UNITED BANCORPORATION
OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2020

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MAULDIN & JENKINS
CPAs & ADVISORS

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, 2020 and 2019, 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, 2020 and 2019, 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 22, 2021

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

Assets	2020	2019
Cash and due from banks	$ 108,506,410	$ 40,901,279
Interest-bearing deposits in banks	154,376,518	55,534,092
Federal funds sold	-	2,000,000
Cash and short-term investments	262,882,928	98,435,371
Securities available for sale, at fair value (amortized cost of $141,515,294 and $120,643,349 at December 31, 2020 and 2019, respectively)	144,854,569	121,372,532
Securities held to maturity, at amortized cost (fair value of $15,267,741 and $17,658,034 at December 31, 2020 and 2019, respectively)	14,701,703	17,345,341
Loans held for sale	2,817,561	-
Loans held for investment	526,285,086	455,124,946
Less: Allowance for loan losses	7,822,526	5,286,160
Loans, net	518,462,560	449,838,786
NMTC Sub-CDE QLICI Loans	3,500,000	-
Premises and equipment, net	15,760,075	15,627,115
Interest receivable	4,175,263	4,099,373
Bank owned life insurance	12,033,331	11,709,616
Other real estate owned, net	157,000	1,083,359
Other assets	9,362,723	7,986,365
Total assets	$ 988,707,713	$ 727,497,858

Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 486,405,309	$ 271,688,965
Interest-bearing	382,474,307	347,377,918
Total deposits	868,879,616	619,066,883
Interest payable	219,460	239,854
Other borrowings	9,910,458	8,058,708
Note payable to trust	10,310,000	10,310,000
Accrued expenses and other liabilities	2,538,539	6,961,893
Total liabilities	891,858,073	644,637,338
Commitments (Note 18)		
Stockholders' equity		
Preferred stock, par value $.01. Authorized 250,000 shares; no shares issued	-	-
Class A common stock, par value $0.01. Authorized 5,000,000 shares; 3,790,647 and 3,774,369 issued; 3,742,128 and 3,702,476 shares outstanding in 2020 and 2019, respectively	37,907	37,744
Class B common stock, par value $0.01. Authorized 250,000 shares; no shares issued	-	-
Additional paid-in capital	33,576,095	33,204,200
Retained earnings	61,859,668	50,655,518
Accumulated other comprehensive income, net of tax	2,504,457	546,888
	97,978,127	84,444,350
Less 239 treasury shares, at cost	1,951	1,951
Less unvested restricted stock and unallocated ESOP shares (48,280 and 71,654, respectively)	1,126,536	1,581,879
Total stockholders' equity	96,849,640	82,860,520
Total liabilities and stockholders' equity	$ 988,707,713	$ 727,497,858

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income		
Interest and fees on loans	$ 26,106,940	$ 23,973,321
Interest on investment securities:		
Taxable securities	1,950,120	2,443,034
Nontaxable securities	794,187	831,346
Total investment income	2,744,307	3,274,380
Other interest income	372,673	1,059,241
Total interest income	29,223,920	28,306,941
Interest expense		
Interest on deposits	2,559,124	2,695,378
Interest on other borrowings and note payable	476,292	538,322
Total interest expense	3,035,416	3,233,700
Net interest income	26,188,504	25,073,241
Provision for loan losses	2,727,891	1,687,364
Net interest income after provision for loan losses	23,460,613	23,385,877
Noninterest income:		
Service charges and fees	4,772,309	4,887,250
CDFI award income	7,002,251	479,803
New market tax credit sub-allocation and placement fees	880,000	1,880,000
Investment securities gains, net	211,350	117,512
Mortgage loan and related fees	1,181,987	985,962
Other	2,184,610	2,625,322
Total noninterest income	16,232,507	10,975,849
Noninterest expense:		
Salaries and benefits	14,027,657	12,608,987
Net occupancy expense	2,695,706	2,124,438
Other	7,594,568	7,168,167
Total noninterest expense	24,317,931	21,901,592
Earnings before income tax expense	15,375,189	12,460,134
Income tax expense	3,204,952	2,680,443
Net earnings	12,170,237	9,779,691
Net earnings available to common shareholders	$ 12,170,237	$ 9,779,691
Basic earnings per common share	$ 3.22	$ 2.86
Basic weighted-average shares outstanding	3,778,933	3,419,566
Diluted earnings per common share	$ 3.22	$ 2.86
Diluted weighted-average shares outstanding	3,778,933	3,419,566

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net earnings	$ 12,170,237	$ 9,779,691
Other comprehensive income:		
Unrealized holding gains on securities available for sale arising during the period, net of tax expense of $705,360 and $1,135,799, respectively	2,116,081	3,407,396
Reclassification adjustment for gains on securities available for sale realized in net earnings, net of taxes of $52,838 and $29,378, respectively	(158,512)	(88,134)
Total other comprehensive income	1,957,569	3,319,262
Comprehensive income	$ 14,127,806	$ 13,098,953

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Unvested	Unearned	
	Shares	Par Value	Capital	Earnings	Income (Loss)	Stock	Restricted Stock	ESOP Shares	Total
Balance, December 31, 2018	2,445,702	$ 24,457	$ 7,817,131	$ 41,647,425	$ (2,772,374)	$ (1,951)	$ (90,055)	-	$ 46,624,633
Net earnings	-	-	-	9,779,691	-	-	-	-	9,779,691
Other comprehensive income	-	-	-	-	3,319,262	-	-	-	3,319,262
Cash dividend declared ($0.21 per share)	-	-	-	(771,598)	-	-	-	-	(771,598)
Restricted stock grants	10,948	109	247,940	-	-	-	(248,049)	-	-
Common stock issues - Capital Raise	1,312,500	13,125	24,976,526	-	-	-	-	(2,000,000)	22,989,651
ESOP released shares - leveraged	-	-	66,913	-	-	-	-	566,927	633,840
Stock options exercised	2,000	20	29,680	-	-	-	-	-	29,700
Stock based compensation	-	-	-	-	-	-	189,298	-	189,298
Shares issued in accordance with dividend reinvestment plan	3,219	33	66,010	-	-	-	-	-	66,043
Balance, December 31, 2019	3,774,369	37,744	33,204,200	50,655,518	546,888	(1,951)	(148,806)	(1,433,073)	82,860,520
Net earnings	-	-	-	12,170,237	-	-	-	-	12,170,237
Other comprehensive income	-	-	-	-	1,957,569	-	-	-	1,957,569
Cash dividend declared ($0.25 per share)	-	-	-	(966,087)	-	-	-	-	(966,087)
Restricted stock grants	12,070	121	243,651	-	-	-	(243,772)	-	-
ESOP released shares - leveraged	-	-	27,154	-	-	-	-	467,474	494,628
Stock based compensation	-	-	-	-	-	-	231,641	-	231,641
Shares issued in accordance with dividend reinvestment plan	4,208	42	101,090	-	-	-	-	-	101,132
Balance, December 31, 2020	3,790,647	$ 37,907	$ 33,576,095	$ 61,859,668	$ 2,504,457	$ (1,951)	$ (160,937)	(965,599)	$ 96,849,640

