Quarter 3 2020 Report

United Bancorporation of Alabama, Inc.

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President's Letter

2020 has been unprecedented in many ways. The pandemic created both an economic and health crisis. In the midst of these challenges, we had a disastrous weather event on the Gulf Coast, Hurricane Sally. Sally's track made impact near Gulf Shores, AL on September 16th as a Category 2 storm with sustained winds over 105 mph, crossing over the Florida Panhandle, while dumping 20 inches of rain. The combination of the hurricane along with the economic and health challenges further disrupted lives and businesses. Despite these challenges, the company responded with creative solutions as well as providing an opportunity to validate our continuity of operational strategies.

On a positive note, the pandemic has been a catalyst for change, including the accelerated adoption of alternative delivery options including digital banking solutions. Our technology conversion and upgrade gave us a competitive edge in serving customers with digital and in person solutions. I believe this capability has elevated the bank as a market leader in customer experience. While lobby access has remained open, either by walk in or appointment, we have seen a strong adoption of alternative digital banking solutions. Going forward, we expect to see a resumption of more traffic in our offices combined with elevated use of digital banking.

"On a positive note, the pandemic has been a catalyst for change, including the accelerated adoption of alternative delivery options including digital banking solutions.

As we migrate into the post Sally recovery phase, we are in the beginning stages of the evaluation process. It is too early to fully assess the magnitude of destruction or the recovery benefits from FEMA and insurance companies. While some of our agricultural customers did experience damage, it is premature to make a determination of the extent. Due to crop insurance and the diversity of operations, the impact is not anticipated to be extensive. Our officers are working closely with their customers to monitor performance. More detail is provided in the credit discussion regarding forbearance, PPP and credit quality.

We have entered the final phase of our technology upgrade. We feel confident in the decisions that have been made and the quality of the customer experience. The stated goal from the beginning was to provide customers the banking services they need, when and how they chose to engage. Our strategy is a blend of digital and personal experience coupled with quality customer service. These challenges have forced an aggressive adoption and evolution of delivery channels that could have taken years to be embraced by the customer, compressing the acceptance to only a couple of months.

President's Letter

Early on, our company took the position of extending every effort to aid our small business customers in an attempt to provide positive outcomes in a troubling economic environment. We've created genuine long lasting bonds with our customers by integrating their business success and with desired solutions. We have focused on understanding our customer preferences and extending solutions that fit each need.

This year hasn't been completely full of challenges. Our company has had many moments of celebration. We received recognition from the ICBA National Community Bank Service Award for extraordinary efforts to help small businesses, consumers and our communities amid the COVID-19 pandemic.

As we weather the storm of 2020, we are reminded very difficult situations build resilient companies. While the pandemic has transformed critical banking systems, strategy and execution play a pivotal role in our company's success. In response to the pandemic, the Feds action to lower rates and expectation of rates remaining low for an extended time, these decisions will impact our net interest margin, operations and pricing strategies. As we enter into the fourth quarter and the uncertainty of the future, we remain aggressive in our measured response and adapting to the systemic change of our operating environment. Our commitment remains to build reserves, maintain strong capital, and conserve liquidity. I trust we will emerge stronger and positioned to adapt to the future.

> While the pandemic has transformed critical banking systems, strategy and execution play a role in our company's success.

Most recently, we've been recognized by the American Banker publication as being one of the Best Banks to Work For. This recognition is in addition to our previous awards with American Banker Top 200 Banks as well as Business Alabama Best Companies in Alabama to Work For. Several of the defining criteria that solidified our Best Banks to Work For award were comments from our people in terms of job satisfaction, corporate culture and communications, engagement as well as leadership and planning. While these categories aren't a performance metric, I believe they are a significant factor in driving our overall performance. Survey results validate this in our employees citing their understanding of the long-term strategy of our organization and the confidence they have in our leadership team.

Robert R. Jones, III

Bob Jones

President & CEO

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Credit Notes

United Bank continued to actively participate in the Paycheck Protection Program (PPP) Loans during the third quarter. By 9/30/2020, the bank had originated 949 PPP loans totaling $50 million. During the past six months, these loans helped sustain area businesses as they have worked through operational interruptions and revenue declines due to the COVID-19 pandemic. The bank has been working with PPP borrowers through the forgiveness process, although no loans have been formally forgiven by the SBA at quarter end. The bank continues to host weekly PPP calls via Zoom to offer guidance to customers regarding the forgiveness process.

