for all operating leases charged to earnings aggregated $64,051 and $49,015 for the years ended December 31, 2017 and 2016, respectively.

The Corporation 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 and standby letters of credit. Such instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments.

The financial instruments whose contractual amounts represent credit risk as of December 31, 2017 and 2016 are approximately as follows:

	December 31,	
	2017	2016
Commitments to extend credit	$ 63,906,461	$ 54,822,281
Standby letters of credit	1,362,660	791,160
	$ 65,269,121	$ 55,613,441

Standby letters of credit are commitments issued by the Corporation 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 Corporation holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

NOTE 18. COMMITMENTS (Continued)

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.

NOTE 19. OTHER NONINTEREST EXPENSE

Components of other noninterest expense exceeding 1% of the total of net interest income and noninterest income for the years ended December 31, 2017 or 2016, respectively, include the following:

	Years Ended December 31,	
	2017	2016
Accounting and audit	$ 319,386	$ 136,158
Advertising	375,821	329,067
ATM network	157,947	135,210
Card-based expense	1,132,082	937,681
Network and communications	451,398	389,746
Internet and mobile banking	224,231	224,858
Core processing	646,505	567,660
Other data processing	317,097	313,026
FDIC deposit insurance	240,093	275,732
Other real estate owned expenses	118,449	69,860
Provision for other real estate owned losses	398,449	74,167
Other	2,136,404	2,173,073
	$ 6,517,862	$ 5,626,238

NOTE 20. CONCENTRATIONS OF CREDIT RISK

The Corporation originates primarily commercial, agricultural, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Corporation’s customers to honor their contractual loan obligations is dependent on the economy in these areas. As of December 31, 2017 and 2016, approximately 49% and 47%, respectively, of the Corporation’s loans were commercial loans, including those secured by real estate. The Corporation’s commercial customers are primarily small to middle market enterprises. The Corporation also specializes in agricultural loans, including loans secured by farmland, which represented approximately 18% and 19% of the Corporation’s total loans at December 31, 2017 and 2016, respectively.

Total loans secured by real estate was approximately 64% and 71% of the Corporation’s loan portfolio at December 31, 2017 and 2016, respectively, of which a substantial portion is secured by real estate in the Corporation’s market areas. At December 31, 2017 and 2016, real estate construction loans accounted for approximately 6% and 7%, respectively, of the total loan portfolio, while 1-4 family residential mortgage loans made up approximately 23% and 26%, respectively, of the loan portfolio. A more complete discussion and analysis of the Corporation’s loan types and concentrations and the related credit risk is set forth in Note 4.

NOTE 21. REGULATORY MATTERS

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Regulatory capital rules include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer must be composed entirely of Common Equity Tier 1 capital (CET1). When fully phased-in on January 1, 2019, the capital conservation buffer of 2.5% will be added on top of each of the minimum risk-based capital ratios. The implementation of the capital conservation buffer began phasing in on January 1, 2016 at the rate of 0.625% per year and will be phased-in over a three-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) as presented in the chart below. Banking institutions with risk-based capital ratios above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The minimum capital ratios (as established in 2015 under Basel III), including the phase-in of the capital conservation buffer through January 1, 2019, for capital adequacy purposes are as follows:

Year	Total Capital to Risk-Weighted Assets	Tier 1 Capital to Risk-Weighted Assets	CET1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Total Assets
2015	8.000 %	6.000 %	4.500 %	4.000 %
2016	8.625 %	6.625 %	5.125 %	4.000 %
2017	9.250 %	7.250 %	5.750 %	4.000 %
2018	9.875 %	7.875 %	6.375 %	4.000 %
2019	10.500 %	8.500 %	7.000 %	4.000 %

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of December 31, 2017 and 2016, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank's category.

NOTE 21. REGULATORY MATTERS (Continued)

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes[1]		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2017:						
Total Capital to Risk-Weighted Assets	**$ 56,915**	**14.439%**	**$ 36,460**	**9.250%**	**$ 39,417**	**10.000%**
Tier 1 Capital to Risk-Weighted Assets	**$ 52,624**	**13.351%**	**$ 28,577**	**7.250%**	**$ 31,533**	**8.000%**
CET1 Capital to Risk-Weighted Assets	**$ 52,624**	**13.351%**	**$ 22,664**	**5.750%**	**$ 25,621**	**6.500%**
Tier 1 Capital to Average Total Assets	**$ 52,624**	**8.715%**	**$ 24,153**	**4.000%**	**$ 30,191**	**5.000%**
As of December 31, 2016:						
Total Capital to Risk-Weighted Assets	$ 52,873	15.202%	$ 29,999	8.625%	$ 34,781	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 48,949	14.073%	$ 23,043	6.625%	$ 27,825	8.000%
CET1 Capital to Risk-Weighted Assets	$ 48,949	14.073%	$ 17,825	5.125%	$ 22,608	6.500%
Tier 1 Capital to Average Total Assets	$ 48,949	8.513%	$ 22,999	4.000%	$ 28,749	5.000%

[1] Includes the phase-in percentages of the capital conservation buffer.

NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS

To hedge the Corporation's exposure to changing interest rates, management entered into an agreement known as an "interest rate cap" on its variable rate note payable to trust during April 2012. Interest rate caps are typically used to mitigate a borrowing's exposure to rising interest rates. Pursuant to the agreement, the Corporation's counterparty agrees to pay the Corporation an amount equal to the difference between the three-month LIBOR and 2.5% multiplied by a $10,000,000 notional amount should the three-month LIBOR rise above 2.5% during the five-year term of the agreement. The Corporation paid its counterparty a one-time premium equal to $158,000 which will be amortized over the five-year term. The interest rate cap matured during 2017. In 2016, the interest cap was being marked to market and accounted for as a cash flow hedge. As of December 31, 2016, the interest rate cap contract was carried at fair value which was equal to $0.

NOTE 23. PARENT CORPORATION FINANCIAL INFORMATION

The condensed financial information for United Bancorporation of Alabama, Inc. (Parent Corporation Only) follows:

CONDENSED BALANCE SHEETS

	2017	2016
Assets		
Cash	$ 1,611,538	$ 1,173,793
Investment in subsidiaries	51,575,546	48,194,405
Other assets	572,719	154,269
Total assets	$ 53,759,803	$ 49,522,467
Liabilities and stockholders' equity		
Other liabilities	$ 400,614	$ 235,314
Other borrowings	5,000,000	5,000,000
Note payable to trust	10,310,000	10,310,000
Total liabilities	15,710,614	15,545,314
Stockholders' equity		
Preferred stock of $.01 par value. Authorized 250,000 shares; no shares issued in 2017 and 2016, respectively	-	-
Class A common stock of $0.01 par value. Authorized 5,000,000 shares; issued 2,431,680 and 2,412,468 shares in 2017 and 2016, respectively	24,317	24,125
Class B common stock of $0.01 par value. Authorized 250,000 shares; no shares issued	-	-
Additional paid-in capital	7,602,094	7,345,204
Retained earnings	32,036,728	28,546,743
Accumulated other comprehensive loss, net of tax	(1,611,999)	(1,936,968)
Less: 239 and 239 treasury shares at cost in 2017 and 2016	1,951	1,951
Total stockholders' equity	38,049,189	33,977,153
Total liabilities and stockholders' equity	$ 53,759,803	$ 49,522,467

NOTE 23. PARENT CORPORATION FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF EARNINGS

	2017	2016
Income		
Dividend income from subsidiary	$ 1,500,000	$ 6,105,000
Other income	9,040	185,588
Total income	1,509,040	6,290,588
Expense		
Interest on other borrowings and note payable	498,311	283,649
Other operating expense	639,316	292,776
Total expense	1,137,627	576,425
Income before equity in undistributed earnings of subsidiary and income taxes	371,413	5,714,163
Income tax benefit	(439,010)	(95,318)
Income before equity in undistributed earnings of subsidiary	810,423	5,809,481
Equity in undistributed (distributions in excess of) earnings of subsidiary	2,684,889	(2,273,493)
Net earnings	$ 3,495,312	$ 3,535,988

CONDENSED STATEMENTS OF CASH FLOWS

	2017	2016
OPERATING ACTIVITIES		
Net earnings	$ 3,495,312	$ 3,535,988
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Distributions in excess of (equity in undistributed) earnings of subsidiary	(2,684,889)	2,273,493
Increase in other liabilities	151,669	68,365
(Increase) decrease in other assets	(414,341)	53,662
Net cash provided by operating activities	547,751	5,931,508
INVESTING ACTIVITIES		
Investment in subsidiaries	(53,000)	-
Net cash used in investing activities	(53,000)	-
FINANCING ACTIVITIES		
Cash dividends - preferred stock	-	(206,572)
Cash dividends - common stock	(314,088)	(324,916)
Proceeds from dividend reinvestment plan	53,987	55,856
Proceeds from sale of common shares to KSOP	203,095	-
Sale of treasury stock	-	1,632
Advances from other borrowings	-	5,000,000
Redemption of preferred stock	-	(10,300,000)
Net cash used in financing activities	(57,006)	(5,774,000)
Net increase in cash	437,745	157,508
Cash at beginning of year	1,173,793	1,016,285
Cash at end of year	$ 1,611,538	$ 1,173,793