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Net earnings	$ 12,170,237	$ 9,779,691
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	2,727,891	1,687,364
Depreciation of premises and equipment	1,315,031	973,833
Net amortization of premium on investment securities available for sale	987,380	678,735
Net amortization of premium on investment securities held to maturity	73,638	100,046
Gain on sales of investment securities available for sale, net	(211,350)	(117,512)
Stock based compensation	231,641	189,298
Release of ESOP shares	494,628	633,840
Gain on sales of other real estate owned	(17,171)	(306,758)
Gain on sales of loans held for sale	(891,093)	(696,653)
Originations of loans held for sale	(35,628,959)	(20,451,183)
Proceeds from sales of loans held for sale	33,702,491	21,257,836
Earnings on bank owned life insurance	(323,715)	(327,628)
Gain on sales of premises and equipment	-	(577)
Change in deferred income taxes	(462,637)	(170,979)
Provision for other real estate owned losses	100,294	176,121
Increase in interest receivable	(75,890)	(430,158)
(Increase) decrease in prepaids	(375,070)	389,520
Increase in other assets	(1,106,875)	(1,028,301)
Increase (decrease) in interest payable	(20,394)	33,958
Increase (decrease) in accrued expenses and other liabilities	(4,334,100)	4,049,941
Net cash provided by operating activities	8,355,977	16,420,434
INVESTING ACTIVITIES		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	40,800,834	19,143,732
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	2,570,000	345,000
Proceeds from sales of investment securities available for sale	18,567,359	19,671,179
Purchases of investment securities available for sale	(81,016,168)	(25,749,884)
Net purchase of other equity securities	(84,300)	(262,600)
Net increase in loans	(75,246,665)	(46,749,926)
Purchases of premises and equipment	(1,447,991)	(2,655,145)
Proceeds from sales of premises and equipment	-	3,500
Proceeds from sales of other real estate owned	1,238,236	981,545
Net cash used in investing activities	(94,618,695)	(35,272,599)
FINANCING ACTIVITIES		
Net increase in deposits	249,812,733	45,911,955
Cash dividends paid - common stock	(1,055,340)	(487,360)
Proceeds from sales of common stock	101,132	23,055,694
Proceeds from exercise of common stock options	-	29,700
Advances from other borrowings	2,564,450	8,019,084
Repayment of other borrowings	(712,700)	(4,621,588)
Net cash provided by financing activities	250,710,275	71,907,485
Net increase in cash and short-term investments	164,447,557	53,055,320
Cash and short-term investments at beginning of year	98,435,371	45,380,051
Cash and short-term investments at end of year	$ 262,882,928	$ 98,435,371
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	$ 3,055,810	$ 3,199,742
Income taxes	$ 4,411,700	$ 1,937,000
OTHER NONCASH TRANSACTIONS		
Transfer of loans to other real estate through foreclosure	$ 395,000	$ 908,208
Internally financed sales of other real estate owned	$ -	$ 231,300

See accompanying notes to consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorporation of Alabama, Inc. (the "Corporation") is a financial holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, United Bank (the "Bank"), UB Community Development, LLC (UBCD), UBA CFSA Investment Fund, LLC (CFSA IF) and UBA AMCREF Investment Fund, LLC (AMCREF IF).

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, Monroe and Mobile Counties, Alabama, and Santa Rosa County, Florida. The Bank wholly-owns United Insurance Services (UIS), a subsidiary entity, allowing bank-employed licensed agents to offer non-deposit insurance products to bank customers and non-customers.

UBCD is an entity established to manage allocations of New Market Tax Credits (NMTC) from funds administered by the U.S. Department of Treasury as well as oversee other community development initiatives. UBCD has offices in Atmore and Birmingham, Alabama.

In September 2019, the Corporation became a NMTC equity investor via CFSA IF by pre-funding a $3.5 million transaction. The Corporation will receive $1,365,000 in tax benefits over a seven-year compliance period. CFSA IF is wholly-owned by the Corporation and is the 99.9% member of UBCD Sub-CDE Uniform Golf, LLC. UBCD is the 0.01% member and manages the Sub-CDE for the investment fund.

In August 2020, the Corporation entered into its second NMTC transaction as equity investor. Through AMCREF IF, the Corporation made a $705,994 contribution that will result in $882,492 of tax credits taken over a seven-year compliance period. AMCREF IF is wholly-owned by the Corporation and is the 99.99% member of the AMCREF Fund 63, LLC. AMCREF Fund 63, LLC is managed by the 0.01% member, an entity external to the Corporation's organizational structure.

Principles of Consolidation

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

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 22, 2021, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investment Securities

Investment securities are classified in one of two portfolios: securities available for sale or securities held to maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings. 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, these stocks have no quoted market value and are 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 nonaccrual 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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.

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.

Stock Based Compensation

At December 31, 2020 and 2019, the Corporation had restricted stock 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.

Capital Raise

During the second quarter of 2019, the Corporation completed a private placement of $26.25 million of its common stock. As a result of the offering, the Corporation issued 1,312,500 shares of its common stock at the purchase price of $20.00 per share. After paying transaction fees of approximately $1.15 million and the repayment of a $4.4 million loan, the Corporation had approximately $20.7 million to fund strategic initiatives. United Bancorporation of Alabama's 401(k) Employee Stock Ownership Plan (KSOP) leveraged $2.0 million from the Corporation to purchase 100,000 shares in the capital raise, as more fully disclosed in Note 14.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive stock options were exercised and resulted in the issuance of common stock.

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered participating securities and therefore considered to be outstanding in the computation of earnings per share. For the years ended December 31, 2020 and 2019, earnings per share is calculated using the two class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

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 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

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The new guidance will apply to most financial assets measured at amortized cost and certain other instruments including loans, debt securities held to maturity, net investments in leases and off-balance sheet credit exposures. The guidance will replace the current incurred loss accounting model that delays recognition of a loss until it is probable a loss has been incurred with an expected loss model that reflects expected credit losses based upon a broader range of estimates including consideration of past events, current conditions and supportable forecasts. The guidance also eliminates the current accounting model for purchased credit impaired loans and debt securities, which will require re-measurement of the related allowance at each reporting period. The guidance includes enhanced disclosure requirements intended to help financial statement users better understand estimates and judgement used in estimating credit losses. As originally issued, ASU 2016-13 was effective for financial statements issued for fiscal years and for interim periods within those fiscal years beginning after December 15, 2020, with institutions required to apply the changes through a cumulative-effect adjustment to their retained earnings balance as of the beginning of the first reporting period in which the guidance is effective. On October 16, 2019, the FASB approved a delay in the implementation of ASU 2016-13 by two years for non-public business entities, including the Corporation. Management has been in the process of developing a revised model to calculate the allowance for loan and leases losses upon implementation of ASU 2016-13 in order to determine the impact on the Corporation's consolidated financial statements and, at this time, expects to recognize a one-time cumulative effect adjustment to the allowance for loan and lease losses as of the beginning of the first reporting period in which the new standard is effective. The magnitude of any such one-time adjustments is not yet known.

NOTE 2. CASH AND DUE FROM BANKS

The Bank may be required by the Federal Reserve Bank to maintain daily cash balances. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. The total of those reserve balances was $0 and $20,201,000 at December 31, 2020 and 2019, respectively. On March 15, 2020, the Federal Reserve System Board announced an interim final rule amending Regulation D to lower all transaction account reserve requirement ratios to zero percent, thereby eliminating all reserve requirements, although it did reserve the right to require a reserve requirement at a future date.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2020 and 2019 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2020:				
U.S. government sponsored agencies	$ 28,311,781	$ 1,054,189	$ (67,184)	$ 29,298,786
State and political subdivisions	49,655,307	1,983,559	(88,391)	51,550,475
Corporate Bonds	7,515,956	13,283	(28,796)	7,500,443
Mortgage-backed securities	56,032,250	614,332	(141,717)	56,504,865
	$ 141,515,294	$ 3,665,363	$ (326,088)	$ 144,854,569
December 31, 2019:				
U.S. government sponsored agencies	$ 55,362,637	$ 380,599	$ (233,980)	$ 55,509,256
State and political subdivisions	33,122,477	695,926	(35,810)	33,782,593
Mortgage-backed securities	32,158,234	147,916	(225,467)	32,080,683
	$ 120,643,348	$ 1,224,441	$ (495,257)	$ 121,372,532

The amortized cost and fair value of investment securities held to maturity at December 31, 2020 and 2019 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity				
December 31, 2020:				
U.S. government sponsored agencies	$ 5,991,656	$ 254,639	$ -	$ 6,246,295
State and political subdivisions	8,710,047	311,399	-	9,021,446
	$ 14,701,703	$ 566,038	$ -	$ 15,267,741
December 31, 2019:				
U.S. government sponsored agencies	$ 5,989,830	$ 109,904	$ -	$ 6,099,734
State and political subdivisions	11,355,511	202,789	-	11,558,300
	$ 17,345,341	$ 312,693	$ -	$ 17,658,034