The bank has offered payment modifications to both retail and commercial borrowers. The number of requests has dropped significantly during the third quarter. The amount of loans that are still under a COVID-19 modification at the end of the quarter is $31 million. This total represents a 39% decline in a quarter over quarter comparison. Current deferred loans represent 5.76% of total loans outstanding as compared to 10.2% from the prior quarter. Of this total, $31.3 million are Commercial modifications. We continue to monitor these loans very closely as customers resume their original payment structures.

United Bank's Special Assets Department has worked vigorously to ensure that any past due loans are addressed. Past dues remain steady at 1.01% of gross loans at quarter end. Non accrual to gross loans declined to 0.60% during the third quarter. Special emphasis has been placed on COVID-19 deferrals to monitor for any signs of continued weakening. As of the end of the quarter, bank ORE had reduced by 47.0% to $507,294.

During this period of uncertainty, the bank has maintained an awareness of areas of elevated risk. We continue to monitor certain industry types and will continue to be vigilant in stressing credits as we underwrite loans. Lenders will continue to do a quarterly reassessment of their loan portfolios to ensure proper loan grading. Certain industries are monitored for concentration levels to ensure that our portfolio remains balanced and healthy.

Total loans at quarter end were $551 million which includes growth during the third quarter of 7.6% or $38.7M. The loan portfolio showed growth across almost every category. Our mortgage services department continued to perform well during the third quarter reporting QTD fee income of $288,649 which is a 31.7% increase over the 3rd quarter of 2019. Mortgage fee income YTD shows a 15.6% increase over the same period last year.

31% INCREASE IN MORTGAGE FEE INCOME FROM Q3 2019

LOAN GROWTH QUARTER END

$551 MILLION IN TOTAL LOANS

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Loan Portfolio Concentrations

COVID "At Risk" Metrics	9/30/2020	6/30/2020	3/31/2020
Total Loans ($000)	551,069	512,299	459,650
Total Loans w/o PPP	500,381	462,345	459,650
At Risk Loans ($000)	98,752	91,430	87,816
As % of Total Loans	17.92%	17.85%	19.10%
Loan Loss Reserves ($000)	(7,019)	(6,277)	(5,983)
As % of "At Risk" Loans	7.11%	6.87%	6.81%
As % of Total Loans	1.27%	1.23%	1.30%
Tang Common Equity ($000)	95,609	90,319	84,758
As % of "At Risk" Loans	96.82%	98.78%	96.52%
LLR & TCE ($000)	102,628	96,596	90,741
As % of "At Risk" Loans	103.92%	105.65%	103.33%
Estimated Deferrals ($000)	31,764	52,464	2,302
As % of Total Loans	5.76%	10.24%	0.50%
Estimated PPP Loans ($000)	50,688	49,954	-
As % of Total loans	9.20%	9.75%	0.00%

Loan Portfolio Concentrations

Concentrations	9/30/2020	6/30/2020	3/31/2020
Hotel ($000)	9,143	9,878	8,836
As % of Total Loans	1.66%	1.93%	1.92%
Retail ($000)	12,692	12,591	12,966
As % of Total Loans	2.30%	2.46%	2.82%
Convenient Stores ($000)	11,783	11,778	11,572
As % of Total Loans	2.14%	2.30%	2.52%
Healthcare ($000)	5,821	6,379	5,754
As % of Total Loans	1.06%	1.25%	1.25%
Office ($000)	8,621	8,155	8,025
As % of Total Loans	1.56%	1.59%	1.75%
Industrial & Warehouse ($000)	16,809	11,351	11,513
As % of Total Loans	3.05%	2.22%	2.50%
Church ($000)	11,118	11,270	11,388
As % of Total Loans	2.02%	2.20%	2.48%
Multifamily ($000)	22,765	20,028	17,762
As % of Total Loans	4.13%	3.91%	3.86%
Total	98,752	91,034	87,816

Financial Notes

United Bancorporation of Alabama, Inc. ("United") reported net income of $10.6 million for the nine months ending September 30, 2020 compared to net income of $7.3 million for the same period in 2019. The $10.6 million includes a $6.0 million Capital Magnet Fund (CMF) grant awarded by the CDFI Fund to finance affordable housing projects. Without the CMF award, net income for the nine months ending September 30, 2020 would have been $5.9 million. Earnings per share for the nine month period was $2.86 compared to $2.25 for the same period in 2019 and $1.60 without the CMF award.

Net income for the three month period ending September 30, 2020 was $2.3 million compared to net income of $3.2 million for the same period last year. Earnings per share for the three months ended September 30, 2020 was $0.62 compared to an earnings per share for the same period last year of $0.88.
The return on average assets and average equity for the nine months ended September 30, 2020 was 1.73% and 15.92%, respectively.

Balance Sheet

United reported total assets of $903.2 million at September 30, 2020 as compared to $713.4 million at September 30, 2019, an increase of $189.7 million or 26.6%.

Total loans, net of unearned income at September 30, 2020 were $551.1 million compared to $448.2 million at September 30, 2019, representing an increase of $102.9 million or 23.0%. PPP loans account for $50.6 million of the growth. Approximately $43.0 million in loan growth was fueled by real estate construction for NMTC and Low Income Housing Tax Credit (LIHTC) projects as well as loans to small businesses and municipalities.

To date, United has made three New Market Tax Credit (NMTC) investments. It maintains controlling interest in the subsidiary entities of two of these transactions and due to consolidation accounting, loans totaling $14.7 million made by the subsidiaries are reflected in United's assets.

Total deposits were $770.7 million at September 30, 2020 as compared to $611.5 million in total deposits at September 30, 2019, representing an increase of $159.2 million or 26.0%. Customers continue to maintain higher levels of savings and liquidity, which resulted in $62.0 million or 68.3% year-over-year increase in United's cash balances. Third quarter cash balances totaled $152.8 million, which is $58.0 million less than second quarter, as cash was deployed into higher yielding assets.

Operating Results

Year-to-date 2020 net interest income before the provision was $19.4 million compared to $18.4 million for the same period in the prior year, an increase of $1.0 million or 5.6%. Third quarter 2020 net interest income before the provision was $6.9 million versus $6.4 million in the third quarter of 2019, representing an increase of $440,255 or 6.8%. United began recognizing SBA PPP fees during the third quarter; those fees totaled $536,855.

Financial Notes

As a result, the net interest margin for the nine months ended September 30, 2020 was 3.61% as compared to 4.08% for the same period in 2019. Earning asset yields declined 57 bps year over year to 4.03%. Yields on interest bearing liabilities fell 11 bps to 83 bps for the nine months ending September 30, 2020, resulting in a 10 bps reduction in the cost of funds to 43 bps.

Similarly, for the quarter ending September 30, 2020, the net interest margin was 3.51% as compared to 4.19% for the quarter ending September 30, 2019, a 68 bps decrease. Earning asset yields declined 88 bps to 3.85% for the quarter ending September 30, 2020. Yields on interest bearing liabilities decreased 25 bps to 72 bps for the quarter. Similarly, the cost of funds declined to 35 bps from 56 bps.

The provision for credit losses for the nine months ended September 30, 2020 was $1.8 million compared to $796,834 for the same period last year. For the third quarter 2020, the provision for credit losses was $817,195 as compared to $366,379 for the same period in 2019. As SBA PPP fees are recognized, they are being expensed through the provision to build loan loss reserves. This brings the allowance for loan losses to $7.0 million and the coverage ratio to 1.27%. Excluding PPP loans, the allowance to loans coverage ratio would be 1.40%.

Non-interest income for the nine months ended September 30, 2020 was $14.1 million compared to $8.0 million for the same period last year. This contains both the CMF award of $6 million and the Financial Assistance (FA) award of $799,000. Without those awards, year-to-date non-interest income would have been $7.3 million. Non-interest income is lower in 2020, because fewer NMTC transactions closed during the year, resulting in less fee income.

For the quarter ending September 30, 2020 non-interest income was $2.8 million compared to $3.5 million for the quarter ended September 30, 2019. The sustained higher deposit balances during the third quarter caused a decline in insufficient funds revenue of $164,852 or 40.20% from second quarter 2019. This was more than offset by increases in card based revenue.

Non-interest expense for the nine months ended September 30, 2020 was $18.3 million compared to $16.3 million for the same period last year, an increase of $2.0 million or 12.8%. Third quarter 2020 non-interest expense rose $774,817 or 14.0% to $6.2 million. The increased expense is due to salary and benefits; the addition of two new branches in Daphne and Semmes, AL; and core processing fees.

Capital

At September 30, 2020, stockholder's equity totaled $95.6 million compared to $80.8 million at September 30, 2019, an increase of $14.4 million or 17.8%.

Tier one capital ratio, tier one leverage ratio and equity to assets were approximately 17.66%, 11.49% and 10.59%, respectively.