NOTE 3. INVESTMENT SECURITIES (Continued)

Those investment securities classified as available for sale which have an unrealized loss position at December 31, 2020 and 2019 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, 2020:						
U.S. government sponsored agencies	$ (430)	$ 1,977,713	$ (66,754)	$ 5,842,228	$ (67,184)	$ 7,819,941
State and political subdivisions	(88,391)	8,992,599	-	-	(88,391)	8,992,599
Corporate Bonds	(28,796)	5,349,639	-	-	(28,796)	5,349,639
Mortgage-backed securities	(136,007)	23,551,196	(5,710)	1,157,014	(141,717)	24,708,210
Total securities	$ (253,624)	$ 39,871,147	$ (72,464)	$ 6,999,242	$ (326,088)	$ 46,870,389
December 31, 2019:						
U.S. government sponsored agencies	$ (92,147)	$ 11,390,825	$ (141,833)	$ 17,441,714	$ (233,980)	$ 28,832,539
State and political subdivisions	(10,009)	3,214,197	(25,801)	1,433,017	(35,810)	4,647,214
Mortgage-backed securities	(123,854)	12,616,964	(101,613)	8,570,925	(225,467)	21,187,889
Total securities	$ (226,010)	$ 27,221,986	$ (269,247)	$ 27,445,656	$ (495,257)	$ 54,667,642

The unrealized losses on forty investment securities available for sale at December 31, 2020 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, 2020.

The amortized cost and fair value of investment securities as of December 31, 2020 categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities of mortgage-backed securities because borrowers have the right to call or prepay obligations with or without penalties. Therefore, these securities are not presented by maturity class.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 374,942	$ 376,188	$ 1,702,786	$ 1,725,563
Due after one year through five years	9,402,434	9,773,992	9,159,072	9,480,865
Due after five years through ten years	29,479,163	30,503,751	2,741,061	2,917,124
Due after ten years	46,226,504	47,695,773	1,098,785	1,144,190
Mortgage-backed securities	56,032,250	56,504,865	-	-
	$ 141,515,293	$ 144,854,569	$ 14,701,704	15,267,742

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, 2020 and 2019 were as follows:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Gross gains	$ 329,577	$ 257,178
Gross losses	(118,227)	(139,666)
Net realized gains	$ 211,350	$ 117,512

Investment securities with carrying values of $43,838,089 and $40,843,122 at December 31, 2020 and 2019, 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 equity investment securities (included in other assets in the consolidated balance sheets) consist of the following as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Federal Home Loan Bank of Atlanta	$ 980,500	$ 914,200
First National Banker's Bankshares, Inc.	701,400	701,400
Central Alabama Title Center, LLC	30,000	30,000
First Community, LP	2,500	2,500
Federal Agricultural Mortgage Corporation	10,153	10,153
United Bancorp Capital Trust II	310,000	310,000
Sub-CDE Investments	12,750	10,750
	$ 2,047,303	$ 1,979,003

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segments and Classes

At December 31, 2020 and 2019, the composition of the loan portfolio was as follows:

	December 31, 2020	December 31, 2019
Real estate:		
Construction and land loans	$ 40,537,174	$ 36,690,749
Farmland	39,996,893	36,072,396
1-4 family residential mortgages	85,180,611	84,934,901
Multifamily	19,720,020	13,210,110
Commercial	98,052,164	92,443,085
Agricultural	35,885,588	31,154,612
Commercial	166,626,396	125,405,500
Consumer	20,306,389	20,519,050
States and political subdivisions	14,802,403	11,426,117
Other loans	5,177,448	3,268,426
Total	$ 526,285,086	$ 455,124,946

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 six primary loan portfolio segments that include real estate, agriculture, commercial, consumer, state and political subdivisions and other loans. 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.

Other Loans - The other loans portfolio segment includes loans to non-related bank holding companies to invest in subordinated-debt. Loans are interest only, fixed rate with interest payable semi-annually.

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

U.S. Small Business Administration Paycheck Protection Program

The Bank participated in the Paycheck Protection Program (PPP), a loan program originated from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA). The PPP provides loans of up to $10 million to small businesses affected by economic conditions resulting from the COVID-19 pandemic to provide cash-flow assistance to employers for maintaining their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. PPP loans carry an interest rate of 1% and a maturity of two or five years.

Under this program, the Bank provided approximately $51.0 million in funding to 952 customers. The average PPP loan was approximately $53,000. As compensation for originating the loans, the Corporation received lender processing fees from the U.S. Small Business Administration (SBA) totaling approximately $2.2 million. Processing fees per loan range from 1% to 5% based on the size of the loan, and are deferred and amortized into interest income over the loans' contractual lives. Upon forgiveness of a loan by the SBA, any unrecognized net deferred fees related to the loan are recognized as interest income in the period the SBA forgiveness payment is received.

These PPP loans are fully guaranteed by the SBA and are not included in the Bank's allowance for loan losses calculation. If the borrower meets certain criteria and uses the proceeds toward eligible expenses in accordance with the requirements of the PPP, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan plus any accrued interest. Upon borrower forgiveness, the SBA pays the Bank for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the SBA guaranty remaining in place. Approximately $37.6 million in PPP loans remain outstanding as of December 31, 2020.

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.

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

Credit Risk Management (Continued)

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.

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2020 and 2019.

	Pass	Special Mention	Substandard	Total
		(Dollars in Thousands)		
December 31, 2020:				
Real estate:				
Construction and land loans	$ 39,481	$ 867	$ 189	$ 40,537
Farmland	32,936	2,541	4,521	39,998
1-4 family residential mortgages	82,203	1,913	1,065	85,181
Multifamily	19,720	-	-	19,720
Commercial	93,141	1,944	2,967	98,052
Agricultural	33,669	2,113	104	35,886
Commercial	155,218	11,302	106	166,626
Consumer	20,134	118	54	20,306
States and political subdivisions	14,802	-	-	14,802
Other loans	5,177	-	-	5,177
Total	$ 496,481	$ 20,798	$ 9,006	$ 526,285

There were no loans considered doubtful as of December 31, 2020.

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

Credit Risk Management (Continued)

	Pass	Special Mention	Substandard	Total
		(Dollars in Thousands)		
December 31, 2019:				
Real estate:				
Construction and land loans	$ 35,212	$ 878	$ 601	$ 36,691
Farmland	29,740	2,361	3,971	36,072
1-4 family residential mortgages	83,187	1,312	436	84,935
Multifamily	13,210	-	-	13,210
Commercial	87,429	1,534	3,480	92,443
Agricultural	28,987	2,057	111	31,155
Commercial	120,144	5,205	57	125,406
Consumer	20,416	43	60	20,519
States and political subdivisions	11,426	-	-	11,426
Other loans	3,268	-	-	3,268
Total	$ 433,019	$ 13,390	$ 8,716	$ 455,125

There were no loans considered doubtful as of December 31, 2019.