Quarterly Comparison

United Bancorporation of Alabama, Inc.	9/30/2020	6/30/2020 No CMF Award	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Equity						
Tier One Leverage	11.49%	-	12.10%	12.95%	12.70%	12.89%
Tier One Capital	17.66%		17.75%	17.99%	17.33%	17.14%
Equity to Total Assets	10.59%	-	10.44%	11.69%	11.29%	11.28%
At Month End						
Loans, net of unearned income ($000)	551,126,127	-	512,361,189	459,649,937	455,066,647	448,255,160
Total Deposits ($000)	770,724,204	-	771,013,911	629,759,319	622,567,234	611,518,624
Total Assets ($000)	903,211,003	-	890,566,788	742,977,301	730,777,733	713,481,344
Earnings & Performance Ratios						
Net Income ($000)	2,303,469	1,307,067	5,941,527	2,369,468	2,418,150	3,245,019
Net Interest Margin	3.51%	3.40%	3.40%	3.95%	4.08%	4.18%
Return on Average Equity	9.77%	5.81%	27.00%	11.22%	11.79%	16.43%
Return on Average Assets	1.02%	0.62%	2.87%	1.30%	1.32%	1.86%
Earnings Per Share	0.62	0.35	1.60	0.64	0.65	0.88
Weighted Avg Shares Oustanding	3,723,552	3,708,050	3,708,050	3,704,441	3,692,880	3,680,597

Quarterly Comparison

United Bank	9/30/2020	6/30/2020 No CMF Award	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Equity						
Tier One Leverage	8.92%	-	9.36%	9.79%	9.60%	9.36%
Tier One Capital	13.88%	-	13.86%	13.73%	13.25%	12.60%
Equity to Total Assets	9.28%	-	8.99%	9.92%	9.57%	9.23%
Cost of Funds		-				
United Bank Cost of Funds	0.33%	-	0.39%	0.49%	0.50%	0.49%
AL Bank Peers Cost of Funds	n/a	-	-	0.81%	0.79%	0.83%

Highlights

Total Assets
$903 million

Cost of Funds
0.33%

Tier One Capital
17.66%

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Balance Sheet

United Bancorporation of Alabama, Inc. And Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	September 30, 2020	September 30, 2019
Assets		
Cash and due from banks	$48,603,060	$26,817,775
Interest bearing deposits in banks	104,221,348	61,972,153
Federal funds sold	-	2,000,000
Cash and cash equivalents	152,824,408	90,789,928
Securities available for sale (amortized cost of $124,197,238 and $116,802,969 respectively)	127,524,529	117,966,859
Securities held to maturity (fair values of $16,203,886 and $17,886,582 respectively)	15,614,198	17,554,894
	143,138,727	135,521,753
Loans held for sale	1.085,700	2,623
Loans held for investment	551,126,127	448,221,932
Less: Allowance for loan losses	7,019,267	4,801,883
Net Loans	544,106,860	443,410,049
NMTC Sub-CDE QLICI Loans	14,770,000	-
Premises and equipment, net	16,143,264	15,401,341
Interest receivable	4,912,242	3,880,685
Bank owned life insurance	11,952,842	11,628,077
Other real estate owned	507,294	1,768,681
Other assets	13,769,666	11,078,206
Total Assets	903,211,003	713,481,343

Balance Sheet

United Bancorporation of Alabama, Inc. And Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	September 30, 2020	September 30, 2019
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	397,426,789	266,164,271
Interest bearing	373,297,415	345,354,352
Total deposits	770,724,204	611,518,623
Other borrowings	20,536,365	5,246,080
Interest payable	237,701	243,706
Accrued interest and other liabilities	5,793,439	5,320,406
Note payable to Trust	10,310,000	10,310,000
Total liabilities	807,601,708	632,638,815
Stockholders' Equity		
Preferred stock of $.01 par value. Authorized 250,000 shares: no shares issued in 2020 and 2019, respectively	-	-
Class A common stock, $0.01 par value. Authorized 5,000,000 shares; issued 3,732,743 and 3,682,171 shares, respectively	37,906	37,634
Class B common stock, $0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	-	-
Additional paid in capital	33,554,440	32,922,636
Retained earnings	60,872,456	48,697,726
Accumulated other comprehensive loss net of tax	2,495,469	872,919
	96,960,271	82,530,915
Less: 239 and 239 treasury shares, at cost, respectively	1,951	1,951
Less: Unvested Restricted Stock and Unallocated ESOP Shares	1,349,025	1,686,436
Total stockholders' equity	95,609,295	80,842,528
Total liabilities and stockholders' equity	$903,211,003	$ 713,481,343