Allowance for Loan Losses

The following tables detail the change in the allowance for loan losses for the years ended December 31, 2020 and 2019. 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, 2020:					
Real estate:					
Construction and land loans	$ 142	$ (12)	$ 32	$ (31)	$ 131
Farmland	360	(51)	-	219	528
1-4 family residential mortgages	416	(60)	2	744	1,102
Multifamily	131	-	-	160	291
Commercial	1,567	-	5	499	2,071
Agriculture	275	-	-	277	552
Commercial	1,875	(25)	1	249	2,100
Consumer	371	(92)	17	291	587
States and political subdivisions	114	-	-	105	219
Other loans	35	(10)	2	215	242
Total:	$ 5,286	$ (250)	$ 59	$ 2,728	$ 7,823

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

Allowance for Loan Losses (Continued)

	Beginning Balance	Charge offs	Recoveries	Provision Allocation	Ending Balance
	(Dollars in Thousands)				
December 31, 2019:					
Real estate:					
Construction and land loans	$ 144	$ -	$ 25	$ (27)	$ 142
Farmland	296	(188)	10	242	360
1-4 family residential mortgages	841	(77)	2	(350)	416
Multifamily	43	-	-	88	131
Commercial	1,150	(329)	-	746	1,567
Agriculture	230	-	-	45	275
Commercial	1,274	(182)	23	760	1,875
Consumer	308	(92)	15	140	371
States and political subdivisions	81	-	-	33	114
Other loans	24	-	1	10	35
Total:	$ 4,391	$ (868)	$ 76	$ 1,687	$ 5,286

	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, 2020:	*(Dollars in Thousands)*					
Real estate:						
Construction and land loans	$ 40,537	$ 189	$ 40,348	$ -	$ 131	$ 131
Farmland	39,998	4,892	35,106	10	518	528
1-4 family residential mortgages	85,181	1,018	84,163	88	1,014	1,102
Multifamily	19,720	-	19,720	-	291	291
Commercial	98,052	2,967	95,085	225	1,846	2,071
Agriculture	35,886	92	35,794	25	527	552
Commercial	166,626	543	166,083	104	1,996	2,100
Consumer	20,306	52	20,254	29	558	587
States and political subdivisions	14,802	-	14,802	-	219	219
Other loans	5,177	-	5,177	-	242	242
Total:	$ 526,285	$ 9,753	$ 516,532	$ 481	$ 7,342	$ 7,823
December 31, 2019:						
Real estate:						
Construction and land loans	$ 36,691	$ 1,461	$ 35,230	$ -	$ 142	$ 142
Farmland	36,072	3,748	32,324	10	350	360
1-4 family residential mortgages	84,935	341	84,594	81	335	416
Multifamily	13,210	-	13,210	-	131	131
Commercial	92,443	3,584	88,859	250	1,317	1,567
Agriculture	31,155	1,393	29,762	-	275	275
Commercial	125,406	503	124,903	103	1,772	1,875
Consumer	20,519	122	20,397	3	368	371
States and political subdivisions	11,426	-	11,426	-	114	114
Other loans	3,268	-	3,268	-	35	35
Total:	$ 455,125	$ 11,152	$ 443,973	$ 447	$ 4,839	$ 5,286

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

Allowance for Loan Losses (Continued)

During the fourth quarter of 2019, the Corporation recorded a $1,025,530 payment resulting from the termination of a State Small Business Credit Initiative (SSBCI) program operated by the State of Alabama. The payment was recorded as other income which was offset with an $825,530 increase to the allowance for loan losses specifically related to loans formerly enrolled in this program, in accordance with the Corporation's established ALLL review and evaluation criteria. The Corporation received a guarantee of up to 50% of losses in the event of a borrower's default. As of November 30, 2019, the Corporation had 47 loans with principal outstanding totaling $6,672,120 that were formerly enrolled in the program. The remaining payment of $200,000 was allocated to other reserves as deemed appropriate by management.

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, 2020 and 2019.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020:			*(Dollars in Thousands)*		
With no related allowance recorded:					
Real estate:					
Construction and land loans	$ 189	$ 189	$ -	$ 199	$ 9
Farmland	4,515	4,567	-	5,482	268
1-4 family residential mortgages	792	792	-	793	38
Multifamily	-	-	-	-	-
Commercial	1,597	1,903	-	1,598	102
Agriculture	-	-	-	-	-
Commercial	7	7	-	70	1
Consumer	-	-	-	-	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	7,100	7,458	-	8,142	418
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	-	-	-	-	-
Farmland	377	377	10	381	19
1-4 family residential mortgages	226	226	88	226	4
Multifamily	-	-	-	-	-
Commercial	1,370	1,370	225	1,421	88
Agriculture	92	92	25	97	6
Commercial	536	536	104	540	23
Consumer	52	52	29	48	3
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	2,653	2,653	481	2,713	143
Total impaired loans:	$ 9,753	$ 10,111	$ 481	$ 10,855	$ 561

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, 2019:			*(Dollars in Thousands)*		
With no related allowance recorded:					
Real estate:					
Construction and land loans	$ 1,461	$ 1,461	$	$ 682	$ 84
Farmland	3,361	3,361	-	2,318	328
1-4 family residential mortgages	199	330	-	2,052	15
Multifamily	-	-	-	-	-
Commercial	2,013	2,635	-	2,335	66
Agriculture	1,393	1,393	-	2,366	106
Commercial	-	-	-	-	-
Consumer	89	89	-	92	6
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	8,516	9,269	-	9,845	605
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	-	-	-	-	-
Farmland	387	387	10	681	19
1-4 family residential mortgages	142	142	81	186	7
Multifamily	-	-	-	-	-
Commercial	1,571	1,571	250	857	52
Agriculture	-	-	-	-	-
Commercial	503	503	103	322	28
Consumer	33	33	3	77	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	2,636	2,636	447	2,123	106
Total impaired loans:	$ 11,152	$ 11,905	$ 447	$ 11,968	$ 711

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, 2020 and 2019:

		Past Due Status (Accruing Loans)					
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual	Total
December 31, 2020:				*(Dollars in Thousands)*			
Real estate:							
Construction and land loans	$ 40,510	$ 27	$ -	$ -	$ 27	$ -	$ 40,537
Farmland	38,579	147	-	-	147	1,272	39,998
1-4 family residential mortgages	84,200	662	60	-	722	259	85,181
Multifamily	19,720	-	-	-	-	-	19,720
Commercial	96,218	397	-	-	397	1,437	98,052
Agriculture	35,765	17	-	-	17	104	35,886
Commercial	166,252	288	-	-	288	86	166,626
Consumer	20,094	183	4	-	187	25	20,306
States and political subdivisions	14,802	-	-	-	-	-	14,802
Other loans	5,177	-	-	-	-	-	5,177
Total:	$ 521,317	$ 1,721	$ 64	$ -	$ 1,785	$ 3,183	$ 526,285
December 31, 2019:							
Real estate:							
Construction and land loans	$ 36,155	$ 46	$ 486	$ -	$ 532	$ 4	$ 36,691
Farmland	34,557	856	659	-	1,515	-	36,072
1-4 family residential mortgages	83,687	370	639	114	1,123	125	84,935
Multifamily	13,210	-	-	-	-	-	13,210
Commercial	90,325	197	-	37	234	1,884	92,443
Agriculture	31,155	-	-	-	-	-	31,155
Commercial	122,093	3,215	23	-	3,238	75	125,406
Consumer	20,416	61	12	-	73	30	20,519
States and political subdivisions	11,426	-	-	-	-	-	11,426
Other loans	3,255	-	-	-	-	13	3,268
Total:	$ 446,279	$ 4,745	$ 1,819	$ 151	$ 6,715	$ 2,131	$ 455,125

Related Party Transactions

In the ordinary course of business, certain executive officers and directors of the Corporation, including their families and companies with which they are associated, have been granted loans. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan.

Changes in related party loans for the year ended December 31, 2020 are as follows:

Balance, beginning of year	$ 4,900,257
Advancements	6,172,599
Repayments	(1,816,052)
Balance, end of year	$ 9,256,804

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, 2020 and 2019, 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, 2020:				
Real estate:				
Construction and land loans	-	$ -	$ -	$ -
Farmland	1	511	377	(10)
1-4 family residential mortgages	5	452	393	(73)
Multifamily	-	-	-	-
Commercial	1	223	214	(175)
Agricultural	-	-	-	-
Commercial	2	517	458	(60)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	9	$ 1,703	$ 1,442	$ (318)
December 31, 2019:				
Real estate:				
Construction and land loans	-	$ -	$ -	$ -
Farmland	1	511	386	(10)
1-4 family residential mortgages	2	116	97	(19)
Multifamily	-	-	-	-
Commercial	2	313	313	(176)
Agricultural	-	-	-	-
Commercial	2	517	467	(16)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	7	$ 1,457	$ 1,263	$ (221)

The Corporation has not forgiven any principal on the above loans. At December 31, 2020 and 2019, $339,998 and $243,360, respectively, of the above restructured loans were held as nonaccrual.