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Income Statement

United Bancorporation of Alabama, Inc. And Subsidiaries
Consolidated Statement of Earnings
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Interest income:				
Interest and fees on loans	6,934,489	6,218,788	19,427,721	17,543,524
Interest on investment securities:				
Taxable	471,180	625,335	1,488,730	1,877,566
Nontaxable	199,577	210,041	596,117	635,586
Total investment income	670,757	835,376	2,084,847	2,513,152
Other interest income	42,367	300,167	329,267	749,428
Total interest income	7,656,613	7,354,331	21,841,835	20,806,104
Interest expense:				
Interest on deposits	600,335	724,510	1,975,350	1,952,428
Interest on other borrowed funds	119,091	132,889	418,505	430,570
Total interest expense	719,426	857,399	2,393,855	2,382,998
Net interest income	6,937,187	6,496,932	19,447,980	18,423,106
Provision for loan losses	817,195	366,379	1,817,195	796,834
Net interest income after provision for loan losses	6,119,992	6,130,553	17,630,785	17,626,272

Income Statement

United Bancorporation of Alabama, Inc. And Subsidiaries
Consolidated Statement of Earnings
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Noninterest income:				
Service charge and fees	1,301,577	1,285,745	3,563,223	3,650,936
CDFI Award Income	-	245,547	6,799,000	478,791
New market tax credit sub-allocation and placement fees	460,000	1,020,000	1,020,000	1,880,000
Investment securities gains, net	881	122,369	216,610	117,512
Mortgage loan and related fees	288,649	287,258	837,146	724,270
Other	765,452	556,195	1,681,049	1,180,498
Total noninterest income	2,816,559	3,517,114	14,117,028	8.032,007
Noninterest expense:				
Salaries and benefits	3,652,572	3,163,957	10,490,293	9,547,795
Net occupancy expense	710 ,624	552,840	2,003,433	1,578,523
Other	1,930,757	1,802,339	5,894,929	5,170,013
Total noninterest expense	6,293,953	5,519,137	18,388,655	16,296,332
Earnings before income tax expense	2,642,598	4,128,530	13,359,158	9,361,947
Income tax expense	339,129	883,511	2,744,694	2,019,325
Net earnings	2,303,469	3,245,019	10,614,464	7,342,622
Preferred stock dividends	-	-		
Net earnings available to common shareholders	$2,303,469	$3,245,019	$10,614,464	$7,342,622

Income Statement

United Bancorporation of Alabama, Inc. And Subsidiaries
Consolidated Statement of Earnings
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings per share available to common shareholders	$0.62	$0.88	$2.86	$2.25
Diluted earnings per share available to common shareholders	$0.62	$0.88	$2.86	$2.25
Basic weighted average shares outstanding	3,723,552	3,680,597	3,712,057	3,264,715
Diluted weighted average shares outstanding	3,723,552	3,680,597	3,712,057	3,264,715
Cash dividend declared per share	-	-	$0.100	$0.080

Financial Hightlights

01 **$2.86** Earnings Per Share

02 **1.27 %** Loan Loss Allowance

03 **5.76%** Deferred Loans Compared To Percentage Of Total Loans

04 **10.59%** Equity/Assets

Return On Average Assets 1.73%

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Forward Looking Statement

This presentation contains forward-looking statements relating to the financial condition, results of operations and business of United Bancorporation of Alabama, Inc.
These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of the management of United Bancorporation of Alabama, Inc., and the information available to management at the time that this presentation was prepared. Factors that could cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following: (i) general economic or business conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services; (ii) changes in the interest rate environment may reduce net margins and/or the volumes and values of loans made or held as well as the value of other financial assets held; (iii) competitive pressures among depository and other financial institutions may increase significantly; (iv) legislative or regulatory changes, including changes in accounting standards, may adversely affect the businesses in which United Bancorporation of Alabama, Inc. is engaged; (v) local, state or federal taxing authorities may take tax positions that are adverse to United Bancorporation of Alabama, Inc.; (vi) adverse changes may occur in the securities markets; (vii) competitors of United Bancorporation of Alabama, Inc. may have greater financial resources and develop products that enable them to compete more successfully than United Bancorporation of Alabama, Inc. Therefore, United Bancorporation of Alabama, Inc. can give no assurance that the results contemplated in the forward-looking statements will be realized. Investors are cautioned not to place undue reliance on the forward-looking statement. United Bancorporation of Alabama, Inc. does not undertake a duty to update any forward-looking statements made in this presentation.

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