As of December 31, 2020 and 2019, 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, 2020 and 2019, respectively.

	Years Ended December 31, 2020	Years Ended December 31, 2019
Balance, beginning of year	$ 1,083,359	$ 1,257,359
Additions	395,000	908,208
Sales proceeds	(1,238,236)	(981,544)
Internally financed sales	-	(231,300)
Gain on sales of other real estate owned	17,171	306,757
Provision for ORE loss	(100,294)	(176,121)
Balance, end of year	$ 157,000	$ 1,083,359

Other real estate owned by type is as follows:

	December 31, 2020	December 31, 2019
Construction and land development real estate	$ -	$ 830,000
Residential real estate	-	50,000
Commercial real estate	292,500	292,500
ORE valuation allowance	(135,500)	(89,141)
	$ 157,000	$ 1,083,359

Expenses related to other real estate owned for the year ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Net gain on sales of other real estate owned	$ (17,171)	$ (360,757)
Provision for other real estate owned losses	100,294	176,121
Operating expenses, net of lease income	15,997	75,376
	$ 99,120	$ (109,260)

NOTE 6. PREMISES AND EQUIPMENT

At December 31, 2020 and 2019, premises and equipment were as follows:

	December 31, 2020	December 31, 2019
Land	$ 5,828,508	$ 5,759,529
Buildings and leasehold improvements (depreciated over 5 to 50 years)	17,599,634	17,432,802
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	13,891,670	12,712,209
Automobiles (depreciated over 3 years)	171,481	171,660
	37,491,293	36,076,200
Accumulated depreciation	(21,731,218)	(20,449,085)
	$ 15,760,075	$ 15,627,115

Depreciation expense for the years ended December 31, 2020 and 2019 was $1,315,031 and $973,833, respectively.

NOTE 7. DEPOSITS

At December 31, 2020 and 2019, deposits were as follows:

	December 31, 2020	December 31, 2019
Noninterest-bearing accounts	$ 486,405,309	$ 271,688,965
NOW accounts	104,308,971	99,690,978
Money market investment accounts	78,086,149	49,261,940
Savings accounts	83,544,841	63,147,997
Time deposits:		
Time deposits less than $250,000	94,968,864	109,927,148
Time deposits equal to or greater than $250,000	21,565,482	25,349,855
Total deposits	$ 868,879,616	$ 619,066,883

At December 31, 2020 and 2019 interest expense on deposits was as follows:

	Years Ended December 31, 2020	Years Ended December 31, 2019
NOW accounts	$ 150,383	$ 187,034
Money market investment accounts	432,804	514,510
Savings accounts	128,911	131,834
Time deposits:		
Time deposits less than $250,000	1,522,394	1,540,384
Time deposits equal to or greater than $250,000	324,632	321,616
Total deposits	$ 2,559,124	$ 2,695,378

At December 31, 2020, the contractual maturities of time deposits are as follows:

2021	$ 72,192,628
2022	13,653,754
2023	13,346,837
2024	11,316,640
2025	5,901,108
Thereafter	123,379
	$ 116,534,346

At December 31, 2020 and 2019, overdraft demand and savings deposits reclassified to loans totaled $282,153 and $263,705, respectively.

At December 31, 2020, there was one large depositor that had total deposit balances of approximately $135,616,000. On January 4, 2021, the large depositor had a decrease in their total deposit balances of approximately $60,000,000 via ACH.

NOTE 8. PARTICIPATION IN U.S. TREASURY PROGRAMS

New Market Tax Credits

On November 17, 2016, the Corporation was awarded a $65,000,000 allocation of the 2015-2016 New Markets Tax Credits from the Community Development Financial Institution (CDFI) Fund administered by the U.S. Department of the Treasury. The credits from this allocation were fully deployed to qualified projects in Alabama and Florida as of December 31, 2019.

On February 13, 2018, UB Community Development, LLC (UBCD), a wholly owned subsidiary of the Corporation, was awarded a $55,000,000 allocation of the 2017 New Markets Tax Credits from the CDFI Fund. UBCD has deployed these tax credits to qualified projects. As of December 31, 2020, $500,000 remains to be allocated and deployed.

On July 15, 2020, UBCD was awarded a $65,000,000 allocation of the 2019 New Markets Tax credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2020, $11,500,000 has been allocated and closed, $47,000,000 has been allocated to deals expected to close in the first two quarters of 2021 and $7,000,000 remains to be allocated and deployed.

As of the audit issue date, the remaining unallocated credits from the 2017 allocation have been deployed to qualified projects. From the 2019 allocation, $26,500,000 of the $47,000,000 allocated credits have been closed and $7,000,000 of the unallocated credits have been allocated to a deal expected to close within the third quarter of 2021.

UB Community Development, LLC has applied for a 2020 allocation, to be awarded in the third quarter of 2021.

Community Development Financial Institutions Income

On May 1, 2020, the Corporation received an award of $6,000,000 from the U.S. Department of Treasury's Capital Magnet Fund (CMF) program administered by the Department of Treasury's Community Development Financial Institutions (CDFI) Fund. The award will be used to develop projects aimed at providing better housing options for low-income families and creating new economic opportunities. The Corporation was one of the 40 entities nationwide to receive a Capital Magnet Fund award, and its $6 million award was one of the largest awards granted to a single entity.

In 2019, the Corporation received an award of $233,244 and $245,547 from the Bank Enterprise Award Program (BEA Program) for the 2018 and 2019 program rounds, respectively, administered by the CDFI Fund. In 2020, the Corporation received an award of $203,251 for the 2020 program round. The BEA Program is a performance-based grant program that provides monetary awards to FDIC-insured depository institutions that successfully demonstrate an increase in their investments in mission-driven lenders known as CDFIs, or in their own lending, investing, or service activities in highly distressed communities. The BEA Program awards help offset some of the risks and/or costs associated with investing in these highly distressed communities and provide an incentive to increase their investments.

In 2020, the Corporation received an award of $799,000 from the Financial Assistance (FA) program 2019 round, administered by the CDFI Fund. The FA award is earmarked to fund small business initiatives along with strengthening loan loss reserves to mitigate for the higher level of risk associated with lending to businesses in their infancy.

NOTE 9. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31, 2020		December 31, 2019	
Federal Home Loan Bank Advances	$	7,111,415	$	7,820,113
USDA Re-Lending Program		234,593		238,595
NMTC Leverage Loans		2,564,450		-
Total other borrowings	$	9,910,458	$	8,058,708

Federal Home Loan Bank Advances

The Corporation's advances from the Federal Home Loan Bank of Atlanta bearing interest rates, ranging from 1.99% to 2.16% at December 31, 2020. These advances are due at various dates through 2034. The weighted average interest rate as of December 31, 2020 and 2019 was 2.10% and 2.11%, respectively.

At December 31, 2020, Federal Home Loan Bank advances were collateralized by investment securities with carrying values of $4,096,005 and 1-4 family first mortgages of $9,668,165.

USDA Re-Lending Program

During 2016, the Corporation entered into 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. The outstanding balance under this note agreement was $234,593 and $238,595 as of December 31, 2020 and 2019, respectively.

NMTC Leverage Loans

Qualified equity investments, made by the investment fund in NMTC transactions, are funded with equity from the investor (tax credit recipient) and leverage loans, made by the applicable lender.

In January 2020, CFSA IF leveraged its $3,500,000 total qualified equity investment (QEI) in UBCD Sub-CDE Uniform Golf, LLC with a $2,564,450 leverage loan, payable to The Community Foundation of South Alabama (CFSA). The loan carries a 1.00% interest rate and CFSA IF will make interest-only payments until September 2026, when the Corporation (investor) and CFSA (project sponsor) will execute a put/call option to unwind the transaction. Upon successful execution of the put/call option, the assets and liabilities of CFSA IF would transfer to the project sponsor.

In August 2020, AMCREF IF leveraged its $2,262,800 total QEI in AMCREF Fund 63, LLC with a $1,842,179 leverage loan, payable to United Bank. The loan carries a 4.00% interest rate and AMCREF IF will make interest-only payments over the seven year compliance period and a balloon payment in August of 2027.

At December 31, 2020, other borrowings are due as follows:

2021	$	234,593
2022		-
2023		-
2024		-
2025		-
Thereafter		9,675,865
	$	9,910,458

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, 2020 was 1.92013%. 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, 2020 and 2019 was $10,310,000.

NOTE 11. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,	
	2020	2019
Current:		
Federal	$ 2,947,170	$ 2,310,677
State	720,418	540,745
Total	3,667,588	2,851,422
Deferred:		
Federal	(354,044)	(128,359)
State	(108,592)	(42,620)
Total	(462,636)	(170,979)
Income tax expense	$ 3,204,952	$ 2,680,443

NOTE 11. INCOME TAXES (Continued)

Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 21% to pretax income is as follows:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Income tax expense at federal statutory rate	$ 3,228,587	$ 2,612,665
Increase (decrease) resulting from:		
Tax exempt interest	(405,703)	(342,272)
Interest disallowance	16,810	9,230
State income tax, net of federal benefit	483,343	393,519
Premium amortization on tax exempt investment securities	47,302	59,561
Cash surrender value of life insurance	(67,980)	(68,802)
Other, net	(97,407)	16,542
Total income tax expense	$ 3,204,952	$ 2,680,443

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Loans, principally due to the allowance for loan losses	$ 1,964,456	$ 1,327,503
Other real estate, principally due to difference in carrying value	34,028	117,332
Intangible assets	3,887	4,395
Deferred compensation	342,298	333,515
Accrued expenses	182,428	156,697
Investment securities available for sale	872,720	190,572
Lease liability	56,895	22,368
Restricted stock units	29,845	23,206
Other	14,080	3,390
	3,500,637	2,178,978
Deferred income tax liabilities:		
Discount accretion	3,935	2,985
Premises and equipment	220,083	95,641
Right of use – lease asset	56,895	22,368
New Market Tax Credit	51,792	34,837
	332,705	155,831
Net deferred income tax assets	$ 3,167,932	$ 2,023,147

The federal and state income tax returns of the Corporation for 2017, 2018, and 2019 are subject to examination, generally for three years after they were filed.

NOTE 12. STOCK BASED COMPENSATION

Stock Options

2018 Equity Incentive Plan

The United Bancorporation of Alabama, Inc. 2018 Equity Incentive Plan (formerly the 2007 Equity Incentive 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, 2020, 262,814 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, 2018	2,000	$ 14.85
Granted	-	-
Surrendered	-	-
Exercised	(2,000)	14.85
Balance at December 31, 2019	-	$ -
Granted	-	-
Surrendered	-	-
Exercised	-	-
Balance at December 31, 2020	-	$ -
Exercisable at December 31, 2020	-	$ -

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 corporation 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.

Restricted Stock

As of December 31, 2020, the Corporation has awarded stock grants in two formats to two distinct classes. Directors have been awarded grants that 100% vest as of the grant date. The second type of grant has been awarded to senior officers of the Corporation. These grants have three year terms with one-third of the award shares vesting on each grant date anniversary. The expense of these awards is recorded on a straight-line bases over the 36 month term.

	Shares Under Option	Weighted-Average Exercise Price Per Share
Balance at December 31, 2018	7,510	$ 15.50
Granted	10,948	20.25
Surrendered	-	-
Vested	(7,303)	18.58
Balance at December 31, 2019	11,155	$ 18.15
Granted	12,070	20.20
Surrendered	-	-
Vested	(10,553)	19.45
Balance at December 31, 2020	12,672	$ 19.02

As of December 31, 2020, there was $160,936 of total unrecognized compensation cost related to non-vested restricted stock, to be recognized over weighted average remaining period of 1.6 years.

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, 2020, 4,208 shares were purchased under the Plan. Regular cash dividends of $0.25 per share were declared in 2020. For the year ended December 31, 2019, 3,219 shares were purchased under the Plan. Regular cash dividends of $0.21 per share were declared in 2019.

NOTE 14. EMPLOYEE BENEFIT PLANS

401(k) Employee Stock Ownership 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% of their compensation monthly. The Bank makes annual discretionary matching contributions of 5.5% of the employees' contributions, not to exceed 5.5% of the participating employees' compensation. The Corporation may also make additional discretionary contributions to the KSOP which is unrelated to any employer matching contributions. For the years ended December 31, 2020 and 2019, the Corporation expensed $404,367 and $368,593, respectively, for matching discretionary contributions to this Plan. Shares of Corporation common stock owned by the KSOP plan total 79,733 and 56,359 as of December 31, 2020 and 2019 with a fair value of $1,774,059 and $1,592,142, respectively. All KSOP shares have been fully allocated to the participants.

During the second quarter of 2019, the KSOP leveraged $2.0 million from the Corporation to purchase 100,000 shares in the Corporation's private placement, discussed in Note 1. The shares are securitized by a note held by the Corporation and paid by the Bank with an interest rate of 3.15%, annual principal and interest payments of $234,559 that are due at December 31 each year until maturity of December 31, 2028. As principal payment is made towards the note, the corresponding amount of shares are to be released from the reserve and allocated to participants' accounts. As a result, the KSOP reserve shares are excluded from equity until the shares are paid in full and no longer encumbered. The balance of shares in the KSOP Reserve for the year ended December 31, 2020 and 2019 were 48,280 and 71,654 with a fair value of $1,074,230 and $2,024,226, respectively.

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 2020 and 2019 were $120,000 and $121,991, respectively.

NOTE 14. EMPLOYEE BENEFIT PLANS (Continued)

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 $136,974 and $133,204 for the years ended December 31, 2020 and 2019, respectively. The balance of the liability for the salary continuation plan included in other liabilities at December 31, 2020 and 2019 totaled $1,363,042 and $1,328,068, 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 $12,033,331 and $11,709,616 at December 31, 2020 and 2019, respectively. Income recognized from the increase in cash surrender value on these policies totaled $323,715 and $327,628 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, 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.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

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.

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, 2020 and 2019, respectively:

		Fair Value Measurements at December 31, 2020 Using		
	Assets Measured at Fair Value December 31, 2020	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	$ 144,854,569	$ -	$ 144,854,569	$ -

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

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

Available for Sale Securities (Continued)

		Fair Value Measurements at December 31, 2019 Using		
	Assets Measured at Fair Value December 31, 2019	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	$ 121,372,532	$ -	$ 121,372,532	$ -

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 nonrecurring 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.

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.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

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

Other Real Estate Owned (Continued)

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, 2020 and 2019, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2020 and 2019, respectively.

		Carrying Value at December 31, 2020		
	Assets Measured at Fair Value December 31, 2020	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,171,950	$ -	$ -	$ 2,171,950
Other real estate	157,000	-	-	157,000

		Carrying Value at December 31, 2019		
	Assets Measured at Fair Value December 31, 2019	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,189,565	$ -	$ -	$ 2,189,565
Other real estate	1,083,359	-	-	1,083,359

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $9,753,876 and $11,152,113, with a specific valuation allowance of $481,505 and $446,578 at December 31, 2020 and 2019, respectively. Of the $9,753,886 and $11,152,113 impaired loan portfolio, $2,653,455 and $2,636,143 were carried at fair value as a result of charge offs and specific valuation allowances at December 31, 2020 and 2019, respectively. The remaining $7,100,431 and $8,515,970 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, 2020 and 2019, 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.

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, 2020 or 2019.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements (Continued)

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2020, 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	$ 2,171,950	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	157,000	Appraisal	Appraisal discounts (%)	10-20 %

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2019, 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	$ 2,189,565	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	1,083,359	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.

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.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

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, 2020 and 2019 are as follows:

	December 31,			
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and short-term investments	$ 262,883	$ 262,883	$ 98,435	$ 98,435
Investment securities-available for sale	144,855	144,855	121,373	121,373
Investment securities-held to maturity	14,702	15,268	17,345	17,658
Loans held for sale	2,818	2,818	-	-
Loans held for investment, net of the allowance for loan losses	518,463	524,005	449,839	446,826
Bank owned life insurance	12,033	12,033	11,710	11,710
Other equity investments	2,047	2,047	1,979	1,979
Accrued interest receivable	4,175	4,175	4,099	4,099
Financial liabilities:				
Deposits	868,880	882,591	619,067	618,671
Other borrowings	9,910	9,910	8,059	8,015
Note payable to trust	10,310	10,310	10,310	10,310
Accrued interest payable	219	219	240	240

NOTE 16. 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, 2020.

Rental expense for all operating leases charged to earnings aggregated $132,035 and $88,459 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 are approximately as follows:

	December 31,	
	2020	2019
Commitments to extend credit	$ 64,952,626	$ 63,847,499
Standby letters of credit	3,769,465	3,658,198
	$ 68,722,091	$ 67,505,697

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.

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. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 organized within noninterest income for the twelve months ended December 31, 2020 and 2019. Items outside of the scope of ASC 606 are noted as such.

	Years Ended December 31, 2020	2019
Noninterest income:		
Service charges and fees	$ 4,772,309	$ 4,887,250
CDFI award income	7,002,251	479,803
New market tax credit sub-allocation and placement fees	880,000	1,880,000
Investment securities gains (losses), net (a)	211,350	117,512
Mortgage loan and related fees (a)	1,181,987	985,962
Other noninterest income	2,184,735	2,625,322
Total noninterest income	$ 16,232,632	$ 10,975,849

(a) Not within scope of ASC 606.

A description of the Corporation's significant revenue streams accounted under ASC 606 follows:

Service charges and fees: Revenue from service charges on deposit accounts is earned through cash management, wire transfer, overdraft, non-sufficient funds and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customer's accounts. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts and other card-related services. Interchange rates are generally set by credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

CDFI award income: The Corporation received awards from the U.S. Department of Treasury's CDFI Fund for both the Capital Magnet Fund (CMF) and Financial Assistance (FA) programs. The awards are recognizable upon receipt with no contractual terms associated with the award.

New market tax credit sub-allocation and placement fees: Revenue from new market tax credit (NMTC) sub-allocation and placement fees are in connection with the closing of the NMTC transaction. Fees are received from the Investment Fund (Placement Fee) and Sub-CDE level (Sub-Allocation Fee) of the transaction. In addition to these fees paid at closing, the Corporation receives ongoing fees to manage the activities (Asset Management Fee). All fees are documented in a Fee Agreement at the closing of the transaction. As stated in ASC 606, "an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer". The Fee Agreement is a negotiated document that states the Corporation (or its subsidiaries) has performed the services necessary to earn the Sub-Allocation and Placement Fee. These fees are earned when Corporation (or its subsidiaries) has sub-allocated NMTC allocation to the Sub-CDE and has helped foster the Qualified Equity Investment (QEI) by the Investment Fund into the Sub-CDE such that the tax credit investor is able to start taking credits. In performing these tasks, the Corporation (or its subsidiaries) has fully transferred the allocation to the Sub-CDE and the benefit of the QEI to the Investment Fund. Through the Fee Agreement these entities are recognizing that the Corporation (or its subsidiaries) has met its obligations and agree to pay the Corporation (or its subsidiaries) for these tasks, satisfying all conditions precedent to recognize the Sub-Allocation and Placement fee revenue.

Other noninterest income: Other operating income primarily consist of revenues generated from SSBCI payments, ATM fees and safe deposit box rentals. The SSBCI payment was a onetime payout on a guarantee program from the State of Alabama that was earned on receipt. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income are recognized on a monthly basis as the Corporation's performance obligation for these services is satisfied.

NOTE 19. OTHER NONINTEREST EXPENSE

Components of other noninterest expense considered significant by the Corporation for the years ended December 31, 2020 or 2019, respectively, include the following:

	Years Ended December 31,	
	2020	2019
Accounting and audit	$ 305,552	$ 141,142
Advertising	499,535	651,532
Card-based expense	1,036,240	979,713
Network and communications	883,552	675,649
Internet and mobile banking	350,182	316,444
Core processing	562,527	434,594
Other data processing	434,401	283,403
FDIC deposit insurance	160,000	134,362
Provision for other real estate owned losses	100,294	176,121
Other	3,262,286	3,375,207
	$ 7,594,569	$ 7,168,167

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, 2020 and 2019, approximately 54.2% and 50.8%, 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 14.3% and 14.8% of the Corporation's total loans at December 31, 2020 and 2019, respectively.

Total loans secured by real estate was approximately 53.7% and 57.9% of the Corporation's loan portfolio at December 31, 2020 and 2019, of which a substantial portion is secured by real estate in the Corporation's market areas. At December 31, 2020 and 2019, real estate construction loans accounted for approximately 7.7% and 8.1%, respectively, of the total loan portfolio, while 1-4 family residential mortgage loans made up approximately 16.1% and 18.7%, 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.

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2020, approximately $23,074,000 of retained earnings were available for dividend declaration without regulatory approval.

NOTE 21. REGULATORY MATTERS (Continued)

The Bank is also 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 under taken, 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2020:						
Total Capital to Risk-Weighted Assets	$ 87,314	15.148%	$ 60,524	10.500%	$ 57,642	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 80,101	13.897%	$ 48,996	8.500%	$ 46,114	8.000%
CET1 Capital to Risk-Weighted Assets	$ 80,101	13.896%	$ 40,349	7.000%	$ 37,467	6.500%
Tier 1 Capital to Average Total Assets	$ 80,101	8.940%	$ 35,840	4.000%	$ 44,800	5.000%
As of December 31, 2019:						
Total Capital to Risk-Weighted Assets	$ 72,871	14.187%	$ 53,933	10.500%	$ 51,365	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 67,585	13.158%	$ 43,660	8.500%	$ 41,092	8.000%
CET1 Capital to Risk-Weighted Assets	$ 67,585	13.158%	$ 35,955	7.000%	$ 33,387	6.500%
Tier 1 Capital to Average Total Assets	$ 67,585	9.597%	$ 28,169	4.000%	$ 25,682	5.000%

NOTE 22. COVID-19 CORONAVIRUS PANDEMIC

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Corporation. The extent of COVID-19's impact on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the virus' impact on the Corporation's customers, employees and vendors, and vaccination supply and delivery. At this point, the extent to which COVID-19 may impact the Corporation's financial condition or results of operations remains uncertain.

NOTE 23. SUBSEQUENT EVENTS

On March 16, 2021, United Bancorporation of Alabama, Inc. agreed to purchase 100.0% of the outstanding shares of Town-Country National Bank (TCNB) in Camden, Alabama. The terms of the $28.5 million transaction requires TCNB to pay shareholders a special pre-close dividend of $10.7 million. The Corporation will pay the remaining $17.8 million or $237.33 per share in cash. Pending regulatory approval and TCNB shareholder approval, the transaction is scheduled to close in third quarter of 2021. TCNB will rebrand as Town-Country United Bank (TCUB) and operate as a separate subsidiary under the Corporation.

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, as of and for the years ended December 31, 2020 and 2019, and our report thereon dated March 22, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 45 and 46 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 22, 2021

SUPPLEMENTAL INFORMATION

CONSOLIDATING INFORMATION

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

BALANCE SHEETS
DECEMBER 31, 2020

Assets	2020							
	PARENT CORPORATION	BANK	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Cash and due from banks	$ 2,843,410	108,506,410	3,991,860	29,223	23,068	115,393,971	(6,887,561)	108,506,410
Interest-bearing deposits in banks	14,275,979	140,100,539	-	-	-	154,376,518	-	154,376,518
Federal funds sold	-	-	-	-	-	-	-	-
Cash and short-term investments	17,119,389	248,606,949	3,991,860	29,223	23,068	269,770,489	(6,887,561)	262,882,928
Investment in subsidiaries	88,652,899	-	6,600	-	2,264,234	90,923,733	(88,165,213)	2,758,520
Securities available for sale, at fair value (amortized cost of $141,515,294 and $120,643,349 at December 31, 2020 and 2019, respectively)	-	144,854,569	-	-	-	144,854,569	-	144,854,569
						-		
Securities held to maturity, at amortized cost (fair value of $15,267,741 and $17,658,034 at December 31, 2020 and 2019, respectively)	-	14,701,703	-	-	-	14,701,703	-	14,701,703
Loans held for sale	-	2,817,561	-	-	-	2,817,561	-	2,817,561
						-		
Loans held for investment	-	528,127,265	-	-	-	528,127,265	(1,842,179)	526,285,086
Less allowance for loan losses	-	7,822,526	-	-	-	7,822,526	-	7,822,526
Loans, net	-	520,304,739	-	-	-	520,304,739	(1,842,179)	518,462,560
NMTC Sub-CDE QLICI Loans	-	-	-	3,500,000	-	3,500,000	-	3,500,000
Premises and equipment, net	-	15,760,075	-	-	-	15,760,075	-	15,760,075
Interest receivable	-	4,175,263	-	-	-	4,175,263	-	4,175,263
ESOP note receivable	965,599	-	-	-	-	965,599	(965,599)	-
Bank owned life insurance	-	12,033,331	-	-	-	12,033,331	-	12,033,331
Other real estate owned, net	-	157,000	-	-	-	157,000	-	157,000
Other assets	1,042,203	5,305,319	21,453	(20,295)	255,523	6,604,203	-	6,604,203
Total assets	$ 107,780,090	968,716,509	4,019,913	3,508,928	2,542,825	1,086,568,265	(97,860,552)	988,707,713
Liabilities and Stockholders' Equity								
Deposits								
Noninterest-bearing	$ -	492,167,374	-	-	-	492,167,374	(5,762,065)	486,405,309
Interest-bearing	-	383,599,803	-	-	-	383,599,803	(1,125,496)	382,474,307
Total deposits	-	875,767,177	-	-	-	875,767,177	(6,887,561)	868,879,616
Interest payable	-	215,583	-	-	3,877	219,460	-	219,460
Other borrowings	-	8,311,607	-	2,564,450	1,842,179	12,718,236	(2,807,778)	9,910,458
Note payable to Trust	10,310,000	-	-	-	-	10,310,000	-	10,310,000
Accrued expenses and other liabilities	620,450	1,816,192	99,286	111	2,500	2,538,539		2,538,539
Total liabilities	10,930,450	886,110,559	99,286	2,564,561	1,848,556	901,553,412	(9,695,339)	891,858,073
Commitments (Note 18)								
Stockholders' equity								
Preferred stock, par value $.01. Authorized 250,000 shares; no shares issued	-	-	-	-	-	-	-	-
Class A common stock, par value $0.01. Authorized 5,000,000 shares; 3,742,367 and 3,702,715 shares issued in 2020 and 2019, respectively	37,907	28,000	50,000	1,086,488	706,094	1,908,489	(1,870,582)	37,907
Class B common stock, par value $0.01. Authorized 250,000 shares; no shares issued	-	-	-	-	-	-	-	-
Additional paid-in capital	33,576,095	24,839,526	-	-	-	58,415,621	(24,839,526)	33,576,095
Retained earnings	61,859,668	56,199,566	3,870,627	(142,121)	(11,825)	121,775,915	(59,916,247)	61,859,668
Accumulated other comprehensive income, net of tax	2,504,457	2,504,457	-	-	-	5,008,914	(2,504,457)	2,504,457
	97,978,127	83,571,549	3,920,627	944,367	694,269	187,108,939	(89,130,812)	97,978,127
Less 239 treasury shares, at cost	1,951	-	-	-	-	1,951	-	1,951
Less unvested restricted stock and unallocated ESOP shares	1,126,536	965,599	-	-	-	2,092,135	(965,599)	1,126,536
Total stockholders' equity	96,849,640	82,605,950	3,920,627	944,367	694,269	185,014,853	(88,165,213)	96,849,640
Total liabilities and stockholders' equity	$ 107,780,090	968,716,509	4,019,913	3,508,928	2,542,825	1,086,568,265	(97,860,552)	988,707,713

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 2020

	2020							
	PARENT CORPORATION	BANK	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Interest income								
Interest and fees on loans	$ -	26,073,273	-	33,667	-	26,106,940	-	26,106,940
Interest on investment securities:						-		
Taxable securities	-	1,950,120	-	-	-	1,950,120	-	1,950,120
Nontaxable securities	-	794,187	-	-	-	794,187	-	794,187
Total investment income	-	2,744,307	-	-	-	2,744,307	-	2,744,307
Other interest income	99,739	315,019	-	-	-	414,758	(42,085)	372,673
Total interest income	99,739	29,132,599	-	33,667	-	29,266,005	(42,085)	29,223,920
						-		
Interest expense						-		
Interest on deposits	-	2,559,124	-	-	-	2,559,124	-	2,559,124
Interest on other borrowings and note payable	277,262	213,517	-	23,721	3,877	518,377	(42,085)	476,292
Total interest expense	277,262	2,772,641	-	23,721	3,877	3,077,501	(42,085)	3,035,416
						-		
Net interest income	(177,523)	26,359,958	-	9,946	(3,877)	26,188,504	-	26,188,504
Provision for loan losses	-	2,727,891	-	-	-	2,727,891	-	2,727,891
Net interest income after provision for loan losses	(177,523)	23,632,067	-	9,946	(3,877)	23,460,613	-	23,460,613
						-		
Noninterest income:						-		
Service charges and fees	-	4,772,309	-	-	-	4,772,309	-	4,772,309
CDFI award income	-	7,002,251	-	-	-	7,002,251	-	7,002,251
New market tax credit sub-allocation and placement fees	-	-	1,020,000	-	-	1,020,000	(140,000)	880,000
Investment securities gains, net	-	211,350	-	-	-	211,350	-	211,350
Mortgage loan and related fees	-	1,181,987	-	-	-	1,181,987	-	1,181,987
Other	12,755,591	1,688,885	790,619	4,520	3,876	15,243,491	(13,058,881)	2,184,610
Total noninterest income	12,755,591	14,856,782	1,810,619	4,520	3,876	29,431,388	(13,198,881)	16,232,507
						-		
Noninterest expense:						-		
Salaries and benefits	15,821	13,942,736	69,100	-	-	14,027,657	-	14,027,657
Net occupancy expense	-	2,687,906	7,800	-	-	2,695,706	-	2,695,706
Other	806,601	6,571,415	362,672	198,284	15,791	7,954,763	(360,195)	7,594,568
Total noninterest expense	822,422	23,202,057	439,572	198,284	15,791	24,678,126	(360,195)	24,317,931
						-		
Earnings before income tax expense	11,755,646	15,286,792	1,371,047	(183,818)	(15,792)	28,213,875	(12,838,686)	15,375,189
						-		
Income tax expense	(414,590)	3,320,897	344,308	(41,697)	(3,966)	3,204,952	-	3,204,952
						-		
Net earnings	12,170,236	11,965,895	1,026,739	(142,121)	(11,826)	25,008,923	(12,838,686)	12,170,237
						-		
Net earnings available to common shareholders	$ 12,170,236	11,965,895	1,026,739	(142,121)	(11,826)	25,008,923	(12,838,686)	12,170,237
Basic earnings per common share	$ 3.22							3.22
Basic weighted-average shares outstanding	3,778,933							3,778,933
Diluted earnings per common share	$ 3.22							3.52
Diluted weighted-average shares outstanding	3,778,933							3,778,933

See accompanying notes to consolidated financial statements

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